MARVELL TECHNOLOGY GROUP LTD
Form 10-Q
June 05, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended May 5, 2018
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	77-0481679
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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. ý 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). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
The number of common shares of the registrant outstanding as of May 29, 2018 was 499.9 million shares.

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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements
MARVELL TECHNOLOGY GROUP LTD.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value per share)

	May 5, 2018	February 3, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$1,167,258	$888,482
Short-term investments	712,053	952,790
Accounts receivable, net	329,650	280,395
Inventories	169,556	170,039
Prepaid expenses and other current assets	38,868	41,482
Assets held for sale	30,707	30,767
Total current assets	2,448,092	2,363,955
Property and equipment, net	213,656	202,222
Goodwill	1,993,310	1,993,310
Other non-current assets	209,261	148,800
Total assets	$4,864,319	$4,708,287
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$157,043	$145,236
Accrued liabilities	180,117	86,958
Accrued employee compensation	105,601	127,711
Deferred income	1,880	61,237
Total current liabilities	444,641	421,142
Non-current income taxes payable	56,606	56,976
Other non-current liabilities	77,561	88,756
Total liabilities	578,808	566,874
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common shares, $0.002 par value	1,000	991
Additional paid-in capital	2,744,478	2,733,292
Accumulated other comprehensive loss	(2,404)	(2,322)
Retained earnings	1,542,437	1,409,452
Total shareholders' equity	4,285,511	4,141,413
Total liabilities and shareholders' equity	$4,864,319	$4,708,287

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended	
	May 5, 2018	April 29, 2017
Net revenue	$604,631	$572,709
Cost of goods sold	228,938	227,198
Gross profit	375,693	345,511
Operating expenses:		
Research and development	176,734	188,096
Selling, general and administrative	72,313	55,104
Restructuring related charges	1,567	886
Total operating expenses	250,614	244,086
Operating income from continuing operations	125,079	101,425
Interest and other income, net	7,296	3,333
Income from continuing operations before income taxes	132,375	104,758
Provision for income taxes	3,763	5,166
Income from continuing operations, net of tax	128,612	99,592
Income from discontinued operations, net of tax	—	7,029
Net income	$128,612	$106,621
Net income per share - Basic:		
Continuing operations	$0.26	$0.20
Discontinued operations	$—	$0.01
Net income per share - Basic	$0.26	$0.21
Net income per share - Diluted:		
Continuing operations	$0.25	$0.20
Discontinued operations	$—	$0.01
Net income per share - Diluted	$0.25	$0.21
Weighted average shares:		
Basic	497,335	503,790
Diluted	508,716	517,592
Cash dividends declared per share	$0.06	$0.06

See accompanying notes to unaudited condensed consolidated financial statements

MARVELL TECHNOLOGY GROUP LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Three Months Ended	
	May 5, 2018	April 29, 2017
Net income	$128,612	$106,621
Other comprehensive loss, net of tax:		
Net change in unrealized loss on marketable securities	(82)	(673)
Net change in unrealized gain on cash flow hedges	—	1,758
Net change in pension liability	—	(1,272)
Other comprehensive loss, net of tax	(82)	(187)
Comprehensive income, net of tax	$128,530	$106,434

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended	
	May 5, 2018	April 29, 2017
Cash flows from operating activities:		
Net income	$128,612	$106,621
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,343	20,742
Share-based compensation	23,852	24,017
Amortization and write-off of acquired intangible assets	—	1,071
Restructuring related impairment charges (gain)	—	(516)
Gain from investment in privately-held company	(1,100)	—
Amortization of premium/discount on available-for-sale securities	1,161	206
Other non-cash expense (income), net	813	(25)
Deferred income taxes	824	783
Loss on sale of property and equipment	17	58
Gain on sale of discontinued operations	—	(8,155)
Changes in assets and liabilities:		
Accounts receivable	(47,393)	(21,763)
Inventories	2,680	(11,542)
Prepaid expenses and other assets	(14,108)	5,394
Accounts payable	14,744	31,423
Accrued liabilities and other non-current liabilities	21,236	(11,625)
Accrued employee compensation	(22,110)	(7,529)
Deferred income	(797)	5,016
Net cash provided by operating activities	128,774	134,176
Cash flows from investing activities:		
Purchases of available-for-sale securities	(13,457)	(198,416)
Sales of available-for-sale securities	70,273	78,764
Maturities of available-for-sale securities	128,820	82,235
Purchases of time deposits	(25,000)	(75,000)
Maturities of time deposits	75,000	75,000
Purchases of technology licenses	(360)	(1,093)
Purchases of property and equipment	(13,588)	(9,741)
Proceeds from sales of property and equipment	11	685
Net proceeds from sale of discontinued operations	—	22,954
Other	(5,000)	7,275
Net cash provided by (used in) investing activities	216,699	(17,337)
Cash flows from financing activities:		
Repurchases of common stock	—	(166,293)
Proceeds from employee stock plans	11,055	19,939
Minimum tax withholding paid on behalf of employees for net share settlement	(23,893)	(21,809)
Dividend payments to shareholders	(29,798)	(29,991)
Payments on technology license obligations	(20,461)	(6,815)
Payment of equity and debt financing costs	(3,600)	—
Net cash used in financing activities	(66,697)	(204,969)

Net increase (decrease) in cash and cash equivalents	278,776	(88,130)
Cash and cash equivalents at beginning of period	888,482	814,092
Cash and cash equivalents at end of period	$1,167,258	$725,962

See accompanying notes to unaudited condensed consolidated financial statements

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The unaudited condensed consolidated financial statements of Marvell Technology Group Ltd., a Bermuda exempted company, and its wholly owned subsidiaries (the “Company”), as of and for the three months ended May 5, 2018, have been prepared as required by the U.S. Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted as permitted by the SEC. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's fiscal year 2018 audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2018. In the opinion of management, the financial statements include all adjustments, including normal recurring adjustments and other adjustments, that are considered necessary for fair presentation of the Company’s financial position and results of operations. All inter-company accounts and transactions have been eliminated. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year. The Company's financial results for prior periods presented herein have been recast to reflect certain businesses that were classified as discontinued operations during the fourth quarter of fiscal year 2017 and second quarter of fiscal year 2018. Certain prior year amounts have been reclassified to conform to current year presentation. These amounts were not material to any of the periods presented.

The Company’s fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. Accordingly, every fifth or sixth fiscal year will have a 53-week period. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2018 had a 53-week year. Fiscal 2019 is a 52-week year.

On November 19, 2017, the Company entered into an agreement and plan of merger (the “Merger Agreement”) with Cavium, Inc. (“Cavium”), pursuant to which a subsidiary of the Company will merge with and into Cavium, with Cavium surviving and becoming a wholly-owned indirect subsidiary of the Company (the "Merger"). Cavium is a provider of highly integrated semiconductor processors that enable intelligent processing for wired and wireless infrastructure and cloud for networking, communications, storage and security applications. The Merger is primarily intended to create an opportunity for the combined company to emerge as a leader in infrastructure solutions.

Pursuant to the Merger Agreement, the Company will issue 2.1757 common shares and pay $40.00 per share in cash, without interest, for each share of Cavium common stock. The exchange ratio was based on a purchase price of $80 per share, using the Company's undisturbed price prior to November 3, when media reports of the transaction first surfaced. This represents a transaction value of approximately $6 billion. The merger consideration will be financed by a mix of cash, new debt financing and issuance of the Company's common stock.

The Company intends to fund the cash consideration with a combination of cash on hand from the combined companies and $1.75 billion in debt financing. The Company has obtained commitments consisting of an $850 million bridge loan commitment and a $900 million committed term loan from Goldman Sachs Bank USA and Bank of America Merrill Lynch, in each case subject to customary terms and conditions. In addition, in connection with the Merger, the Company plans to obtain a $500 million revolving credit facility, borrowings under which will be used for general corporate purposes of the Company and its subsidiaries. The transaction is not subject to any financing condition. The Company has recorded $20.1 million of associated deferred debt and equity financing costs on the accompanying consolidated balance sheet as of May 5, 2018.

The transaction is expected to close in mid-calendar 2018, subject to customary closing conditions, including receipt of regulatory approvals from China's State Administration for Market Regulation (formerly handled by China's MOFCOM Anti-Monopoly Bureau). The transaction has already satisfied the following closing conditions: (i) receipt of the required approval by Cavium shareholders, which was obtained on March 16, 2018; (ii) the expiration of the waiting period applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which expired on January 26, 2018, and (iii) the receipt of Committee on Foreign Investment in the U.S. ("CFIUS") approval, which was obtained on May 24, 2018. In certain circumstances, a termination fee of up to $180 million may be payable by the Company or Cavium upon termination of the transaction, as more fully described in the Merger Agreement.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 2. Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In May 2014, the FASB issued a new accounting standard on the recognition of revenue from contracts with customers that superseded nearly all existing revenue recognition guidance under GAAP. The new standard requires an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for certain costs to obtain or fulfill a contract with a customer, and provides for additional disclosures with respect to revenue and cash flows arising from contracts with customers. Public entities are required to apply the amendments on either a full or modified retrospective basis for annual periods beginning after December 15, 2017 and for interim periods within those annual periods. The Company adopted the standard on a modified retrospective basis in the first quarter of fiscal year 2019, with the cumulative effect recognized in retained earnings at the date of adoption. See "Note 3 - Revenue" for additional information on the impact of the adoption of the new standard on the Company’s consolidated financial statements.

In January 2016, the FASB issued an accounting standard update that changes the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The Company adopted the standard in the first quarter of fiscal 2019. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

In August 2016, the FASB issued an accounting standards update to add or clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in the update provide guidance on eight specific cash flow issues. The amendments to the guidance should be applied using a retrospective transition method for each period presented and, if it is impracticable to apply all of the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company adopted the standard in the first quarter of fiscal 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In October 2016, the FASB issued new guidance that simplifies the accounting for the income tax effects of intra-entity transfers and will require companies to recognize the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs. Previous guidance required companies to defer the income tax effects of intra-entity transfers of assets until the asset had been sold to an outside party or otherwise recognized. The Company adopted the standard in the first quarter of fiscal 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In November 2016, the FASB issued new guidance that requires entities to include in their cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. As a result, companies will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The Company adopted the standard in the first quarter of fiscal 2019. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

In January 2017, the FASB issued an accounting standards update that revises the definition of a business. The amendments provide a more robust framework for determining when a set of assets and activities is a business. The update is intended to help companies evaluate whether transactions should be accounted for as acquisitions or

disposals of assets or businesses. The Company adopted the standard in the first quarter of fiscal 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In May 2017, the FASB issued an accounting standards update that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Unless the changes in terms or conditions meet all three criteria outlined in the guidance, modification accounting should be applied. The three criteria relate to changes in the terms and conditions that affect the fair value, vesting conditions, or classification of a share-based payment award. The guidance is required to be applied prospectively to an award modified on or after the adoption date. The Company adopted the standard in the first quarter of fiscal 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued a new standard on the accounting for leases, which requires a lessee to record a right-of-use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than twelve months. The standard also expands the required quantitative and qualitative disclosures for lease arrangements. The standard is effective for the Company beginning in the first quarter of fiscal year 2020. The Company is currently evaluating the effect this new guidance will have on its consolidated financial statements.

In June 2016, the FASB issued a new standard requiring financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The standard eliminates the threshold for initial recognition in current GAAP and reflects an entity’s current estimate of all expected credit losses. The measurement of expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. The standard is effective for the Company beginning in the first quarter of fiscal year 2021. The Company does not expect the adoption of this guidance will have a material effect on its consolidated financial statements.

In August 2017, the FASB issued an accounting standards update that simplifies the application and administration of hedge accounting. The guidance amends the presentation and disclosure requirements and changes how companies assess effectiveness. The guidance is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance is effective for the Company beginning in the first quarter of fiscal year 2021. Early adoption is permitted. The guidance will be applied to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements will be applied prospectively. The Company is evaluating the effect this new guidance will have on its consolidated financial statements.

Note 3. Revenue

Impacts from the Adoption of the New Revenue Standard

At the beginning of fiscal year 2019, the Company adopted the new revenue recognition standard on a modified retrospective basis, with the cumulative effect recognized in retained earnings at the date of adoption. The Company elected to apply the new revenue standard retrospectively to all contracts that are not completed contracts at the date of the initial adoption. Based on the Company’s assessment of this new accounting standard, a change in revenue recognition timing on its component sales made to distributors was made in the first quarter of fiscal year 2019 and the Company started to recognize revenue when the Company transfers control to the distributor rather than deferring recognition until the distributor sells the components. In addition, the Company established accruals for the variable consideration aspect of sales, estimated based on historical experience, which include estimates for price discounts, price protection, rebates, returns and stock rotation programs. On the date of initial adoption, the Company removed the deferred income on component sales made to distributors and recorded estimates of the accruals for variable consideration through a cumulative adjustment to retained earnings. The net impact to the opening balance of retained earnings related to the adoption of the new standard was an increase of $34.2 million.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables summarize financial statement line items that are affected in the current reporting period by the application of the new revenue recognition policy as compared with the previous revenue recognition policy which was in effect in prior periods in accordance with ASC 605, Revenue Recognition:

	May 5, 2018		
(In thousands)	As currently reported	Adjustments	Balances without adoption of new revenue standard
Consolidated balance sheet:			
Assets			
Accounts receivable, net	$329,650	$ (5,837)	$323,813
Inventory	169,556	(2,486)	167,070
Other non-current assets	209,261	(58,717)	150,544
Liabilities and shareholders' equity:			
Accrued liabilities	180,117	(97,983)	82,134
Deferred income	1,880	77,368	79,248
Retained earnings	$1,542,437	$ (46,425)	$1,496,012

	Three Months Ended May 5, 2018		
(In thousands, except per share amounts)	As currently reported	Adjustments	Balances without adoption of new revenue standard
Consolidated statement of operation:			
Net revenue	$604,631	$ (15,529)	$589,102
Cost of goods sold	228,938	(3,396)	225,542
Net income (loss)	128,612	(12,133)	116,479
Net income (loss) per share - Basic	0.26	(0.03)	0.23
Net income (loss) per share - Diluted	$0.25	$ (0.02)	$0.23

Adoption of the new revenue standard had no impact to cash from or used in operating, financing, or investing activities on the condensed consolidated statements of cash flow.

New Revenue Recognition Policy Including Significant Judgments and Estimates

Through the fiscal year ended February 3, 2018, in accordance with ASC 605, Revenue Recognition, the Company recognized revenue when there was persuasive evidence of an arrangement, delivery had occurred, the fee was fixed or determinable, and collection was reasonably assured. If the Company granted extended payment terms greater than its standard terms for a customer such that collectability was not assured, the revenue was deferred upon shipment and would be recognized when the payment became due provided all other revenue recognition criteria had been satisfied.

Product revenue was generally recognized upon shipment of product to customers, net of accruals for estimated sales returns and rebates. However, some of the Company’s sales were made through distributors under agreements allowing for price protection and limited rights of stock rotation on products unsold by the distributors. Product revenue on sales made through distributors were deferred until the distributors sold the product to end customers. Deferred

revenue less the related cost of the inventories was reported as deferred income. The Company did not believe that there was any significant exposure related to impairment of deferred cost of sales, as its historical returns had been minimal and inventory turnover for its distributors generally ranged from 60 to 90 days. The Company's sales to direct customers were made primarily pursuant to standard purchase orders for delivery of products.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As a result of the adoption of the new revenue standard on February 4, 2018, at the beginning of the first quarter of fiscal year 2019, the Company revised its revenue recognition policy. The Company now recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Under the new revenue recognition standard, the Company applies the following five step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

The Company enters into contracts that may include various combinations of products and services that are capable of being distinct and accounted for as separate performance obligations. To date, the majority of the revenue has been generated by sales associated with storage, networking and connectivity products. Revenue from services has been insignificant. Performance obligations associated with product sales transactions are generally satisfied when control passes to customers upon shipment. Accordingly, product revenue is recognized at a point in time when control of the asset is transferred to the customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For product revenue, the performance obligation is deemed to be the delivery of the product and therefore, the revenue is generally recognized upon shipment to customers, net of accruals for estimated sales returns and rebates. These estimates are based on historical returns, analysis of credit memo data and other known factors. Actual returns could differ from these estimates. The Company accounts for rebates by recording reductions to revenue for rebates in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms agreed to with the customer. Some of the Company’s sales are made to distributors under agreements allowing for price protection, price discounts and limited rights of stock rotation on products unsold by the distributors. Control passes to the distributor upon shipment, and terms and payment by the Company’s distributors is not contingent on resale of the product. Product revenue on sales made to distributors with price protection and stock rotation rights is recognized upon shipment to distributors, with an accrual for the variable consideration aspect of sales to distributors, estimated based on historical experience, including estimates for price discounts, price protection, rebates, and stock rotation programs.

The Company’s products are generally subject to warranty, which provides for the estimated future costs of replacement upon shipment of the product. The Company’s products carry a standard one-year warranty, with certain exceptions in which the warranty period can extend to more than one year based on contractual agreements. The warranty accrual is estimated primarily based on historical claims compared to historical revenues and assumes that the Company will have to replace products subject to a claim. From time to time, the Company becomes aware of specific warranty situations, and it records specific accruals to cover these exposures. Warranty expenses were not material for the periods presented.

Disaggregation of Revenue

The majority of the Company's revenue is generated from sales of the Company’s products.

The following table summarizes net revenue disaggregated by product group (in thousands, except percentages):

	Three Months Ended	
	May 5, 2018	% of Total
Net revenue by product group:		
Storage (1)	$317,069	52 %
Networking (2)	153,734	26 %
Connectivity (3)	90,494	15 %

Other (4)	43,334	7 %
	$604,631	

1) Storage products are comprised primarily of HDD, SSD Controllers and Data Center Storage Solutions.
2) Networking products are comprised primarily of Ethernet Switches, Ethernet Transceivers, Embedded ARM Processors and Automotive Ethernet, as well as a few legacy product lines in which the Company no longer invests, but will generate revenue for several years.
3) Connectivity products are comprised primarily of Wi-Fi solutions including Wi-Fi only, Wi-Fi/Bluetooth combos and Wi-Fi Microcontroller combos.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

4) Other products comprised of printer specific standard SoC products, as well as full-custom, application-specific integrated circuits and application processors.

The following table summarizes net revenue disaggregated by primary geographical market (in thousands, except percentages):

	Three Months Ended	
	May 5, 2018	% of Total
Net revenue based on destination of shipment:		
China	$276,622	46 %
Malaysia	90,623	15 %
Philippines	57,767	9 %
Thailand	41,534	7 %
United States	16,030	3 %
Other	122,055	20 %
	$604,631	

The following table summarizes net revenue disaggregated by customer type (in thousands, except percentages):

	Three Months Ended	
	May 5, 2018	% of Total
Net revenue by customer type:		
Direct customers	$470,476	78 %
Distributors	134,155	22 %
	$604,631	

Contract Liabilities

Contract liabilities consist of the Company’s obligation to transfer goods or services to a customer for which the Company has received consideration or the amount is due from the customer. As of May 5, 2018, contract liability balances are comprised of variable consideration estimated based on a portfolio basis using the expected value methodology based on analysis of historical data, current economic conditions, and contractual terms. Variable consideration estimates consist of the estimated returns, price discounts, price protection, rebates, and stock rotation programs and deferred income for the prepayments made by the customers. As of the end of a reporting period, some of the performance obligations associated with contracts will have been unsatisfied or only partially satisfied. In accordance with the practical expedients available in the guidance, the Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less. Contract liabilities are included in accrued liabilities in the condensed consolidated balance sheets.

The opening balance of contract liabilities at the beginning of the first quarter of fiscal year 2019 was $79.6 million. During the three months ended May 5, 2018, contract liabilities increased by $198.8 million associated with variable consideration estimates for additional shipments in the quarter, offset by $173.4 million decrease in such reserves primarily due to credit memos issued to customers. The ending balance of contract liabilities as of the first quarter ended in fiscal year 2019 was $105.0 million.

Sales Commissions

Sales commissions are generally earned by the salespersons based on shipments to customers. The Company expenses these costs when incurred because the Company's sales commissions do not directly relate to any individual contract.

These costs are recorded within selling and marketing expenses.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	May 5, 2018	February 3, 2018
Inventories:		
Work-in-process	$104,792	$ 103,711
Finished goods	64,764	66,328
Total inventories	$169,556	$ 170,039

Inventory held by third-party logistics providers is recorded as consigned inventory on the Company's unaudited condensed consolidated balance sheet. The amount of inventory held at third-party logistics providers was $16.3 million and $18.7 million at May 5, 2018 and February 3, 2018, respectively.

	May 5, 2018	February 3, 2018
Property and equipment, net:		
Machinery and equipment	$550,785	$535,416
Land, buildings, and leasehold improvements	251,555	247,675
Computer software	98,477	98,253
Furniture and fixtures	21,134	21,139
	921,951	902,483
Less: Accumulated depreciation and amortization	(708,295)	(700,261)
Total property and equipment, net	$213,656	$202,222

Current accrued liabilities are comprised of the following at May 5, 2018 and February 3, 2018, respectively:

	May 5, 2018	February 3, 2018
Accrued liabilities:		
Contract liabilities	$104,988	$ —
Technology license obligations	33,167	28,488
Accrued royalties	13,028	11,860
Accrued rebates (1)	—	9,292
Accrued legal related expenses	9,354	13,050
Unsettled investment trades (2)	1,499	4,497
Other	18,081	19,771
Total accrued liabilities	$180,117	$ 86,958

(1) Accrued rebates are classified as part of contract liabilities beginning in fiscal year 2019 upon adoption of the new revenue recognition standard.

(2) Unsettled investment trades represent amounts owed to third parties for investment purchases for which cash settlement has not yet occurred.

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MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	May 5, 2018	February 3, 2018
Deferred income:		
Deferred revenue	$2,407	$ 81,896
Deferred cost of goods sold	(527)	(20,659)
Deferred income	$1,880	$ 61,237

	May 5, 2018	February 3, 2018
Other non-current liabilities:		
Deferred tax liabilities	$52,292	$ 52,204
Technology license obligations	20,789	34,060
Other	4,480	2,492
Other non-current liabilities	$77,561	$ 88,756

Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Marketable Securities (1)
Balance at February 3, 2018	$ (2,322)
Other comprehensive loss before reclassifications	(733)
Amounts reclassified from accumulated other comprehensive loss	651
Net current-period other comprehensive loss, net of tax	(82)
Balance at May 5, 2018	$ (2,404)

	Unrealized Gain (Loss) on Marketable Securities (1)	Unrealized Gain (Loss) on Cash Flow Hedges (2)	Net Change in Pension Liability	Total
Balance at January 28, 2017	$ (801)	$ 824	$—	$23
Other comprehensive income (loss) before reclassifications	(714)	1,838	(1,272)	(148)
Amounts reclassified from accumulated other comprehensive income (loss)	41	(80)	—	(39)
Net current-period other comprehensive income (loss), net of tax	(673)	1,758	(1,272)	(187)
Balance at April 29, 2017	$ (1,474)	$ 2,582	$(1,272)	$(164)

(1) The amounts of gains (losses) associated with the Company's marketable securities reclassified from accumulated other comprehensive income (loss) are recorded in interest and other income, net.

(2) The amounts of gains (losses) associated with the Company's derivative financial instruments reclassified from accumulated other comprehensive income (loss) are recorded in operating expenses. See "Note 6- Derivative Financial Instruments" for additional information on the affected line items in the condensed consolidated statements of operations.

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MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Consolidated Statements of Operations

	Three Months Ended	
	May 5, 2018	April 29, 2017
Interest and other income, net:		
Interest income	$ 6,069	$ 3,512
Net realized gain (loss) on investments	(860)	25
Currency remeasurement loss	(522)	(90)
Other income (loss)	2,853	(63)
Interest expense	(244)	(51)
	$ 7,296	$ 3,333

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 5. Investments

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

	May 5, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale:				
U.S. government and agency debt	$194,192	$ 32	$ (521)	$193,703
Foreign government and agency debt	1,810	—	(14)	1,796
Municipal debt securities	1,315	—	(1)	1,314
Corporate debt securities	388,194	446	(2,158)	386,482
Asset backed securities	28,954	—	(196)	28,758
Held-to-maturity:				
Time deposits	100,000	—	—	100,000
Total short-term investments	714,465	478	(2,890)	712,053
Total investments	$714,465	$ 478	$ (2,890)	$712,053

	February 3, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale:				
U.S. government and agency debt	$248,336	$ 49	$ (644)	$247,741
Foreign government and agency debt	7,004	—	(17)	6,987
Municipal debt securities	2,734	—	(6)	2,728
Corporate debt securities	504,609	469	(1,999)	503,079
Asset backed securities	42,429	3	(177)	42,255
Held-to-maturity:				
Time deposits	150,000	—	—	150,000
Total short-term investments	955,112	521	(2,843)	952,790
Total investments	$955,112	$ 521	$ (2,843)	$952,790

Short-term, highly liquid investments of $392.1 million and $267.6 million as of May 5, 2018 and February 3, 2018, respectively, included in cash and cash equivalents on the accompanying consolidated balance sheets, are not included in the tables above because the gross unrealized gains and losses were immaterial as the carrying values approximate fair value due to the short term maturity of such investments.

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

	Three Months Ended	
	May 5, 2018	April 29, 2017
Gross realized gains	$ 2	$ 69
Gross realized losses	(862)	(44)
Total net realized gains (losses)	$ (860)	$ 25

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MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	May 5, 2018		February 3, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$445,026	$444,314	$554,247	$553,866
Due between one and five years	269,439	267,740	400,866	398,924
Due over five years	—	—	—	—
	$714,465	$712,054	$955,113	$952,790

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 5, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agency debt	$123,181	$ (219)	$45,137	$ (302)	$168,318	$ (521)
Foreign government and agency debt	—	—	1,796	(13)	1,796	(13)
Municipal debt securities	1,314	(1)	—	—	1,314	(1)
Corporate debt securities	195,971	(1,660)	39,594	(498)	235,565	(2,158)
Asset backed securities	26,146	(158)	2,161	(39)	28,307	(197)
Total securities	$346,612	$ (2,038)	$88,688	$ (852)	$435,300	$ (2,890)

	February 3, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agency debt	$148,538	$ (298)	$51,332	$ (346)	$199,870	$ (644)
Foreign government and agency debt	3,993	(1)	2,994	(16)	6,987	(17)
Municipal debt securities	1,969	(6)	—	—	1,969	(6)
Corporate debt securities	253,380	(1,514)	46,805	(485)	300,185	(1,999)
Asset backed securities	37,636	(145)	2,167	(32)	39,803	(177)
Total securities	$445,516	$ (1,964)	$103,298	$ (879)	$548,814	$ (2,843)

As of May 5, 2018, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the amortized cost basis. In addition, as of May 5, 2018, the Company anticipates that it will recover the amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three months ended May 5, 2018.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 6. 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 which mitigates 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. There were no outstanding forward contracts at May 5, 2018 and February 3, 2018.

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.

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

	Location of Gains (Losses) in Statements of Operations	Amount of Gains (Losses) in Statements of Operations Three Months Ended	
		May 5, 2018	April 29, 2017
Derivatives designated as cash flow hedges:			
Forward contracts:	Research and development	$ —	$ 475
	Selling, general and administrative	—	63
		$ —	$ 538

The amounts of gains (losses) associated with the Company's derivative financial instruments reclassified from accumulated other comprehensive loss are presented in the following table (in thousands):

Affected Line Item in the Statements of Operations:	Three Months Ended	
	May 5, 2018	April 29, 2017
Operating costs and expenses:		
Cash flow hedges:		
Research and development	$ —	$ 71
Selling, general and administrative	—	9
Total	$ —	$ 80

The portion of gains (losses) excluded from the assessment of hedge effectiveness is included in interest and other income, net. These amounts were not material in the three months ended April 29, 2017. The Company did not have

hedge ineffectiveness from derivative financial instruments in the three months ended April 29, 2017. No cash flow hedges were terminated as a result of forecasted transactions that did not occur.

Note 7. 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.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Level 2—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, foreign government and agency debt, municipal debt securities, corporate debt securities and asset backed securities as the market inputs used to value these instruments consist of market yields, reported trades and broker/dealer quotes, which are corroborated with observable market data. In addition, the severance pay fund is classified as Level 2 assets as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The tables below set forth, by level, the Company's assets and liabilities that are measured at fair value on a recurring basis. 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 5, 2018			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	$93,108	$—	$ —	$93,108
Time deposits	—	9,385	—	9,385
U.S. government and agency debt	248,901	—	—	248,901
Municipal debt securities	—	5,290	—	5,290
Corporate debt securities	—	35,424	—	35,424
Short-term investments:				
Time deposits	—	100,000	—	100,000
U.S. government and agency debt	193,703	—	—	193,703
Foreign government and agency debt	—	1,796	—	1,796
Municipal debt securities	—	1,314	—	1,314
Corporate debt securities	—	386,482	—	386,482
Asset backed securities	—	28,758	—	28,758
Other non-current assets:				
Severance pay fund	—	868	—	868
Total assets	$535,712	$569,317	$ —	$1,105,029

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fair Value Measurements at February 3, 2018			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	$18,503	$—	$ —	$18,503
Time deposits	—	65,117	—	65,117
U.S. government and agency debt	51,589	—	—	51,589
Municipal debt securities	—	5,290	—	5,290
Corporate debt securities	—	127,076	—	127,076
Short-term investments:				
Time deposits	—	150,000	—	150,000
U.S. government and agency debt	247,741	—	—	247,741
Foreign government and agency debt	—	6,987	—	6,987
Municipal debt securities	—	2,728	—	2,728
Corporate debt securities	—	503,079	—	503,079
Asset backed securities	—	42,255	—	42,255
Other non-current assets:				
Severance pay fund	—	896	—	896
Total assets	$317,833	$903,428	$ —	$1,221,261

Note 8. Commitments and Contingencies

Purchase Commitments

Under the Company’s manufacturing relationships with its foundry partners, cancellation of outstanding purchase orders is allowed but requires payment of all costs and expenses incurred through the date of cancellation. As of May 5, 2018, these foundries had incurred approximately $150.3 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 customer's attorneys’ fees and costs. The Company’s indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. However, 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.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Contingencies and Legal Proceedings

The Company and certain of its subsidiaries are engaged in legal proceedings and claims which arise in the ordinary course of its business. The Company is currently unable to predict the final outcome of these matters and, therefore, cannot determine the likelihood of loss or estimate a range of possible loss, except with respect to amounts where it has determined a loss is both probable and estimable and where it has made an accrual. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation, particularly patent 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. 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. For additional discussion regarding certain risks related to litigation matters, please see Part II, Item 1A, "Risk Factors."

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 that 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 the loss is both estimable and probable.

Note 9. Income Tax

The Company’s tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period.

The Company’s quarterly tax provision, and estimate of its annual effective tax rate, is subject to variation due to several factors, including variability in pre-tax income (or loss) and the mix of jurisdictions to which they relate, changes in how the Company does business, and tax law developments. The Company’s estimated effective tax rate for the year differs from the U.S. statutory rate primarily due to the benefit of a substantial portion of its earnings being taxed at rates lower than the U.S. statutory rate.

The income tax provision for the three months ended May 5, 2018 included the current income tax expense of $3.0 million, a net increase in unrecognized tax benefits of $0.3 million, and an expense of $0.4 million related to other discrete items recorded in the quarter. The net increase in unrecognized tax benefits arose from penalties and interest of $0.5 million accrued on the outstanding unrecognized tax benefit balance, partially offset by the release of $0.2 million due to expiration of the statute of limitations in certain non-U.S. jurisdictions.

The income tax provision for the three months ended April 29, 2017 included the current income tax expense of $3.5 million, a net increase in unrecognized tax benefits of $1.0 million, and an expense of $0.7 million related to other discrete items recorded in the quarter. The net increase in unrecognized tax benefits arose from penalties and interest of $0.7 million accrued on the outstanding unrecognized tax benefit balance, plus the accrual of $0.6 million for changes in prior year tax positions, partially offset by the release of $0.3 million due to expiration of the statute of limitations in certain non-U.S. jurisdictions.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 $11.9 million from the lapse of statutes of limitation in various jurisdictions during the next twelve months. Government tax authorities from several non-U.S. jurisdictions are also examining the Company’s tax 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 $0.7 million and $0.7 million for the three months ended May 5, 2018 and April 29, 2017, respectively. The benefit of the tax incentives on net income per share was less than $0.01 per share for the three months ended May 5, 2018 and April 29, 2017.

The Tax Cuts and Jobs Act ("2017 Tax Act") was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. The Company has not completed its determination of the accounting implications of the 2017 Tax Act on its tax accruals. However, the Company reasonably estimated the effects of the 2017 Tax Act and recorded provisional amounts in its financial statements as of February 3, 2018. There were no additional adjustments made to these amounts in the quarter ended May 5, 2018. As the Company continues its analysis of the 2017 Tax Act, collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, the Company may make adjustments to the provisional amounts. Those adjustments may materially impact the Company's provision for income taxes in the period in which the adjustments are made.

The Company’s principal source of liquidity as of May 5, 2018 consisted of approximately $1.9 billion of cash, cash equivalents and short-term investments, of which approximately $1.0 billion was held by foreign subsidiaries (outside Bermuda). Approximately $550 million of this amount held by foreign subsidiaries is related to subsidiaries whose earnings are undistributed and have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel and the United States. 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. The amount of undistributed earnings of these subsidiaries for which no deferred tax liability has been provided is $430 million. 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 $160 million.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 10. 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 during the period, and diluted net income per share, which is based on the weighted average number of common shares outstanding and potentially dilutive shares outstanding during the period. The computations of basic and diluted net income per share are presented in the following table (in thousands, except per share amounts):

	Three Months Ended	
	May 5, 2018	April 29, 2017
Numerator:		
Income from continuing operations, net of tax	$128,612	$99,592
Income from discontinued operations, net of tax	—	7,029
Net income	$128,612	$106,621
Denominator:		
Weighted average shares — basic	497,335	503,790
Effect of dilutive securities:		
Share-based awards	11,381	13,802
Weighted average shares — diluted	508,716	517,592
Income from continuing operations per share:		
Basic	$0.26	$0.20
Diluted	$0.25	$0.20
Income from discontinued operations per share:		
Basic	$—	$0.01
Diluted	$—	$0.01
Net income per share:		
Basic	$0.26	$0.21
Diluted	$0.25	$0.21

Potential dilutive securities include dilutive common shares from share-based awards attributable to the assumed exercise of stock options, restricted stock units and employee stock purchase plan shares using the treasury stock method. Under the treasury stock method, potential common shares outstanding are not included in the computation of diluted net income per share if their effect is anti-dilutive.

The amount of anti-dilutive potential shares from share-based awards was 5.2 million weighted average shares outstanding and 9.2 million weighted average shares outstanding for the three months ended May 5, 2018 and April 29, 2017, respectively.

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

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,” “projects,” “believes,” “seeks,” “estimates,” “may,” “can,” “will,” “would” and similar expressions identify such forward-looking stateme

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 ability to complete the merger with Cavium, Inc. on a timely basis, or at all;
- our ability to realize anticipated synergies in connection with the Cavium acquisition;
- our dependence on a small number of customers;
- severe financial hardship or bankruptcy of one or more of our major customers;
- the effects of any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures;
- risks associated with acquisition and consolidation activity in the semiconductor industry;
- our ability and the ability of our customers to successfully compete in the markets in which we serve;
- our dependence upon the hard disk drive market, which is highly cyclical and intensely competitive;
- 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 reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products;
- the risks associated with manufacturing and selling a majority of our products and our customers' products outside of the United States;
- the effects of transitioning to smaller geometry process technologies;
- our ability to scale our operations in response to changes in demand for existing or new products and services;
- our ability to limit costs related to defective products;
- our ability to recruit and retain experience executive management as well as highly skilled engineering and sales and marketing personnel;
- our ability to mitigate risks related to our information technology systems;
- our ability to protect our intellectual property;
- our ability to estimate customer demand and future sales accurately;
- our reliance on third-party distributors and manufacturers' representatives to sell our products;
- the impact of international conflict and continued economic volatility in either domestic or foreign markets;
- the impact and costs associated with changes in international financial and regulatory conditions;
- the impact of any changes in our application of the United Stated federal income tax laws and the loss of any beneficial treatment that we currently enjoy;
- our maintenance of an effective system of internal controls; and
- the outcome of pending or future litigation and legal and regulatory proceedings.

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

Overview

We are a fabless semiconductor provider of high-performance, application-specific standard products. Our core strength is developing complex System-on-a-Chip ("SoC") devices, leveraging our technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and standalone integrated circuits. We also develop integrated hardware platforms along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution. Our broad product portfolio includes devices for storage, networking and connectivity.

Unless noted otherwise, our discussion under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, refers to our continuing operations.

In the first quarter of fiscal 2019, our net revenue increased year over year by 6% from $572.7 million net revenue in the first quarter fiscal 2018 compared with $604.6 million in the first quarter of fiscal 2019. The increase was primarily due to a 4% increase in our storage product sales and 11% increase in our networking and connectivity product sales. This increase was partially offset by decreased sales of our other products, which decreased by 10% in relation to the three months ended April 29, 2017.

Pending Business Combination. On November 19, 2017, we entered into an agreement and plan of merger (the "Merger Agreement") with Cavium, Inc. ("Cavium"), pursuant to which one of our subsidiaries will merge with and into Cavium, with Cavium surviving and becoming our wholly-owned indirect subsidiary (the "Merger"). Cavium is a provider of highly integrated semiconductor processors that enable intelligent processing for wired and wireless infrastructure and cloud for networking, communications, storage and security applications. The Merger is primarily intended to create an opportunity for the combined company to emerge as a leader in infrastructure solutions.

Pursuant to the Merger Agreement, we will issue 2.1757 common shares and pay $40.00 per share in cash, without interest, for each share of Cavium common stock. The merger consideration will be financed by a mix of cash, new debt financing and issuance of our common stock.

Consummation of the Merger is subject to customary closing conditions, including receipt of regulatory approvals from China's State Administration for Market Regulation (formerly handled by China's MOFCOM Anti-Monopoly Bureau). The transaction has already satisfied the following closing conditions: (i) receipt of the required approval by Cavium shareholders, which was obtained on March 16, 2018; (ii) the expiration of the waiting period applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which expired on January 26, 2018, and (iii) the receipt of Committee on Foreign Investment in the U.S. ("CFIUS") approval, which was obtained on May 24, 2018. In certain circumstances, a termination fee of up to $180 million may be payable by us or Cavium upon termination of the transaction, as more fully described in the Merger Agreement. For risks related to the pending business combination with Cavium, please see Part II, Item 1A, "Risk Factors," including but not limited to the risks detailed under the caption "Risks Related to Our Proposed Merger with Cavium."

Capital Return Program. Our financial position is strong and we remain committed to delivering shareholder value through our dividend program. We returned $29.8 million to stockholders in the three months ended May 5, 2018 in the form of cash dividend payments.

Cash and Short Term Investments. Our total cash, cash equivalents and short-term investments were $1.9 billion at May 5, 2018, which was slightly higher than our balance at our fiscal year ended February 3, 2018.

Sales and Customer Composition. Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. Net revenue attributable to significant customers whose revenue as a percentage of net revenue was 10% or greater of total net revenue is presented in the following table:

	Three Months Ended	
	May 5, 2018	April 29, 2017
End Customer:		
Western Digital	17%	22 %
Toshiba	14%	13 %
Seagate	11%	10 %
Distributor:		
Wintech	10%	*

*Less than 10% of net revenue

We continuously monitor the creditworthiness of our major customers and distributors and believe the 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, and all of our products are manufactured outside the United States. Sales shipped to customers with operations in Asia represented approximately 94% of our net revenue in the three months ended May 5, 2018 and April 29, 2017, respectively. Because many manufacturers and manufacturing subcontractors of our customers are located in Asia, we expect that most of our net revenue will continue to be represented by sales to our customers in that region. For risks related to our global operations, see Part II, Item 1A, “Risk Factors,” including but not limited to the risk detailed under the caption "We face additional risks due to the extent of our global operations since a majority of our products, and those of our customers, are manufactured and sold outside of the United States. The occurrence of any or a combination of the additional risks described below would significantly and negatively impact our business and results of operations."

Historically, a relatively large portion of our sales have been made on the basis of purchase orders rather than long-term agreements. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. In addition, the development process 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. For risks related to our sales cycles, see Part II, Item 1A, “Risk Factors,” including but not limited to the risk detailed under the caption "We are subject to order and shipment uncertainties. 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 results in lost revenue opportunities and potential loss of market share as well as damaged customer relationships."

Critical Accounting Policies and Estimates

Except for the accounting policy for revenue recognition that was updated as a result of adopting the new accounting standard on the recognition of revenue from contracts with customers, there have been no material changes to our critical accounting policies and estimates from the information provided in the “Critical Accounting Policies and Estimates” section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended February 3, 2018. See Note 3. Revenue - "New revenue recognition policy including significant judgments and estimates" for additional information.

Results of Operations

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

	Three Months Ended	
	May 5, 2018	April 29, 2017
Net revenue	100.0%	100.0 %
Cost of goods sold	37.9	39.7
Gross profit	62.1	60.3
Operating expenses:		
Research and development	29.2	32.8
Selling, general and administrative	12.0	9.6
Restructuring related charges	0.2	0.2
Total operating expenses	41.4	42.6
Operating income from continuing operations	20.7	17.7
Interest and other income, net	1.2	0.6
Income from continuing operations before income taxes	21.9	18.3
Provision (benefit) for income taxes	0.6	0.9
Income from continuing operations, net of tax	21.3 %	17.4 %

Three months ended May 5, 2018 and April 29, 2017

Net Revenue

Three Months Ended		
May 5, 2018	April 29, 2017	% Change

	(in thousands, except percentage)		
Net revenue	$604,631	$572,709	5.6 %

At the beginning of fiscal year 2019, we adopted the new revenue recognition standard using the modified retrospective method. Refer to “Note 3 - Revenue” for further information.

Our net revenue for the three months ended May 5, 2018 increased by $31.9 million compared to net revenue for the three months ended April 29, 2017. This was primarily due to increased sales of our networking and connectivity products by 11% and higher sales of our storage products by 4% related to higher sales of SSD products. This increase was partially offset by decreased sales of our other products, which were down 10% compared to the three months ended April 29, 2017.

In the three months ended May 5, 2018, unit shipments were 9% higher and average selling prices decreased 4% compared to the three months ended April 29, 2017.

Cost of Goods Sold and Gross Profit

	Three Months Ended		
	May 5, 2018	April 29, 2017	% Change
	(in thousands, except percentage)		
Cost of goods sold	$228,938	$227,198	0.8 %
% of net revenue	37.9 %	39.7 %	
Gross profit	$375,693	$345,511	8.7 %
% of net revenue	62.1 %	60.3 %	

Cost of goods sold as a percentage of net revenue was lower for the three months ended May 5, 2018 due primarily to lower manufacturing costs, improved product mix and lower royalty and tape-out expenses. As a result, gross margin for the three months ended May 5, 2018 increased 1.8 percentage points compared to the three months ended April 29, 2017. 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; 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; and the margin profiles of our new product introductions.

Research and Development

	Three Months Ended		
	May 5, 2018	April 29, 2017	% Change
	(in thousands, except percentage)		
Research and development	$176,734	$188,096	(6.0)%
% of net revenue	29.2 %	32.8 %	

Research and development expenses decreased by $11.4 million in the three months ended May 5, 2018 compared to the three months ended April 29, 2017. The decrease was primarily attributable to a decrease of $4.5 million in nonrecurring engineering service fees, a decrease of $2.9 million in technology license amortization expense and $2.3 million in lower personnel costs due to headcount reduction.

Selling, general and administrative

	Three Months Ended		
	May 5, 2018	April 29, 2017	% Change
	(in thousands, except percentage)		

Selling, general and administrative	$72,313	$55,104	31.2 %
% of net revenue	12.0 %	9.6 %	

Selling, general and administrative expense increased by $17.2 million in the three months ended May 5, 2018 compared to the three months ended April 29, 2017. The increase was primarily due to an increase of $15.3 million in merger-related costs. Refer to “Note 1- Basis of Presentation” for discussion of the pending merger transaction.

Restructuring Related Charges

	Three Months Ended		
	May 5, 2018	April 29, 2017	% Change
	(in thousands, except percentage)		
Restructuring related charges	$1,567	$886	76.9 %
% of net revenue	0.2 %	0.2 %	

We recognized $1.6 million of total restructuring related charges in the three months ended May 5, 2018 as the Company continues to execute previously announced restructuring actions.

Interest and Other Income, Net

	Three Months Ended		
	May 5, 2018	April 29, 2017	% Change
	(in thousands, except percentage)		
Interest and other income, net	$7,296	$3,333	118.9%
% of net revenue	1.2 %	0.6 %	

Interest and other income, net, increased by $4.0 million in the three months ended May 5, 2018 compared to the three months ended April 29, 2017. The increase is primarily due to a $2.6 million increase in interest income and a $1.5 million increase associated with foreign currency gain related to the revaluation of foreign currency denominated tax liabilities.

Provision (benefit) for Income Taxes

	Three Months Ended		
	May 5, 2018	April 29, 2017	% Change
	(in thousands, except percentage)		
Provision (benefit) for income taxes	$3,763	$ 5,166	(27.2)%

Our income tax provision for the three months ended May 5, 2018 was $3.8 million compared to an income tax provision of $5.2 million for the three months ended April 29, 2017. Our income tax provision for the three months ended May 5, 2018 differs from the same period in the prior year due to a reduction of tax expense on income from continuing operations, including discrete items in the quarter, versus the recognition of a discrete item related to changes in prior tax positions, and an additional accrual related to restructurings in the prior period. The effective tax rate for the three months ended May 5, 2018 and April 29, 2017 differs from the statutory federal rate of 21% primarily due to foreign earnings that are taxed at a substantially lower tax rate.

The Tax Cuts and Jobs Act ("2017 Tax Act") was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of

foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. We have not completed our determination of the accounting implications of the 2017 Tax Act on our tax accruals. However, we reasonably estimated the effects of the 2017 Tax Act and recorded provisional amounts in our financial statements as of February 3, 2018. There were no additional adjustments made to these amounts in the quarter ended May 5, 2018. As we continue our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes in the period in which the adjustments are made.

Our provision for income taxes may be affected by changes in the geographic mix of earnings with different applicable tax rates, changes in the realizability of deferred tax assets and liabilities, accruals related to contingent tax liabilities and period-to-period changes in such accruals, the results of income tax audits, the expiration of statutes of limitation, the implementation of tax planning strategies, tax rulings, court decisions, settlements with tax authorities and changes in tax laws. Additionally, please see the information in Part II, Item 1A, “Risk Factors,” under the caption “Changes in existing taxation benefits, rules or practices may adversely affect our financial results.”

Liquidity and Capital Resources

Our principal source of liquidity as of May 5, 2018 consisted of approximately $1.9 billion of cash, cash equivalents and short-term investments, of which approximately $1.0 billion was held by foreign subsidiaries (outside Bermuda). Approximately $550 million of this amount held by foreign subsidiaries is related to subsidiaries whose earnings are undistributed and have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel and the United States. 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. The amount of undistributed earnings of these subsidiaries for which no deferred tax liability has been provided is $430 million. 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 $160 million.

We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, will be sufficient to cover our working capital needs, capital expenditures, investment requirements and any declared dividends, repurchase of our common stock and commitments for at least the next twelve 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 have been named as defendants in several litigation actions and an unfavorable outcome in any current litigation matter could have a material adverse effect on our liquidity, cash flows and results of operations. For a discussion of litigation related risks, see Part II, Item 1A, "Risk Factors," including the risk detailed under the caption "We have been named as a party to several legal proceedings and may be named in additional ones 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, require us to stop selling our products or force us to redesign our products."

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 acquire additional 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. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

Future payment of a regular quarterly cash dividend on our common shares and our planned repurchases of common stock will be subject to, among other things, the best interests of the Company and our shareholders, our results of operations, cash balances and future cash requirements, financial condition, developments in ongoing litigation, statutory requirements under Bermuda law, market conditions and other factors that our board of directors may deem relevant. Our dividend payments and repurchases of common stock may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares at all or in any particular amounts.

Cash Flows from Operating Activities

Net cash flow provided by operating activities for the three months ended May 5, 2018 was $128.8 million. We had net income of $128.6 million, adjusted for the following non-cash items: depreciation and amortization of $20.3 million, share-based compensation expense of $23.9 million, and $1.7 million net loss from other non-cash items. Cash outflow from working capital of $45.7 million for the three months ended May 5, 2018 was primarily driven by an increase in accounts receivable and a decrease in accrued compensation. This outflow was offset by an increase in

accrued liabilities. The increase in accounts receivable was driven primarily by an increase in DSO from 45 to 50 days. The decrease in accrued compensation was mainly driven by a decrease in our bonus accrual due to our annual bonus payout in the current period. The increase in accrued liabilities was driven by an increase in variable consideration.

Net cash flow used in operations for the three months ended April 29, 2017 was $134.2 million. We had $106.6 million of net income, adjusted for $38.2 million of non-cash items, which was primarily driven by depreciation and amortization of $20.7 million, share-based compensation expense of $24.0 million, the amortization and write-off of acquired intangible assets of $1.1 million, and gain on the sale of discontinued operations of $8.2 million. The cash outflow from working capital of $10.6 million for the three months ended April 29, 2017 was primarily driven by increases in accounts receivable and inventory, as well as a decrease in accrued liabilities when adjusted for the impacts of investing activities, offset by an increase in accounts payable. The increase in accounts receivable was driven by less favorable sales linearity and a small increase in aged receivables. Inventories primarily associated with HDD inventory increased in preparation for the next quarter's demand. The decrease in accrued liabilities when adjusted for the impact of unsettled investment purchases was driven by a reduction of accruals for restructuring expenses and rebates.

Cash Flows from Investing Activities

Net cash flow provided by investing activities was $216.7 million for the three months ended May 5, 2018 compared to net cash used in investing activities of $17.3 million for the three months ended April 29, 2017. For the three months ended May 5, 2018, net cash provided by investing activities was primarily driven by net proceeds for sales and maturities of available-for sale securities and time deposits of $274.1 million, offset by purchases of available-for-sale securities and time deposits of $38.5 million and purchases of property and equipment of $13.6 million.

For the three months ended April 29, 2017, net cash used in investing activities of $17.3 million was primarily driven by purchase of available-for-sale securities of $198.4 million, offset by sales and maturities of available-for-sale securities of $161.0 million and net proceeds of $23.0 million from the sale of our Broadband business.

Cash Flows from Financing Activities

For the three months ended May 5, 2018, net cash used in financing activities of $66.7 million was primarily attributable to $29.8 million for payment of our quarterly dividends, $23.9 million minimum tax withholding payments on behalf of employees for net share settlements, and $20.5 million payments on technology license obligations. These outflows were partially offset by proceeds of $11.1 million from employee stock plans.

For the three months ended April 29, 2017, net cash used in financing activities of $205.0 million was primarily attributable to $166.3 million for the repurchases of our common stock, $30.0 million for payment of our quarterly dividends, and $21.8 million minimum tax withholding payments on behalf of employees for net share settlements.

Contractual Obligations

We presented our contractual obligations at February 3, 2018 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 5, 2018.

Indemnification Obligations

See “Note 8 – Commitments and Contingencies” in the Notes to the Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our interest rate risk relates primarily to our fixed income short-term investment portfolio as we did not have any outstanding debt as of May 5, 2018. We maintain an investment policy that requires minimum credit ratings, diversification of credit risk and limits the long-term interest rate risk by requiring effective maturities of generally less than five years. We invest our excess cash in highly liquid and highly rated debt instruments of the U.S. government and its agencies, money market mutual funds, asset backed securities, corporate debt securities and municipal debt securities that are classified as available-for-sale and time deposits. These investments are recorded on our consolidated balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income (loss) in the consolidated statements of shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

To provide an assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact that an adverse change in interest rates would have on the value of the investment portfolio, excluding time deposits. Based on investment positions as of May 5, 2018, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $3.5 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 significant cash flow impact.

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. Our operations in Israel and China represent a large portion of our total foreign currency exposure. Additionally, we may hold certain assets and liabilities, including potential tax liabilities, in local currency on our consolidated 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.

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 approximately 4%. We expect our hedges of foreign currency exposures to be highly effective and offset a significant portion of the short-term impact of changes in exchange rates on the hedged portion of our exposures.

Item 4. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Our disclosure controls and procedures are designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of May 5, 2018, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended May 5, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitation on Effectiveness of Controls

Our management, including our principal executive officer and our principal financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information under the caption “Contingencies” as set forth in “Note 8 – 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

Investing in our common shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below and all information contained in this report before you decide to purchase our common shares. Many of these risks and uncertainties are beyond our control, including business cycles and seasonal trends of the computing, semiconductor and related industries and end markets. If any of the possible adverse events described below actually occurs, we may be unable to conduct our business as currently planned and our financial condition and operating results could be harmed. In addition, the trading price of our common shares could decline due to the occurrence of any of these risks, and you could lose all or part of your investment.

Risks Related to Our Proposed Merger with Cavium

Our proposed acquisition of Cavium, Inc. (“Cavium”) involves a number of risks, including, among others, the risk that we fail to complete the acquisition in a timely manner or at all, regulatory risks, risks associated with our use of a significant portion of our cash and our taking on significant indebtedness, other financial risks, integration risks, and risk associated with the reactions of customers, suppliers and employees.

Our and Cavium’s obligations to consummate the proposed transaction (the "Merger") are subject to the satisfaction or waiver of certain conditions, including, among others: (i) the approval of Cavium's shareholders of the merger agreement; (ii) the approval of our shareholders to allow us to issue shares of common stock in connection with the merger agreement; (iii) the receipt of regulatory clearance under applicable U.S. and foreign regulations; (iv) the absence of any law or order prohibiting the proposed transaction; (v) there being no event that would have a material adverse effect on Cavium; and (vi) the accuracy of the representations and warranties of Cavium, subject to certain exceptions, and Cavium’s material compliance with its covenants, in the definitive agreement. We cannot provide assurance that the conditions to the completion of the proposed transaction will be satisfied in a timely manner or at all, and if the proposed transaction is not completed, we would not realize any of the expected benefits. While some of these conditions have been satisfied, several conditions to the Merger have not yet been satisfied.

The regulatory approvals required in connection with the proposed transaction may not be obtained or may contain materially burdensome conditions. If any conditions or changes to the structure of the proposed transaction are required to obtain these regulatory approvals, they may have the effect of jeopardizing or delaying completion of the proposed transaction or reducing our anticipated benefits. If we agree to any material conditions in order to obtain any approvals required to complete the proposed transaction, our business and results of operations may be adversely affected.

In addition, the use of a significant portion of our cash and the incurrence of substantial indebtedness in connection with the financing of the proposed transaction will reduce our liquidity and may limit our flexibility in responding to other business opportunities and increase our vulnerability to adverse economic and industry conditions.

If the Merger is not completed by September 19, 2018 (subject to a potential extension to November 19, 2018 under certain circumstances, including in the event receipt of certain required regulatory approvals has not been obtained), either Marvell or Cavium may choose to terminate the Merger Agreement. Marvell or Cavium may also elect to terminate the Merger Agreement in certain other circumstances, or they may mutually decide to terminate the Merger Agreement at any time prior to the Effective Time, before or after obtaining shareholder approval, as applicable.

If the proposed transaction is not completed, our stock price could fall to the extent that our current price reflects an assumption that we will complete it. Furthermore, if the proposed transaction is not completed and the purchase agreement is terminated, we would not realize any of the expected benefits of the proposed transaction, and we may suffer other consequences that could adversely affect our business, results of operations and stock price, including,

among others:

- we could be required to pay a termination fee of up to $180 million;
- we will have incurred and may continue to incur costs relating to the proposed transaction, many of which are payable by us whether or not the proposed transaction is completed;

- matters related to the proposed transaction (including integration planning) require substantial commitments of time and resources by our management team and numerous others throughout our organization, which could otherwise have been devoted to other opportunities;
- we may be subject to legal proceedings related to the proposed transaction or the failure to complete the proposed transaction;
- the failure to complete the proposed transaction may result in negative publicity and a negative perception of us in the investment community; and
- any disruptions to our business resulting from the announcement and pendency of the proposed transaction, including any adverse changes in our relationships with our customers, suppliers, partners or employees, may continue to intensify in the event the proposed transaction is not consummated.

The benefits we expect to realize from the proposed transaction will depend, in part, on our ability to integrate the businesses successfully and efficiently. See also the Risk Factor entitled “Any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business."

Furthermore, uncertainties about the proposed transaction may cause our and/or Cavium’s current and prospective employees to experience uncertainty about their futures. These uncertainties may impair our and/or Cavium’s ability to retain, recruit or motivate key management, engineering, technical and other personnel. Similarly, our and/or Cavium’s existing or prospective customers, licensees, suppliers and/or partners may delay, defer or cease purchasing products or services from or providing products or services to us or Cavium; delay or defer other decisions concerning us or Cavium; or otherwise seek to change the terms on which they do business with us or Cavium. Any of the above could harm us and/or Cavium and thus decrease the benefits we expect to receive from the proposed transaction.

Until the completion of the Merger or the termination of the Merger Agreement in accordance with its terms, Marvell and Cavium are each prohibited from entering into certain transactions and taking certain actions that might otherwise be beneficial to Marvell or Cavium and their respective shareholders.

Until the Merger is completed or the Merger Agreement is terminated, the merger agreement dated November 19, 2017 (the "Merger Agreement") restricts Marvell and Cavium from taking specified actions without the consent of the other party, and requires Cavium to conduct its business and operations in the ordinary course in all material respects and substantially in accordance with past practices. These restrictions may prevent Marvell and Cavium from making appropriate changes to their respective businesses or pursuing attractive business opportunities that may arise prior to the completion of the Merger.

The Merger Agreement limits each of Marvell’s and Cavium’s ability to pursue alternative transactions and, in certain instances, requires payment of a termination fee, which could deter a third party from proposing an alternative transaction.

The Merger Agreement contains provisions that, subject to certain exceptions, limit each of Marvell’s and Cavium’s ability to solicit, initiate, encourage or facilitate, or enter into discussions or negotiations with respect to, any inquiries regarding or the making of any proposal or offer that constitutes or could reasonably be expected to lead to an alternative transaction. In addition, under specified circumstances, Marvell or Cavium is required to pay a termination fee of $180 million if the Merger Agreement is terminated. It is possible that these or other provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Marvell or Cavium from considering or proposing an acquisition or might result in a potential competing acquirer proposing to pay a lower per share price to acquire Marvell or Cavium than it might otherwise have proposed to pay.

Any delay in completing the Merger may significantly reduce the benefits expected to be obtained from the Merger. In addition to the required regulatory clearances and approvals, the Merger is subject to a number of other conditions that are beyond the control of Marvell and Cavium and that may prevent, delay or otherwise materially adversely affect completion of the Merger. Marvell and Cavium cannot predict whether and when these other conditions will be satisfied. Further, the requirements for obtaining the required regulatory clearances and approvals could delay the completion of the Merger for a significant period of time or prevent it from occurring. Any delay in completing the Merger may significantly reduce the synergies projected to result from the Merger and other benefits that Marvell and Cavium expect to achieve if they complete the Merger within the expected timeframe and integrate their respective

businesses.

Following the Merger, Marvell may not fully realize the benefits that we expect to receive from the Merger in the time frame anticipated.

Marvell and Cavium currently operate as independent public companies. After the Merger, Marvell will be required to devote significant management attention and resources to integrating the Cavium business. Risks Marvell may face in connection with the acquisition of Cavium include:

- Regulatory limitations prior to the completion of the Merger on the ability of Marvell's management to conduct planning regarding the integration of the two companies;
- Marvell may not fully realize the benefits we expect to receive from the transaction, such as increasing revenue or profits, or receive them in the anticipated time frame, due to any unanticipated slower growth in Cavium's operating results and revenue; and
- Failure to identify or accurately assess the magnitude of Cavium's liabilities Marvell may assume or become liable for as a result of the proposed transaction could result in unexpected litigation or regulatory exposure, unfavorable accounting charges, unexpected increases in taxes due, a loss of anticipated tax benefits or other adverse effects on our business, results of operations, financial condition or cash flows.

The occurrence of any of these risks could have a material adverse effect on Marvell's business, results of operations, financial condition or cash flows.

There can be no assurance that Marvell will be able to secure the funds necessary to pay the cash portion of the Merger Consideration and refinance certain of Cavium's existing indebtedness on acceptable terms, in a timely manner or at all.

Marvell intends to fund the cash portion of the Merger Consideration to be paid to holders of Cavium common stock with a combination of Marvell's and Cavium's cash on hand and debt financing. To this end, Marvell has entered into a debt commitment letter containing commitments for a $900 million term loan facility and an $850 million bridge loan facility. The obligation of the lenders to provide the debt financing under the debt commitment letter is subject to a number of customary conditions. There can be no assurance that Marvell will be able to obtain the debt financing pursuant to the debt commitment letter.

In the event that the debt financing contemplated by the debt commitment letter is not available, other financing may not be available on acceptable terms, in a timely manner or at all. If Marvell is unable to obtain debt financing, the Merger may be delayed or not be completed.

Litigation filed against Marvell and Cavium could prevent or delay the completion of the Merger or result in the payment of damages following completion of the Merger.

Marvell, Cavium and members of Cavium's board of directors have in the past and may in the future be parties, among others, to various claims and litigation related to the Merger Agreement and the Merger, including putative shareholder class actions. Among other remedies, the plaintiffs in such matters may seek to enjoin the Merger. The results of complex legal proceedings are difficult to predict, and could delay or prevent the Merger from becoming effective in a timely manner. Moreover, litigation could be time consuming and expensive, could divert Marvell's and Cavium's management's attention away from their regular businesses, and, if adversely resolved against either Marvell or Cavium, could have a material adverse effect on Marvell's or Cavium's respective financial condition or the condition of the combined company.

Factors That May Affect Marvell's Future Results

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:

- our ability to complete the merger with Cavium, Inc. on a timely basis, or at all;
- our ability to realize anticipated synergies in connection with the Cavium acquisition;
- changes in general economic and political conditions and specific conditions in the end markets we address, including the continuing volatility in the technology sector and semiconductor industry;
- the effects of any acquisitions, divestitures or significant investments, including our merger with Cavium, Inc.;
- the highly competitive nature of the end markets we serve, particularly within the semiconductor industry;

- our dependence on a few customers for a significant portion of our revenue;
- severe financial hardship or bankruptcy of one or more of our major customers;
- 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;
- 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;

- 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, California, and where our third party suppliers operate, such as Taiwan and elsewhere in the Pacific Rim; and
- our ability to attract, retain and motivate a highly skilled workforce, especially managerial, engineering, sales and marketing personnel.

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 29, 2017 through May 5, 2018, our common shares traded as low as $14.58 and as high as $25.18 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 revenue 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.

Our sales are concentrated in a few large customers. If we lose or experience a significant reduction in sales to any of these key customers, if any of these key customers experience a significant decline in market share, or if any of these customers experience significant financial difficulties, our revenue may decrease substantially and our results of operations and financial condition may be harmed.

We receive a significant amount of our revenue from a limited number of customers. Net revenue from our two largest customers represented 31% and 35% of our net revenue for the three months ended May 5, 2018 and April 29, 2017, respectively. Sales to our largest customers have fluctuated significantly from period to period and year to year and will likely continue to fluctuate in the future, primarily due to the timing and number of design wins with each customer, the continued diversification of our customer base as we expand into new markets, and natural disasters or other issues that may divert a customer's operations. 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. To the extent one or more of our large customers experience significant financial difficulty, bankruptcy or insolvency, this could have a material adverse effect on our sales and our ability to collect on receivables, which could harm our financial condition and results of operations. For example, Toshiba Corporation has announced significant financial difficulties not directly related to their semiconductor business but which may have an adverse effect on its overall financial condition or result in a divestiture of the semiconductor portion of its business that purchases our products.

Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, purchase fewer products than they did in the past, or alter their purchasing patterns in some other way, particularly because:

- a significant portion of our sales are made on a purchase order basis, which allows our customers to cancel, change or delay product purchase commitments with relatively short notice to us;
- 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;
- customers may develop their own solutions or acquire fully developed solutions from third-parties;
- customers may be subject to severe business disruptions, including, but not limited to, those driven by financial instability; or
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customers may consolidate (for example, Western Digital acquired SanDisk in 2017, and Toshiba Corporation is party to an agreement to sell a portion of its semiconductor business), which 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. In addition, if regulatory activity, such as enforcement of U.S. export control and sanctions laws, were to materially limit our ability to makes sales to any of our significant customers, it could harm our results of operations, reputation and financial condition.

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;
- increased expenses, including, but not limited to, legal, administrative and compensation expenses related to newly hired or terminated employees;
- key personnel of an acquired company may decide not to work for us;
- increased costs to integrate or, in the case of a divestiture, separate the technology, personnel, customer base and business practices of the acquired or divested business or assets;
- assuming the legal obligations of the acquired company, including potential exposure to material liabilities not discovered in the due diligence process;
- ineffective or inadequate control, procedures and policies at the acquired company may negatively impact our results of operations;
- potential adverse effects on reported operating results due to possible write-down of goodwill and other intangible assets associated with acquisitions;
- potential damage to customer relationships or loss of synergies in the case of divestitures; and
- unavailability of acquisition financing on reasonable terms or at all.

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. Given that our resources are limited, our decision to pursue a transaction has opportunity costs; accordingly, if we pursue a particular transaction, we may need to forgo the prospect of entering into other transactions that could help us achieve our strategic objectives.

When we decide to sell assets or a business, we may have difficulty selling on acceptable terms in a timely manner. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expense, or we may sell a business at a price or on terms that are less favorable than we had anticipated, resulting in a loss on the transaction.

If we do enter into agreements with respect to acquisitions, divestitures, or other transactions, we may fail to complete them due to factors such as:

- failure to obtain regulatory or other approvals;
- IP disputes or other litigation; or
- difficulties obtaining financing for the transaction.

For all these reasons, our pursuit of an acquisition, investment, divestiture, merger or joint venture could cause our actual results to differ materially from those anticipated.

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

The semiconductor industry, and specifically the storage, networking and connectivity markets, is extremely competitive. 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 networking market. Additionally, customer expectations and requirements have been evolving rapidly. For example, customers now expect us to provide turnkey solutions and commit to future roadmaps that have technical risks.

Some of our competitors may be better situated to meet changing customer needs and secure design wins. Increasing competition in the markets in which we operate may negatively impact our revenue and gross margins. 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 data communication 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. As the technology inflections happen, our competitors may get ahead of us and negatively impact our market share.

In addition, the semiconductor industry has experienced increased consolidation over the past several years. For example, Avago Technologies Limited (now Broadcom Limited ("Broadcom")) acquired Broadcom Corporation in February 2016 and LSI Corporation in May 2014; Intel acquired Altera Corporation in December 2015; and NXP Semiconductors acquired Freescale Semiconductor, Ltd. in December 2015. In addition, Qualcomm announced a pending bid to buy NXP Semiconductors. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could put us at a competitive disadvantage and harm our results of operations.

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

The HDD industry is intensely competitive and technology inflections are happening 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 participate 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 significant consolidation. 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 and personal computing devices could reduce demand for traditional HDDs. For example, products using alternative technologies, such as SSD and other storage technologies are a source of competition to manufacturers of HDDs. Although we offer SSD controllers, leveraging our technology in hard drives, we cannot ensure that our overall business will not be adversely affected 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 may harm our financial condition and results of operations. SSD customers may develop their own controllers, which could pose a challenge to our market share in the SSD space.

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 to develop and introduce new products and enhancements to our existing products in a timely and cost-effective manner. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, 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. See also, “We may be unable to protect our intellectual property, which would negatively affect our ability to compete.”

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 and in a timely manner. Even if we and our customers introduce new and enhanced products to the market, those products may not achieve market acceptance.

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, our more recently introduced products tend to have higher associated costs because of initial overall development and production expenses. 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 price concessions to certain customers, 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 of existing products 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 we earn in our established businesses. 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 may 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.

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 China, Singapore and Taiwan. 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 revenue, cost of goods sold and results of operations would be negatively impacted. In addition, there are limited numbers of alternative foundries and identifying and implementing alternative manufacturing facilities would be time consuming. As a result, if we needed to implement alternate manufacturing facilities, we could experience significant expenses and 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 also, "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.

While we attempt to create multiple sources for our products, 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 would 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 our revenue, net income and cash flow.

In order to secure sufficient foundry capacity when demand is high and to 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 nonrefundable deposits with or loans to foundries in exchange for capacity commitments, or 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 technology is transitioning from planar to FINFET transistors. This transition may result in longer qualification cycles and lower yields. Our foundries have from time to time experienced manufacturing defects and lower 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 with our products could cause us significant customer relations and business reputation problems, harm our financial performance and result in financial or other damages to our customers. Our customers could also seek damages in connection with product liability claims, which would likely be time consuming and costly to defend. In addition, defects could result in significant costs. See also, "Costs related to defective products could have a material adverse effect on us."

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, including gold and copper, which 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.

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 ensure that the foundries 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.

Our indemnification obligations and limitations of our director and officer liability insurance may have a material adverse effect on our financial condition, results of operations and cash flows.

Under Bermuda law, our articles of association and bye-laws and certain indemnification agreements to which we are a party, we have an obligation to indemnify, or we have otherwise agreed to indemnify, certain of our current and former directors and officers with respect to current and future investigations and litigation, including the matters discussed in Part II-Item 1, “Legal Proceedings” of this Quarterly Report on Form 10-Q. In connection with some of these pending matters, we are required to, or we have otherwise agreed to, advance, and have advanced, legal fees and related expenses to certain of our current and former directors and officers and expect to continue to do so while these matters are pending. Certain of these obligations may not be “covered matters” under our directors’ and officers’ liability insurance, or there may be insufficient coverage available. Further, in the event the directors and officers are ultimately determined not to be entitled to indemnification, we may not be able to recover the amounts we previously advanced to them.

In addition, we incurred significant expenses in connection with the Audit Committee’s independent investigation, the pending government investigations, and shareholder litigation. We cannot provide any assurances that past or future claims related to those or other matters, including the cost of fees, penalties or other expenses, will not exceed the limits of our insurance policies, that such claims are covered by the terms of our insurance policies or that our insurance carrier will be able to cover our claims. Additionally, to the extent there is coverage of these claims, the insurers also may seek to deny or limit coverage in some or all of these matters. Furthermore, the insurers could become insolvent and unable to fulfill their obligation to defend, pay or reimburse us for insured claims. Accordingly, we cannot be sure that claims will not arise that are in excess of the limits of our insurance or that are not covered by the terms of our insurance policy. Due to these coverage limitations, we may incur significant unreimbursed costs to satisfy our indemnification obligations, which may have a material adverse effect on our financial condition, results of operations or cash flows.

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

From time to time, we have experienced hardware and software defects and bugs associated with the introduction of our highly complex products. Despite our testing procedures, we cannot ensure that errors will not be found in new products or releases after commencement of commercial shipments in the future. Such errors 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 revenue;
- 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. 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 and adversely affect our results of operations.

Despite our best efforts, security vulnerabilities may exist with respect to our products. Mitigation techniques designed to address such security vulnerabilities, including software and firmware updates or other preventative measures, may not operate as intended or effectively resolve such vulnerabilities. Software and firmware updates and/or other mitigation efforts may result in performance issues, system instability, data loss or corruption, unpredictable system behavior, or the theft of data by third parties, any of which could significantly harm our business and reputation.

We have experienced a significant transition at the executive management level in the last two years. If our executive team is unable to engage and align mid-management or attract and retain the key talent needed for us to timely achieve our business objectives, our business and results of operations could be harmed.

Our executive management team has gone through a complete transition in the last two years, including the hiring of a new President and CEO, Chief Financial Officer, Chief Accounting Officer and Controller, Chief Operations Officer, Chief Technology Officer, Chief Administration and Legal Officer, Executive Vice President of Worldwide Sales and Marketing and the appointment of new leaders for our corporate development organization and our storage, and networking and connectivity groups. While the individual members of our executive management team each have significant industry-related experience, they previously had not worked together as a group and it will take time for them to become an integrated management team. Delays in the integration of our management team could affect our ability to implement our business strategy, which could have a material adverse effect on our business and results of operations.

If any of the members of our current management team were to leave our company unexpectedly, we could face substantial difficulty in hiring qualified successors. The marketplace for senior executive management candidates is very competitive and limited, particularly in the Silicon Valley where our U.S. operations are based. Our growth may be adversely impacted if we are unable to attract, retain and motivate such key employees. Turnover of senior management can adversely impact our stock price, our results of operations and our client relationships, and has made recruiting for future management positions more difficult. Competition for senior leadership may increase our compensation expenses, which may negatively affect our profitability.

We depend on highly skilled engineering and sales and marketing personnel to support our business operations. If we are unable to retain and motivate our current personnel or attract additional qualified 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, both in the Silicon Valley where our U.S. operations are based and in global markets in which we operate. Our 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. Changes to United States immigration policies that restrict our ability to attract and retain technical personnel may negatively affect our research and development efforts.

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. The impact on employee morale experienced in connection with our restructuring efforts in fiscal 2017 and 2018, which eliminated approximately 900 jobs worldwide, could make it more difficult for us to add to our workforce when needed due to speculation regarding our future restructuring activities. In addition, our pending merger with Cavium, Inc. may cause our current and prospective employees to experience uncertainty about their futures that may impair our ability to retain, recruit or motivate key management, engineering, technical and other personnel.

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

We depend heavily on our technology infrastructure and maintain and rely upon certain critical information systems for the effective operation of our business. We routinely collect and store sensitive data in our information systems, including intellectual property and other proprietary information about our business and that of our customers, suppliers and business partners. These information technology systems are subject to damage or interruption from a number of potential sources, including, but not limited to, natural disasters, viruses, destructive or inadequate code, malware, power failures, cyber-attacks, internal malfeasance or other events. We have implemented processes for systems under our control intended to mitigate risks; however, we can provide no guarantee that those risk mitigation measures will be effective. Given the frequency of cyber-attacks and resulting breaches reported by other businesses and governments, it is likely we will experience one or more breaches of some extent in the future. We may incur significant costs in order to implement, maintain and/or update security systems we feel are necessary to protect our information systems, or we may miscalculate the level of investment necessary to protect our systems adequately. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. To the extent that any system failure, accident or security breach results in material 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 the collection of proprietary technologies we have developed and acquired since our inception, and the protection of our intellectual property rights is, and will continue to be, important to the success of our business. If we fail to protect these intellectual property rights, competitors could sell products based on technology that we have developed, which could harm our competitive position and decrease our revenue.

We rely on a combination of patents, copyrights, trademarks, trade secret laws, contractual provisions, confidentiality agreements, licenses 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. Notwithstanding these agreements, we have experienced disputes with employees regarding ownership of intellectual property in the past. To the extent that any third party has a claim to ownership of any relevant technologies used in our products, we may not be able to recognize the full revenue stream from such relevant technologies.

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. We may also be required to license some of our patents to others including competitors as a result of our participation in and contribution to development of industry standards. 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 jurisdictions where the laws may not protect our proprietary rights as fully as in the United States or other developed countries. 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 we customarily

use 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 which could adversely impact our business and results of operations.

We are subject to order and shipment uncertainties. 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 potential loss of market share as well as 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 customer's product development processes, which may include extensive qualification and testing of components included in their products, including ours. In many cases, they design their products to use components from multiple suppliers. This creates the risk that our customers may 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. 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.

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.

We face additional risks due to the extent of our global operations since a majority of our products, and those of our customers, are manufactured and sold outside of the United States. The occurrence of any or a combination of the additional risks described below would significantly and negatively impact our business and results of operations.

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 shipped to customers with operations in Asia represented approximately 94% of our net revenue in the three months ended May 5, 2018 and April 29, 2017, respectively

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 periodically affecting 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;
- volatile global economic conditions, including downturns in which some competitors may become more aggressive in their pricing practices, which would adversely impact our gross margin;
- compliance with domestic and foreign export and import regulations, including pending changes thereto, 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 in which we are prohibited from engaging 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, higher tariffs, or changes in cross border taxation, particularly in light of the prospect of changes in U.S. international trade policies following the 2016 U.S. presidential election;
- 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 disruption of 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.

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 where our third-party manufacturers have significant costs, will increase the cost of such operations which could harm our results of operations.

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 laws and regulations worldwide, which may differ among jurisdictions, affecting our operations in areas including, but not limited to: intellectual property ownership and infringement; tax; import and export requirements; anti-corruption; foreign exchange controls and cash repatriation restrictions; data private requirements; competition; advertising; employment; product regulations; environment, health and safety requirements; and consumer laws. For example, 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. In addition, we are 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 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. The costs of complying with these laws (including the costs of any investigations, auditing and monitoring) could adversely affect our current or future business.

In addition, we are 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.

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 until June 2019. Furthermore, under the Israeli Encouragement law of "approved or benefited enterprise," our subsidiary in Israel, Marvell Israel (M.I.S.L) Ltd., is entitled to, and has certain existing programs that qualify as, approved and benefited tax programs that include reduced tax rates and exemption of certain income through fiscal 2027. Moreover, receipt of past and future benefits under tax agreements may depend on our ability to fulfill commitments regarding employment of personnel or performance of specified activities in the applicable jurisdiction. Changes in our business plans, including divestitures, could result in termination of an agreement or loss of benefits thereunder. If any of our tax agreements in any of these foreign jurisdictions were terminated, our results of operations would be harmed.

The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Sharing Project, and issued in 2015, and is expected to continue to issue, guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in some of the countries in which we do business. The European Commission has also conducted investigations in multiple countries focusing on whether local country tax rulings or tax legislation provides preferential tax treatment that violates European Union state aid rules and concluded that certain countries, including Ireland and Belgium, have provided illegal state aid in certain cases. We can provide no assurance that changes in tax laws and additional investigations would not have an adverse tax impact on our international operations.

Matters relating to or arising from our Audit Committee investigation, including regulatory proceedings, litigation matters and potential additional expenses, may adversely affect our business and results of operations.

As previously disclosed in our public filings, the Audit Committee of our Board of Directors completed an investigation that generally included a review of certain revenue recognized in the first and second quarters of fiscal 2016 and the fourth quarter of fiscal 2015, including transactions that would have, in the normal course of events and but for action by certain Marvell employees, been completed and recognized in a subsequent quarter (referred to internally as "pull-ins"), the accrual of a litigation reserve in the second quarter of fiscal 2016, and the stated belief by Marvell's former Chairman and Chief Executive Officer of ownership of certain patent rights related to the Final-Level Cache invention and his later assignment of associated patent rights to Marvell. We are also the subject of investigations by the Securities and Exchange Commission and the U.S. Attorney related to these matters. We are fully cooperating with the SEC and the U.S. Attorney with respect to those investigations.

We incurred significant expenses related to legal, accounting, and other professional services in connection with the investigations and related matters and related remediation efforts. The expenses incurred, and expected to be incurred, on the investigations, the impact of our delay in fiscal 2016 and the beginning of fiscal 2017 in meeting our periodic reports on the confidence of investors, employees and customers, and the diversion of the attention of the management team that has occurred, and is expected to continue, has adversely affected, and could continue to adversely affect, our business, financial condition and results of operations or cash flows.

As a result of the matters reported above, we are exposed to greater risks associated with litigation, regulatory proceedings and government enforcement actions. In addition, we incurred significant legal expenses in connection with securities class actions or other lawsuits that were filed against us, our directors and officers, which lawsuits we have agreed to settle. Any future such investigations or additional lawsuits may adversely affect our business, financial condition, results of operations and cash flows.

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During fiscal 2016 and continuing through the third quarter of fiscal 2018, we identified material weaknesses in our internal controls over financial reporting, which have since been remediated. If we are unable to develop, implement and maintain effective internal controls in future periods, our consolidated financial statements could contain material misstatements which would cause us to issue a restatement thereof. A restatement of our consolidated financial statements could cause our investors to lose confidence in our reported financial information and lead to a decline in our stock price.

The Sarbanes-Oxley Act of 2002 and SEC rules require that management report on the effectiveness of our internal control over financial reporting and our disclosure controls and procedures. Among other things, management must conduct an assessment of internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. During fiscal 2016 and continuing through the third quarter of fiscal 2018, we identified material weaknesses in our internal controls over financial reporting. While we have remediated these material weaknesses as of February 3, 2018, the remediation process absorbed significant management attention and we incurred significant expenses relating to the remediation.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements would not be prevented or detected. As with any material weakness, if our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements. Any material misstatements could result in a restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Any 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. We cannot ensure 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 reliable financial reports, or to detect and prevent fraud, which would harm our business.

We have been named as a party to several legal proceedings and may be named in additional ones 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, require us to stop selling our products or force us to redesign our products.

We have been named as a party to several lawsuits, government inquiries or investigations and other legal proceedings (referred to as "litigation"), and we may be named in additional ones in the future. Please see "Note 8 - Commitments and Contingencies" of our Notes to the Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more detailed description of material litigation matters in which we may be currently engaged. 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. See also, "We may be unable to protect our intellectual property, which would negatively affect our ability to compete."

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. 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 alleging 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.

The ultimate outcome of 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. Litigation, regardless of the outcome, may result in significant expenditures, diversion of our management's time and attention from the operation of our business and damage to our reputation or relationship with third parties, which could materially and adversely affect our business, financial condition, results of operations, cash flows and stock price.

We are exposed to potential impairment charges on certain assets.

We had approximately $2.0 billion of goodwill on our consolidated balance sheet as of May 5, 2018. 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 on the last business day of our fiscal fourth quarter and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable.

We have identified that our business operates as a single operating segment with two components (Storage, and Networking and Connectivity), which we have concluded can be aggregated into a single reporting unit for purposes of testing goodwill impairment. 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 could have an impairment of goodwill in one or more of such future 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.

If we were classified as a passive foreign investment company, there would be adverse tax consequences to U.S. holders of our ordinary shares.

If we were classified as a "passive foreign investment company" or "PFIC" under section 1297 of the Internal Revenue Code, of 1986, as amended (the "Code"), for any taxable year during which a U.S. holder holds ordinary shares, such U.S. holder generally would be taxed at ordinary income tax rates on any gain realized on the sale or exchange of the ordinary shares and on any "excess distributions" (including constructive distributions) received on the ordinary shares. Such U.S. holder could also be subject to a special interest charge with respect to any such gain or excess distribution. We would be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which either (i) at least 75% of our gross income is passive income or (ii) on average, the percentage of our assets that produce passive income or are held for the production of passive income is at least 50% (determined on an average gross value basis). We were not classified as a PFIC for fiscal year 2017 or in any prior taxable year. Whether we will, in fact, be classified as a PFIC for any subsequent taxable year depends on our assets and income over the course of the relevant taxable year and, as a result, cannot be predicted with certainty. In particular, because the total value of our assets for purposes of the asset test will be calculated based upon the market price of our ordinary shares, a significant and sustained decline in the market price of our ordinary shares and corresponding market capitalization relative to our

passive assets could result in our being classified as a PFIC. There can be no assurance that we will not be classified as a PFIC in the future or the Internal Revenue Service will not challenge our determination concerning PFIC status for any prior period.

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

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

We are subject to the risks of owning real property.

Our buildings in Santa Clara, California; Singapore; and Shanghai, China subject us to the risks of owning real property, which include, but are not limited to:

- the possibility of environmental contamination and the costs associated with remediating 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;
- failure to achieve expected cost savings due to extended non-occupancy of a vacated property intended to be leased; 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.

Risks Related to Owning Marvell Common Shares

There can be no assurance that we will continue to declare cash dividends or effect share repurchases in any particular amount or at all, and statutory requirements under Bermuda Law may require us to defer payment of declared dividends or suspend share repurchases.

In May 2012, we announced the declaration of our first quarterly cash dividend. In November 2016, we announced that our board of directors had authorized a $1 billion share repurchase program, of which $642 million of shares have already been repurchased. Future payment of a regular quarterly cash dividend on our common shares and future share repurchases will be subject to, among other things: the best interests of our company and our shareholders; our results of operations, cash balances and future cash requirements; financial condition; developments in ongoing litigation; statutory requirements under Bermuda law; market conditions; and other factors that the board of directors may deem relevant. Our dividend payments or share repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares in any particular amounts or at all. A reduction in, a delay of, or elimination of our dividend payments or share repurchases could have a negative effect on our share price.

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 shares without shareholder approval. This provision could make it more difficult for a third party to acquire us, even if doing so would benefit our shareholders.

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

There were no sales of unregistered securities during the three months ended May 5, 2018.

Issuer Purchases of Equity Securities

During the three months ended May 5, 2018, we suspended our share repurchase program in anticipation of the funding of our acquisition of Cavium. Therefore, there were no share repurchases during the three months ended May 5, 2018. Although share repurchases are temporarily suspended, we have $358.0 million of repurchase authority remaining under our current share repurchase program.

Item 6. Exhibits

Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
3.1	Memorandum of Association of Marvell Technology Group Ltd.	10-K	000-30877	3.1	3/29/2018
3.2	Certificate of Incorporation of Marvell Technology Group Ltd.	-	-	-	Filed herewith
3.3	Fourth Amended and Restated Bye-Laws of Marvell Technology Group Ltd.	8-K	000-30877	3.1	11/10/2016
3.4	Memorandum of Reduction of Share Premium dated August 8, 2011	-	-	-	Filed herewith
3.5	Memorandum of Increase of Share Capital of Marvell Technology Group Ltd. dated June 29, 2006, June 7, 2004, April 25, 2000, July 16, 1999, July 22, 1998, September 26, 1996 and March 10, 1995	-	-	-	Filed herewith
4.1	Specimen common share certificate for Marvell Technology Group Ltd.	10-K	000-30877	4.1	3/29/2018
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer				Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer				Filed herewith
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Principal Executive Officer				Filed herewith
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Principal Financial Officer				Filed herewith
101.INS	XBRL Instance Document				Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document				Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Document				Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				Filed herewith

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

* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

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

MARVELL TECHNOLOGY GROUP LTD.

Date: June 5, 2018 By: /s/ JEAN HU
Jean Hu
Chief Financial Officer
(Principal Financial Officer)