MARVELL TECHNOLOGY GROUP LTD
Form 10-Q
September 06, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended July 28, 2007

or

o **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: 0-30877

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, including Zip Code, of Principal Executive Offices and

Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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. x Yes o No

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

The number of shares outstanding of the registrant s common stock outstanding as of August 25, 2007 was 590,473,023 shares.

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	July 28, 2007	January 27, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 404,179	$ 568,008
Short-term investments	92,269	28,372
Accounts receivable, net	358,312	328,283
Inventories	295,292	247,403
Prepaid expenses and other current assets	154,576	170,123
Deferred income taxes	6,049	5,846
Total current assets	1,310,677	1,348,035
Property and equipment, net	426,177	440,943
Goodwill	1,981,517	1,977,805
Acquired intangible assets	507,133	580,558
Other non-current assets	154,998	180,359
Total assets	$ 4,380,502	$ 4,527,700
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 261,208	$ 240,497
Accrued liabilities	128,462	268,849
Accrued employee compensation	110,104	108,895
Income taxes payable	21,138	29,078
Deferred income	54,777	46,459
Current portion of capital lease obligations	4,471	17,408
Total current liabilities	580,160	711,186
Capital lease obligations, net of current portion	9,104	17,096
Non-current income taxes payable	128,645	116,777
Term loan obligations, long-term portion	392,750	394,750
Other long-term liabilities	42,345	60,707
Total liabilities	1,153,004	1,300,516
Commitments and contingencies (Note 6)		
Shareholders equity:		
Common stock	1,176	1,175
Additional paid-in capital	3,911,782	3,802,509
Accumulated other comprehensive income	352	28
Accumulated deficit	(685,812)	(576,528)
Total shareholders equity	3,227,498	3,227,184
Total liabilities and shareholders equity	$ 4,380,502	$ 4,527,700

See accompanying notes to unaudited condensed consolidated financial statements.

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MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended July 28, 2007	Three Months Ended July 29, 2006	Six Months Ended July 28, 2007	Six Months Ended July 29, 2006
Net revenue	$ 656,711	$ 573,985	$ 1,291,761	$ 1,095,181
Operating costs and expenses:				
Cost of goods sold	335,530	279,075	662,947	519,308
Research and development and other	236,194	152,645	470,327	281,873
Selling and marketing	53,942	39,267	104,334	78,129
General and administrative	33,775	19,689	57,763	38,247
Amortization of acquired intangible assets	37,293	27,405	74,613	44,756
Total operating costs and expenses	696,734	518,081	1,369,984	962,313
Operating (loss) income	(40,023)	55,904	(78,223)	132,868
Interest and other income (expense)	3,128	1,714	4,447	9,929
Interest expense	(9,942)	(623)	(19,917)	(1,222)
(Loss) income before income taxes	(46,837)	56,995	(93,693)	141,575
Provision for income taxes	9,619	12,114	15,591	27,977
(Loss) income before change in accounting principle	(56,456)	44,881	(109,284)	113,598
Cumulative effect of change in accounting principle, net of tax effect				8,846
Net (loss) income	$ (56,456)	$ 44,881	$ (109,284)	$ 122,444
Basic (loss) income per share:				
(Loss) income before change in accounting principle	$ (0.10)	$ 0.08	$ (0.19)	$ 0.19
Cumulative effect of change in accounting principle, net of tax effect				0.02
Basic net (loss) income per share	$ (0.10)	$ 0.08	$ (0.19)	$ 0.21
Shares used in basic per share computation	587,534	586,133	587,480	584,918
Diluted (loss) income per share:				
(Loss) income before change in accounting principle	$ (0.10)	$ 0.07	$ (0.19)	$ 0.18
Cumulative effect of change in accounting principle, net of tax effect				0.01
Diluted net (loss) income per share	$ (0.10)	$ 0.07	$ (0.19)	$ 0.19
Shares used in diluted per share computation	587,534	633,533	587,480	636,524

See accompanying notes to unaudited condensed consolidated financial statements.

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MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended July 28, 2007	July 29, 2006
Cash flows from operating activities:		
Net (loss) income	$ (109,284)	$ 122,444
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Cumulative effect of change in accounting principle, net		(8,846)
Depreciation and amortization	52,420	32,558
Stock-based compensation	105,664	104,366
Amortization of acquired intangible assets	74,613	44,756
Gain from sale of asset under construction	(5,122)	
Fair market value adjustment to cost of goods sold from supply contract	(77,641)	
Interest expense related to supply contract	3,023	
Excess tax benefits from stock-based compensation	(235)	(860)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(28,702)	(97,616)
Inventories	(88,748)	7,082
Prepaid expenses and other asset	53,992	(28,484)
Accounts payable	22,334	15,521
Accrued liabilities and other	(26,199)	5,113
Accrued employee compensation	855	(6,127)
Income taxes payable	3,928	25,380
Deferred income	8,318	(278)
Net cash (used in) provided by operating activities	(10,784)	215,009
Cash flows from investing activities:		
Cash paid in acquisitions, net	(7,141)	(282,978)
Purchases of short-term investments	(113,651)	(141,418)
Sales and maturities of short-term investments	50,021	265,160
Acquisition costs	(1,138)	(3,480)
Purchases of property and equipment	(64,513)	(71,472)
Proceeds from sale of asset under construction	5,122	
Purchases of technology licenses	(16,850)	(6,600)
Net cash used in investing activities	(148,150)	(240,788)
Cash flows from financing activities:		
Proceeds from the issuance of common stock and other	2,681	33,860
Principal payments on capital lease and debt obligations	(7,811)	(9,057)
Excess tax benefits from stock-based compensation	235	860
Net cash (used in) provided by financing activities	(4,895)	25,663
Net decrease in cash and cash equivalents	(163,829)	(116)
Cash and cash equivalents at beginning of period	568,008	348,431
Cash and cash equivalents at end of period	$ 404,179	$ 348,315
Supplemental cash flow information:		
Utilization of supply agreement liability	$ 75,938	$

See accompanying notes to unaudited condensed consolidated financial statements.

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and its Significant Accounting Policies

The Company

Marvell Technology Group Ltd. (the Company), a Bermuda company, is a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. The Company s diverse product portfolio includes switching, transceivers, wireless, PC connectivity, gateways, communications controllers, storage and power management solutions that serve diverse applications used in business enterprise, consumer electronics and emerging markets.

Basis of presentation

The Company s fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal year 2008 is comprised of a 53-week period and fiscal year 2007 is comprised of a 52-week period.

On February 21, 2006, the Board of Directors approved a 2 for 1 share split of the Company s common shares, to be effected pursuant to the issuance of additional shares as a share dividend. The share split was subject to shareholder approval of an increase in the Company s authorized share capital at the Company s 2006 Annual General Meeting. On June 9, 2006, shareholders at the Company s 2006 Annual General Meeting approved an increase in the authorized share capital by 500.0 million common shares. Share certificates representing one additional share for each share held were delivered on July 24, 2006 (payment date) to all shareholders of record at the close of business on July 10, 2006 (record date). All share and per share amounts in these consolidated financial statements and related notes have been retroactively adjusted to reflect the share split for all periods presented.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair statement of the results for the interim periods have been included in the Company s financial position as of July 28, 2007, the results of its operations for the three and six months ended July 28, 2007 and July 29, 2006, and its cash flows for the six months ended July 28, 2007 and July 29, 2006. The January 27, 2007 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in the Company s 2007 Annual Report on Form 10-K but does not include all disclosures required by GAAP.

These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company s audited financial statements and related notes for the year ended January 27, 2007 included in the Company s Annual Report on Form 10-K, as filed on July 2, 2007 with the Securities and Exchange Commission (SEC). The results of operations for the three and six months ended July 28, 2007 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including property and equipment, investment fair values, goodwill and other intangible assets, income taxes, and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to calculate the fair value of stock-based awards granted. The Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results could differ from these estimates.

Principles of consolidation

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

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents also consist of cash on deposit with banks, money market funds and commercial deposits.

Investments

The Company s marketable investments are classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses are reported, net of tax, if any, in accumulated other comprehensive income, a component of shareholders equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest and other income, net.

The Company also has equity investments in privately-held companies. These investments are recorded at cost and are included in other non-current assets.

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash equivalents, short-term investments and accounts receivable. The Company places its cash primarily in checking and money market accounts. Cash equivalents and short-term investment balances are maintained with high quality financial institutions, the composition and maturities of which are regularly monitored by management. The Company believes that the concentration of credit risk in its trade receivables with respect to its served markets, as well as the limited customer base, located primarily in the Far East, are substantially mitigated by the Company s credit evaluation process, relatively short collection terms and the high level of credit worthiness of its customers. The Company performs ongoing credit evaluation of its customers financial condition and limits the amount of credit extended when deemed necessary based upon payment history and the customer s current credit worthiness, but generally require no collateral. The Company regularly reviews the allowance of bad debt and doubtful accounts by considering factors such as historical experience, credit quality, age of the account receivable balances and current economic conditions that may affect a customer s ability to pay.

Inventories

Inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property and equipment, net

Property and equipment, including capital leases and leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to five years. Buildings are depreciated over an estimated useful life of thirty years and building improvements are depreciated over estimated useful lives of fifteen years. Land is not depreciated. Assets held under capital leases and leasehold improvements are amortized over the shorter of term of lease or their estimated useful lives.

Goodwill and acquired intangible assets

Goodwill is recorded when the consideration paid for an acquisition exceeds the fair value of net tangible and intangible assets acquired. Acquisition-related identified intangible assets are amortized on a straight-line basis over their estimated economic lives of one to seven years for purchased technology, one to eight years for core technology and four to seven years for customer contracts.

Goodwill is measured and tested for impairment on an annual basis or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step requires comparing the fair value of the reporting unit to its net book value, including goodwill. The Company has one reporting unit. The fair value of the reporting unit is determined by taking the market capitalization of the reporting unit as determined through quoted market prices. A potential impairment exists if the fair value of the reporting unit is lower than its net book value. The second step of the process is only performed if a potential impairment exists, and it involves determining the difference between the fair value of the reporting unit s net assets other than goodwill to the fair value of the reporting unit and if the difference is less than the net book value of goodwill, an impairment exists and is recorded. In the event that the Company determines that the value of goodwill has become impaired, the Company will record an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The Company has not been required to perform this second step of the process since its implementation of SFAS 142 because the fair value of the reporting unit has exceeded its net book value at every measurement date.

Impairment of long-lived assets

Long-lived assets include equipment, furniture and fixtures, privately held equity investments and intangible assets. Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, the Company estimate the future cash flows, undiscounted and without interest charges, expected to result from the use of those assets and their eventual cash position. If the sum of the expected future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Reclassifications

Certain reclassifications have been made to the Balance Sheet for the prior period balances in order to conform to the current period s presentation.

Revenue recognition

The Company accounts for its revenues under the provisions of Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements. Under this provision, the Company recognizes revenues when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured.

Product revenue is generally recognized upon shipment of product to customers, net of accruals for estimated sales returns and allowances. However, some of the Company s sales are made through distributors under agreements allowing for price protection and rights of return on product unsold by the distributors. Product revenue on sales made through distributors with rights of return and price protection is deferred until the distributors sell the product to end customers. The Company s sales to direct customers are made primarily pursuant to standard purchase orders for delivery of products. The Company generally allows customers to cancel or change purchase orders with limited notice prior to the scheduled shipment dates and from time to time it also may request a customer to accept a shipment of product before its original requested delivery date, in which case, revenue is not recognized until there is written confirmation from the customer accepting early shipment, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured. Additionally, collection is not deemed to be reasonably assured if customers receive extended payment terms. As a result, revenue on sales to customers with payment terms substantially greater than the Company s normal payment terms is deferred and is recognized as revenue as the payments become due. Deferred revenue less the related cost of the inventories is reported as deferred income.

The provision for estimated sales returns and allowances on product sales is recorded in the same period the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. Actual returns could differ from these estimates.

The Company also enters into development agreements with some of its customers. Under these development agreements product revenue is recognized under the proportionate performance method. Revenue is recognized as related costs to complete the contract are incurred. These costs are included in research and development expense.

The provisions of Emerging Issues Task Force (EITF) Issue No. 00-21 apply to sales arrangements with multiple arrangements that include a combination of hardware, software and /or services. For multiple element arrangements, revenue is allocated to the separate elements based on fair value. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, the Company defers the fair value of the undelivered elements and the residual revenue is allocated to the delivered elements. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. Undelivered elements typically are software warranty and maintenance services.

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In arrangements that include a combination of hardware and software products that are also sold separately, where software is more than incidental and essential to the functionality of the product being sold, the Company follows the guidance in EITF Issue No. 03-05, Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software, accounts for the entire arrangement as a sale of software and software-related items and follows the revenue recognition criteria in SOP No. 97-2, Software Revenue Recognition, and related interpretations.

Revenue from licensed software is recognized when persuasive evidence of an arrangement exists and delivery has occurred, provided that the fee is fixed or determinable and collectibility is probable. Revenue from post-contract customer support and any other future deliverables is deferred and earned over the support period or as contract elements are delivered.

The Company accounts for rebates in accordance with EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products), and, accordingly, records 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 included in the Company s various rebate agreements.

Research and development and other

Research and development and other costs consist primarily of $236.2 million and $152.6 million of research and development costs for the three months periods ended July 28, 2007 and July 29, 2006, respectively, and included $4.1 million and $2.7 million of costs related to patent investigation and filings for the three month periods ended July 28, 2007 and July 29, 2006, respectively.

Research and development and other costs consist primarily of $470.3 million and $281.9 million of research and development costs for the six months periods ended July 28, 2007 and July 29, 2006, respectively, and included $7.1 million and $5.1 million of costs related to patent investigation and filings for the six month periods ended July 28, 2007 and July 29, 2006, respectively. Research and development and other costs are expensed as incurred.

Stock-based compensation

The Company has share-based payment awards to its employees and directors that are fully described in Notes 7 and 8. The stock-based compensation expenses are recorded in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment (SFAS 123R).

Accounting for income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS No. 109). Under this method, the Company determines deferred tax assets and liabilities based upon the difference between the income tax bases of assets and liabilities and their respective financial reporting amounts at enacted tax rates in effect for the periods in which the differences are expected to reverse. The tax consequences of most events recognized in the current year s financial statements are included in determining income taxes currently payable. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax bases of assets or liabilities and their reported amounts in the financial statements. Because it is assumed that the reported amounts of assets and liabilities will be recovered and settled, respectively, a difference between the tax basis of an asset or a liability and its reported amount in the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or the reported amounts of assets are recovered, hence giving rise to a deferred tax liability or asset, respectively. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not likely, the Company establish a valuation allowance. The Company accounts for uncertain tax positions in accordance with FASB Interpretation No. 48 Accounting for Uncertainty in Tax Positions (FIN 48). The Company classifies accrued interest and penalties as part of the accrued FIN No. 48 liability and records the expense within the provision for income taxes.

The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding its income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations are subject to change over time. As such, changes in its subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 9 - Income Taxes of the consolidated financial statements for additional detail on the Company s uncertain tax positions.

Warranty

The Company s products are generally subject to warranty, which provides for the estimated future costs of repair, replacement or customer accommodation upon shipment of the product in the accompanying statements of operations. The Company s products typically carry a standard 90-day warranty with certain exceptions in which the warranty period can range from one to five years. The warranty accrual is estimated based on historical claims compared to historical revenues and assumes that the Company will have to replace products subject to a claim. For new products, the Company uses a historical percentage for the appropriate class of product.

Note 2. Recent Accounting Pronouncements

In June 2006, the FASB ratified EITF consensus on EITF Issue No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43 (EITF 06-2). EITF 06-2 requires companies to accrue the cost of such compensated absences over the require service period. The Company currently accrues the cost of compensated absences for sabbatical programs when the eligible employee complete the requisite service period. The Company is required to apply the provision of EITF 06-2 at the beginning of fiscal 2008. EITF 06-02 allows for adoption through retrospective application to all prior periods or through a cumulative effect adjustment to retained earnings if it is impracticable to determine the period specific effects of the change on prior periods presented. The Company adopted EITF 06-2 in the first quarter of fiscal 2008. The adoption did not have a material impact on the Company s financial position and results of operations.

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company s fiscal 2008, with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to opening retained earnings. On May 2, 2007, the FASB issued FASB Staff Position No. FIN 48-1 Definition of Settlement in FASB Interpretation No. 48-1 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Effective January 28, 2007, the Company adopted FIN 48. See Note 9 Income Taxes for further details.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal periods beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on the Company s consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 which is effective for fiscal years beginning after November 15, 2007. This statement expands the standards under SFAS No. 157 which permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company is currently evaluating the potential impact of this statement.

Note 3. Supplemental Financial Information

Available-for-sale investments (in thousands)

	July 28, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 3,535	$	$ (23)	$ 3,512
Auction rate securities	68,709			68,709
U.S. Federal, State, county and municipal debt securities	20,265		(217)	20,048
Short-term investments	$ 92,509	$	$ (240)	$ 92,269

	January 27, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

Corporate debt securities	$ 3,547	$		$ (56)	$ 3,491
U.S. Federal, State, county and municipal debt securities	25,300			(419)	24,881
Short-term investments	$ 28,847	$		$ (475)	$ 28,372

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Auction rate securities are securities that are structured with short-term reset dates of generally less than 90 days but with legally stated maturities in excess of 90 days. At the end of the reset period, investors can sell or continue to hold the securities at par. These securities are classified in the table below based on their legal stated maturity dates.

The contractual maturities of available-for-sale debt securities classified as short-term investments at July 28, 2007 are presented in the following table (in thousands):

	July 28, 2007		January 28, 2007	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 18,715	$ 18,542	$ 8,581	$ 8,499
Due between one and five years	5,085	5,018	20,266	19,873
Due over five years	68,709	68,709		
	$ 92,509	$ 92,269	$ 28,847	$ 28,372

Included in the Company s available-for-sale investments are fixed income securities. As market yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. All unrealized losses are primarily due to changes in interest rates and bond yields. Investments are reviewed periodically to identify possible other-than-temporary impairment. When evaluating the investments, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis and the Company s ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value. The Company has the intent and ability to hold these securities for a reasonable period of time sufficient for a forecasted recovery of fair value up to (or beyond) the initial cost of the investment. The Company expects to realize the full value of all of these investments upon maturity or sale. The following table shows the investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	July 28, 2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$	$	$ 3,512	$ (23)	$ 3,512	$ (23)
U.S. Federal, State, county and municipal debt securities			20,048	(217)	20,048	(217)
Total temporarily impaired securities	$	$	$ 23,560	$ (240)	$ 23,560	$ (240)

	January 27, 2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$	$	$ 3,491	$ (56)	$ 3,491	$ (56)
U.S. Federal, State, county and municipal debt securities			24,881	(419)	24,881	(419)
Total temporarily impaired securities	$	$	$ 28,372	$ (475)	$ 28,372	$ (475)

Inventories (in thousands)

	July 28, 2007	January 27, 2007
Work-in-process	$ 177,786	$ 97,529
Finished goods	117,506	149,874
	$ 295,292	$ 247,403

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Prepaid expenses and other current assets (in thousands)

	July 28, 2007	January 27, 2007
Prepayments for foundry capacity	$ 27,500	$ 40,340
Prepayments for wafers (see Note 6)	49,613	$ 29,973
Receivable from foundry	18,007	19,336
Other	59,456	80,474
	$ 154,576	$ 170,123

Property and equipment (in thousands)

	July 28, 2007	January 27, 2007
Property and equipment:		
Machinery and equipment	$ 308,671	$ 269,586
Computer software	101,417	131,869
Furniture and fixtures	21,596	20,551
Leasehold improvements	32,550	12,283
Buildings	97,720	81,274
Building improvements	29,257	36,098
Land	51,500	51,500
Construction in progress	51,479	78,579
	694,190	681,740
Less: Accumulated depreciation and amortization	(268,013)	(240,797)
	$ 426,177	$ 440,943

Other non-current assets (in thousands)

	July 28, 2007	January 27, 2007
Long-term prepayments for foundry capacity	$ 34,000	$ 46,000
Equity investments in private companies	6,734	11,679
Severance fund	39,131	32,161
Technology licenses	23,128	26,680
Deferred tax assets, non-current	17,950	18,332
Other	34,055	45,507
	$ 154,998	$ 180,359

Accrued liabilities (in thousands)

	July 28, 2007	January 27, 2007
Supply agreement liability (see below)	$ 58,542	$ 174,724
Term loan obligations, current portion	4,000	4,000
Accrued royalties	5,981	7,791
Accrued rebates	17,979	8,877
Accrued legal and professional services	9,158	16,382
Other	32,802	57,075
	$ 128,462	$ 268,849

The following table presents the changes in the supply agreement liability during the three and six months ended July 28, 2007 (in thousands):

	Three Months Ended July 28, 2007	Six Months Ended July 28, 2007
Supply agreement liability (included in accrued liabilities):		
Beginning balance	$ 134,462	$ 174,724
Credit to cost of goods sold	(43,885)	(77,641)
Inventory write-down to fair market value	(33,498)	(41,564)
Interest expense	1,463	3,023
Ending balance	$ 58,542	$ 58,542

Other long-term liabilities (in thousands)

	July 28, 2007	January 27, 2007
Accrued severance	$ 38,965	$ 34,326
Long-term facilities consolidation charge	1,652	2,447
Other	1,728	23,934
	$ 42,345	$ 60,707

Net (loss) income per share

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

	Three Months Ended		Six Months Ended	
	July 28, 2007	July 29, 2006	July 28, 2007	July 29, 2006
Numerator:				
(Loss) income before change in accounting principle	$ (56,456)	$ 44,881	$ (109,284)	$ 113,598
Net (loss) income	$ (56,456)	$ 44,881	$ (109,284)	$ 122,444
Denominator:				
Weighted average shares of common stock outstanding	587,534	586,133	587,480	584,918
Weighted average shares basic	587,534	586,133	587,480	584,918
Effect of dilutive securities-				
Warrants		1,695		1,741
Contingently issuable shares				
Common stock options and other		45,705		49,865
Weighted average shares diluted	587,534	633,533	587,480	636,524
(Loss) income before change in accounting principle				
Basic	$ (0.10)	$ 0.08	$ (0.19)	$ 0.19
Diluted	$ (0.10)	$ 0.07	$ (0.19)	$ 0.18
Net (loss) income per share				
Basic	$ (0.10)	$ 0.08	$ (0.19)	$ 0.21
Diluted	$ (0.10)	$ 0.07	$ (0.19)	$ 0.19

The anti-dilutive effects of warrants, common stock options, restricted stock and other securities totaling 41,056,440 shares were excluded from diluted net loss per share for the three months ended July 28, 2007. Options to purchase 34,197,280 common shares at a weighted average exercise price of $24.77 have been excluded from the computation of diluted net income per share for the three months ended July 29, 2006 using the treasury stock method calculation.

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The anti-dilutive effects of warrants, common stock options, restricted stock and other securities totaling 42,493,261 were excluded from diluted net loss per share for the six months ended July 28, 2007. Options to purchase 26,643,184 common shares at a weighted average exercise price of $24.58 have been excluded from the computation of diluted net income per share for the six months ended July 29, 2006 using the treasury stock method calculation.

Comprehensive (loss) income (in thousands)

	Three Months Ended		Six Months Ended	
	July 28, 2007	**July 29, 2006**	**July 28, 2007**	**July 29, 2006**
Net (loss) income	$ (56,456)	$ 44,881	$ (109,284)	$ 122,444
Other comprehensive (loss) income:				
Unrealized gain on available-for-sale investments and other, net of tax	129	94	324	500
Total comprehensive (loss) income	$ (56,327)	$ 44,975	$ (108,960)	$ 122,944

Accumulated other comprehensive (loss) income, as presented on the accompanying condensed consolidated balance sheets, consists of the unrealized gains and losses on available-for-sale investments and other, net of tax.

Note 4. Business Combinations

The Company acquired the semiconductor division of UTStarcom, Inc (UTStarcom Business), the printer semiconductor division of Avago Technologies Limited (Avago Business), Intel s communications and applications business (ICAP Business) and assets of two other businesses from unrelated parties during fiscal 2007. During the second quarter of fiscal 2008, the Company acquired an unrelated private company that designs and develops software for optical storage applications.

<u>UTStarcom Business</u>

The Company acquired the UTStarcom Business on February 16, 2006. The UTStarcom Business focused on the design and development of personal handyphone systems and next generation cellular communications technology. The primary reasons for the acquisition of the semiconductor division of UTStarcom were to strengthen and augment the Company s software engineering workforce and enhance its technological capabilities for emerging cellular strategies, obtain an established product being utilized in wireless communications technology, reduce the time required to develop new products and bring them to market for next generation cellular technology and to complement the Company s existing wireless offerings. These factors contributed to a purchase price that was in excess of the fair value of the UTStarcom Business net tangible and intangible assets acquired. The Company recorded goodwill, which is not deductible for tax purposes, in connection with this transaction.

Under the terms of the agreement, the Company paid $24.0 million in cash and an additional $16.0 million based on the achievement of certain defined milestones. The purchase price of the acquisition was $40.8 million, including the contingent consideration recognized of $16.0 million, and was determined as follows (in thousands):

Cash	$ 40,008
Transaction costs	792
Total purchase price	$ 40,800

In the third quarter of fiscal 2007, the Company recorded additional purchase consideration of $16.0 million upon the achievement of the contingent milestones as defined in the purchase agreement. Approximately $8.7 million was preliminarily allocated as negative goodwill, calculated as the excess of the fair value of net tangible and intangible assets acquired over the purchase price. As a result of the contingent consideration, additional goodwill of $7.3 million was recorded.

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Under the purchase method of accounting, the total purchase price (including the contingent consideration recognized of $16.0 million) was allocated to net tangible and intangible assets based on their fair values as of the date of the completion of the acquisition as follows (in thousands):

Inventories	$ 2,097
Fixed assets	611
	2,708
Amortizable intangible assets:	
Existing technology	11,900
Core technology	4,100
Supply contract	900
Customer relationships	13,900
Goodwill	7,292
Total purchase price allocation	$ 40,800

The amortizable intangible assets of $30.8 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from management. The amortizable intangible assets will be amortized over useful lives ranging from three to four years. The existing technology represents personal handyphone systems technology and other technology that UTStarcom has developed. Core technology represents the combination of processes, patents, and trade secrets that are the building blocks for current and planned new products. Customer relationships represent future projected revenue that will be derived from sales of future versions of existing products that will be sold to existing customers. The value determined for the supply contract with UTStarcom represents the fair value of estimated revenues and net operating cash flows to be derived from the supply contract for the duration of the four-year contract.

The weighted average useful lives of acquired intangibles from the UTStarcom Business are 3.0 years for existing technology, 4.0 years for core technology, 4.0 years for the supply contract, and 4.0 years for customer relationships.

Avago Business

The Company acquired the Avago Business on May 1, 2006. The Avago Business focused on the design and development of system-on-chip and system level solutions for both inkjet and laser jet printer systems. The primary purpose and benefits of the acquisition were to obtain, accelerate and strengthen the Company s entry into the printer market, leverage its portfolio of complementary technology and obtain important printer systems level knowledge. These factors contributed to a purchase price that was in excess of the fair value of the Avago Business net tangible and intangible assets acquired. The Company recorded goodwill, which is not deductible for tax purposes, in connection with this transaction.

Under the terms of the agreement, the Company paid $249.6 million in cash and may pay up to an additional $35.0 million in cash if certain defined milestones are achieved. The purchase price of the acquisition, including the contingent consideration recognized of $10.0 million, was $263.0 million and was determined as follows (in thousands):

Cash	$ 259,591
Transaction costs	3,388
Total purchase price	$ 262,979

In the third quarter of fiscal 2007, the Company recorded additional purchase consideration with a corresponding increase in goodwill of $10.0 million based on the achievement of certain levels of revenue of the past year. The remaining contingent consideration of up to $25.0 million is still outstanding and may result in the recognition of additional purchase consideration in the future. The remaining contingent consideration is based on the achievement of a certain level of revenue over a one year period ending October 2007. Additionally, in the third quarter of fiscal 2007, the Company recorded an adjustment of $1.9 million relating to inventory acquired at the acquisition date, resulting in a corresponding reduction in goodwill. In the first quarter of fiscal 2008, the Company recorded an adjustment of $1.3 million relating to a reduction of an accrued liability recorded in the original purchase accounting resulting in a corresponding decrease in goodwill.

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Under the purchase method of accounting, the total purchase price (including the contingent consideration recognized of $10.0 million) was allocated to net tangible and intangible assets based on their fair values as of the date of completion of the acquisition, as adjusted, as follows (in thousands):

Accounts receivable	$ 1,871
Current assets	3,704
Deferred tax asset	2,183
Inventories	23,896
Fixed assets	14,305
Other current assets	2,750
Accrued liabilities	(11,940)
Accrued employee benefits	(3,998)
	32,771
Amortizable intangible assets:	
Existing technology	55,800
Core technology	40,200
Customer relationships	53,400
Goodwill	80,808
Total purchase price allocation	$ 262,979

The amortizable intangible assets of $149.4 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from management. The amortizable intangible assets will be amortized over useful lives ranging from three to six years. The existing technology represents personal laser jet, laser jet systems technology and other technology that the Avago Business has developed. Core technology represents the combination of processes, patents, and trade secrets that are the building blocks for current and planned new products. Customer relationships represent future projected revenue that will be derived from sales of future versions of existing products that will be sold to existing customers.

The weighted average useful lives of acquired intangibles from the Avago Business are 3.2 years for existing technology, 4.9 years for core technology and 5.0 years for customer relationships.

<u>ICAP Business</u>

The Company acquired the ICAP Business on November 8, 2006. The ICAP Business designed, manufactured, and marketed applications and communications processors for cellular phones, personal digital assistants, and other personal devices. The primary purpose and benefits of the acquisition were to obtain, accelerate and strengthen the Company s entry into the wireless handheld device market, leverage its portfolio of complementary technology and obtain important wireless systems level knowledge. These factors contributed to a purchase price that was in excess of the fair value of the ICAP Business net tangible and intangible assets acquired. The Company recorded goodwill, which is not deductible for tax purposes, in connection with this transaction.

The purchase price of the acquisition was $605.9 million, determined as follows (in thousands):

Cash	$ 600,000
Transaction costs	5,857
Total purchase price	$ 605,857

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Under the purchase method of accounting, the total purchase price was allocated to net tangible and intangible assets based on their fair values as of the date of completion of the acquisition as follows (in thousands):

Prepaid expenses	$ 3,847
Fixed assets	45,076
Deferred tax asset	4,550
Other assets	4,864
Severance pay fund	13,301
Long-term deferred tax asset	813
Accrued liabilities	(6,577)
Accrued compensation	(12,236)
Accrued supply agreement	(219,000)
Long-term liabilities	(14,831)
	(180,193)
Amortizable intangible assets:	
Existing technology	190,700
Core technology	136,300
Customer relationships	59,900
In-process research and development	77,800
Goodwill	321,350
Total purchase price allocation	$ 605,857

The amortizable intangible assets of $386.9 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from management. The amortizable intangible assets will be amortized over useful lives ranging from one to seven years. The existing technology comprises of products which have reached technological feasibility and includes the chipsets which have been completed and shipping in volume to customers. Core technology and patents represent a combination of processes, patents and trade secrets developed though years of experience in design and development of the products. Customer relationships represent future projected revenue that will be derived from sales of future versions of existing products that will be sold to existing customers. The Company has not provided a deferred tax liability on $386.9 million of purchased intangibles during the year as the intangibles are recorded in jurisdictions with a zero tax rate.

Of the total purchase price, $77.8 million was allocated to in-process research and development (IPRD) based upon the fair values of assets acquired and was charged to expense in the fourth quarter of fiscal 2007. The ICAP Business was developing new products that had not reached technological feasibility and which had no alternative use and therefore was immediately written-off. The projects in process consisted of the development of new features and functionalities for sophisticated processors necessary to address customer needs, drive market acceptance and fuel the overall revenue growth profile of the acquired products. The values assigned to IPRD were determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The fair values of IPRD were determined using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations were derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks related to the product s development and success as well as the product s stage of completion. Discount rates ranging from 24.0% to 27.0% were used for IPRD. At the time of the acquisition, there were three significant projects in progress that were approximately 56.0% complete with aggregate costs to complete of $31.0 million. Two of the projects have been completed and the third project is expected to be completed by the third quarter of fiscal 2008.

The estimates used in valuing in-process research and development were based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur. Accordingly, actual results may vary from the projected results.

The weighted average useful lives of acquired intangibles from the ICAP Business are 4.2 years for existing technology, 7.0 years for core technology and 7.0 years for customer relationships.

In conjunction with the acquisition of the ICAP Business, the Company entered into a supply agreement with Intel. The supply agreement obligates the Company to purchase certain finished product and sorted wafers at a contracted price from Intel for a contracted period of time. The contracted period of time can differ between finished products and sorted wafers. Intel s pricing to the Company was greater than comparable prices available to the Company in the market in almost all cases. In accordance with purchase accounting, the Company recorded a liability at contract signing representing the difference between Intel prices and comparable market prices for those products for which the

Company had a contractual

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obligation. Once that obligation ends, the Company can purchase products from its own foundries and subcontractors or continue to use Intel until the products have transitioned to the Company s foundries and subcontractors. If these transitions do not occur in a timely fashion and the Company continues to purchase sorted wafers and finished products from Intel, then the Company s gross margins could be adversely impacted.

The Company reduces its liability and credits its cost of goods sold as product is sold or scrapped. Since the Company is obligated to purchase finished products and sorted wafers at prices above which a market participant could obtain from independent foundries and assembly/test subcontractors, the Company writes down inventory on hand to fair value. The Company also imputes and records interest expense on the supply agreement since the supply agreement liability will be incurred over multiple quarters into the future and thus the liability was initially recorded at net present value. See Note 3 for changes in the supply contract liability and Note 6 for the contractual commitments of the supply agreement.

The results of operations of the Avago Business and the ICAP Business have been included in the Company s consolidated statements of operations since their respective acquisition dates. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisition of these business occurred at the beginning of the period presented (in thousands, except for per share amounts):

	Three Months Ended July 29, 2006	**Six Months Ended July 29, 2006**
Net revenue	$ 685,241	$ 1,317,692
Net loss	$ (95,653)	$ (158,624)
Basic net loss per share	$ (0.19)	$ (0.32)
Diluted net loss per share	$ (0.19)	$ (0.32)

<u>Other acquisitions</u>

During fiscal 2007, the Company completed the acquisition of the assets of two other businesses from unrelated parties with purchase prices totaling $16.7 million. Under the purchase method of accounting, the total purchase price was allocated to net tangible and intangible assets based on their fair values as of the date of the completion of the respective acquisitions. The Company recorded acquired net tangible assets of $0.4 million, deferred tax liability of $3.0 million, amortizable intangible assets of $10.1 million and goodwill of $9.2 million. The intangible assets are being amortized over their useful lives ranging from one to eight years.

During the second quarter of fiscal 2008, the Company completed the acquisition of an unrelated private company that designs and develops software for optical storage applications for a purchase price of $9.6 million. Under the purchase method of accounting, the total purchase price was allocated to net tangible and intangible assets based on their fair value as of the date of the completion of the acquisition. The Company recorded acquired net tangible assets of $3.5 million, deferred tax liability of $0.5 million, amortizable intangible assets of $1.3 million and goodwill of $5.3 million. The intangible assets are being amortized over their useful lives ranging from three to five years.

Note 5. Goodwill and Acquired Intangible Assets

	As of July 28, 2007			**As of January 27, 2007**		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Purchased technology	$ 703,798	$ (499,509)	$ 204,289	$ 703,398	$ (462,403)	$ 240,995
Core technology	209,700	(42,702)	166,998	209,700	(23,508)	186,192
Trade name	300	(108)	192	100	(100)	
Customer contracts	183,000	(48,574)	134,426	183,000	(30,318)	152,682
Supply contract	900	(323)	577	900	(211)	689
Non-competition	700	(49)	651			
Total intangible assets	$ 1,098,398	$ (591,265)	$ 507,133	$ 1,097,098	$ (516,540)	$ 580,558

The increase in goodwill during the second quarter of fiscal 2008 of $5.3 million was due to goodwill from the acquisition of a private company. The increase in goodwill during the first six months of fiscal 2008 was due to the $5.3 million of goodwill from the acquisition of a private company partially offset by an adjustment of $1.3 million from the acquisition of the Avago Business (see Note 4) and other adjustments.

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The increase in purchased intangibles during the three and six months ended July 28, 2007 was from the acquisition of a private company during the three months ended July 28, 2007.

Purchased technology is amortized on a straight-line basis over their estimated useful lives of one to six years. Core technology is amortized on a straight-line basis over its estimated useful lives of one to eight years. Customer contracts and related relationships are amortized on a straight-line basis over their estimated useful lives of four to seven years. The supply contract is amortized on a straight-line basis over its estimated useful life of four years. The aggregate amortization expense of identified intangible assets was $37.3 million in the second quarter of fiscal 2008, $27.4 million in the second quarter of fiscal 2007, $74.6 million in the first six months of fiscal 2008 and $44.8 million in the first six months of fiscal 2007. The estimated total amortization expenses of acquired intangible assets are $73.9 million for the remaining six months of fiscal 2008, $142.4 million in fiscal 2009, $115.4 million in fiscal 2010, $83.1 million in fiscal 2011, $40.9 million in fiscal 2012, $29.8 million in fiscal 2013, $21.4 million in fiscal 2014 and $0.2 million for fiscal 2015.

Note 6. Commitments and Contingencies

Warranty Obligations

The following table presents changes in the warranty accrual included in accrued liabilities during the three and six months ended July 28, 2007 and July 29, 2006 (in thousands):

	Three Months Ended		**Six Months Ended**	
	July 28, 2007	**July 29, 2006**	**July 28, 2007**	**July 29, 2006**
Warranty accrual (included in accrued liabilities):				
Beginning balance	$ 2,534	$ 4,223	$ 2,567	$ 3,914
Warranties issued	151		359	339
Settlements	(305)	(240)	(546)	(270)
Ending balance	$ 2,380	$ 3,983	$ 2,380	$ 3,983

Purchase Commitments

In connection with the acquisition of the ICAP Business, the Company entered into a product supply agreement with Intel. Under the terms of the agreement the Company has committed to purchase a minimum number of wafers through June 2008. If at the end of any fiscal quarter for Intel, there is a shortfall between the quantity of supply ordered by the Company and the quantities of supply required under the supply agreement commitment, Intel will invoice the Company for the shortfall and will deliver the corresponding quantity upon receipt of payment from the Company. The agreement requires the Company to prepay for certain wafers six months in advance of delivery and issue non cancellable purchase orders at least six months in advance of requested delivery dates for all purchases under the supply agreement. As of July 28, 2007, the Company recorded $49.6 million in prepaid assets for prepayment of wafers and had non cancellable purchase orders outstanding of $207.1 million.

Under the Company s manufacturing relationships with all other foundries, cancellation of all outstanding purchase orders are allowed but require repayment of all expenses incurred through the date of cancellation. As of July 28, 2007, these foundries had incurred approximately $215.4 million of manufacturing expenses on the Company s outstanding purchase orders.

On February 28, 2005 and as amended on March 31, 2005, the Company entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, the Company agreed to pay the foundry $174.2 million over a period of eighteen months. The amendment extends the term of the agreement and the agreed upon pricing terms until December 31, 2015. As of July 28, 2007, payments totaling $174.2 million which are included in prepaid expenses and other current assets and other non-current assets have been made and approximately $112.7 million of the prepayment has been utilized as of July 28, 2007. At July 28, 2007, there are no more outstanding commitments under the agreement.

As of July 28, 2007, the Company had approximately $83.1 million of other outstanding non-cancellable purchase orders for capital purchase obligations.

Contingencies

IPO Securities Litigation. On July 31, 2001, a putative class action suit was filed against two investment banks that participated in the underwriting of the Company s initial public offering, or IPO, on June 29, 2000. That lawsuit, which did not name Marvell or any of our officers or directors as defendants, was filed in the United States District Court for the Southern District of New York. Plaintiffs allege that the underwriters received excessive and undisclosed commissions and entered into unlawful tie-in agreements with certain of their clients in violation of Section 10(b) of the Securities Exchange Act of 1934. Thereafter, on September 5, 2001, a second putative class action was filed in the Southern District of New York relating to our IPO. In this second action, plaintiffs named three underwriters as defendants and also named as defendants Marvell and two of our officers, one of whom is also a director. Relying on many of the same allegations contained in the initial complaint in which we were not named as a defendant, plaintiffs allege that the defendants violated various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. In both actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys and experts fees. These two actions relating to our IPO have been consolidated with hundreds of other lawsuits filed by plaintiffs against approximately 40 underwriters and approximately 300 issuers across the United States. Defendants in the consolidated proceedings moved to dismiss the actions. In February 2003, the trial court granted the motions in part and denied them in part, thus allowing the case to proceed against the underwriters and us as to alleged violations of section 11 of the Securities Act of 1933 and section 10(b) of the Securities Exchange Act of 1934. Claims against the individual officers have been voluntarily dismissed with prejudice by agreement with plaintiffs. On June 26, 2003, the plaintiffs announced that a settlement among plaintiffs, the issuer defendants and their directors and officers, and their insurers has been structured, a part of which provides that the insurers for all issuer defendants would guarantee up to $1 billion to investors who are class members, depending upon plaintiffs success against non-settling parties. Our board of directors approved the proposed settlement, which if approved by the court would result in the plaintiffs dismissing the case against us and granting releases that extend to all of our officers and directors. Definitive settlement documentation were completed in early June 2004 and first presented to the court on June 14, 2004. On February 15, 2005, the court issued an opinion preliminarily approving the proposed settlement, contingent upon certain modifications being made to one aspect of the proposed settlement the proposed bar order. The court ruled that it had no authority to deviate from the wording of the Private Securities Litigation Reform Act of 1995 and that any bar order that may issue should the proposed settlement be finally approved must be limited to the express wording of 15 U.S.C. section 78u-4(f)(7)(A). On May 2, 2005 the issuer defendants and plaintiffs jointly submitted an amendment to the settlement agreement conforming the language of the settlement agreement with the court s February 15, 2005 ruling regarding the bar order. The court on August 31, 2005 issued an order preliminarily approving the settlement and setting a public hearing on its fairness for April 24, 2006 due to difficulties in mailing the required notice to class members. A final settlement approval hearing on the proposed issuer settlement was held on April 24, 2006. The court took the matter under submission. Meanwhile the consolidated case against the underwriters proceeded. On October 2004, the district court certified a class. On December 5, 2006, however, the United States Court of Appeals for the Second Circuit reversed, holding that a class could not be certified. The Second Circuit s holding, while directly affecting only the underwriters, raises some doubt as to whether the settlement class contemplated by the proposed issuer settlement would be approved in its present form. On January 5, 2007, plaintiffs petitioned the Second Circuit for rehearing of the Second Circuit s decision. On April 6, 2007, the Second Circuit denied the petition. At a status conference on April 23, 2007, the district court suggested that the issuers settlement could not be approved in its present form, given the Second Circuit s ruling. On June 25, 2007 a stipulation terminating the settlement was filed. On September 27, 2007 plaintiffs will file their opening brief on the motion to certify the classes. On December 21, 2007, responsive briefs are due. On February 15, 2008 reply briefs are due.

Jasmine Networks Litigation. On September 12, 2001, Jasmine Networks, Inc. (Jasmine) filed a lawsuit in the Santa Clara County Superior Court alleging claims against three officers and the Company for improperly obtaining and using information and technologies during the course of the negotiations with our personnel regarding the potential acquisition of certain Jasmine assets by the Company. The lawsuit claims that the Company s officers improperly obtained and used such information and technologies after the Company signed a non-disclosure agreement with

Jasmine. The Company believes the claims asserted against its officers and the Company are without merit and the Company intends to defend all claims vigorously.

On June 21, 2005, the Company filed a cross complaint in the above disclosed action in the Santa Clara County Superior Court asserting claims against Jasmine and unnamed Jasmine officers and employees. The cross complaint was later amended to name two individual officers of Jasmine. On May 15, 2007, the Company filed a second amended cross complaint to add additional causes of action for declaratory relief against Jasmine. Among other actions, the cross complaint alleges that Jasmine and its personnel engaged in fraud in connection with their effort to sell to the Company technology that Jasmine and its personnel wrongfully obtained from a third party in violation of such third party s rights. The cross

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complaint seeks declaratory judgment that the Company s technology does not incorporate any of Jasmine s alleged technology. The cross complaint seeks further declaratory judgment that Jasmine and its personnel misappropriated certain aspects of Jasmine s alleged technology. The Company intends to prosecute the cross complaint against Jasmine and its personnel vigorously, including, but not limited to, filing certain dispositive motions regarding the ownership of the technology which is the subject of the cross complaint. On June 13, 2007, Jasmine filed a demurrer to the fifth, sixth, and seventh causes of action of the Company s second amended cross-complaint. The demurrer was heard on July 19, 2007 and denied. On August 3, 2007, Jasmine filed its answer to the second amended complaint. The Company has reserved October 30, 2007 as a hearing date for a motion for summary adjudication on its fifth and sixth causes of action for declaratory relief, which will seek, among other things, a determination that Jasmine held no propriety interest in the JSLIP algorithm, which was one of the core technologies Jasmine asserts was misappropriated by Marvell.

CSIRO Litigation. In 2004, Australia s Commonwealth Scientific and Industrial Research Organisation (CSIRO) sent notice letters to a number of Wi-Fi System manufacturers regarding CSIRO s patent, U.S. Patent No. 5,487,069 as it relates to IEEE 802.11a and 802.11g wireless standards. In May 2005, a group of system manufacturers, including customers of our 802.11a or 802.11g wireless LAN products, filed an action in the United States District Court for the Northern District of California seeking a declaratory judgment against CSIRO that the plaintiff manufacturers products employing the IEEE 802.11a or 802.11g wireless standards do not infringe CSIRO s patent, U.S. Patent No. 5,487,069. In September 2006, CSIRO filed an answer and counterclaims alleging that plaintiffs products that employ those wireless standards infringe the CSIRO patent and seeking damages, including enhanced damages and attorneys fees and costs, and an injunction against sales of infringing products. In December 2006, the district court granted CSIRO s motion to transfer the case to the United States District Court for the Eastern District of Texas, where CSIRO had brought a similar lawsuit against another company. As a result of CSIRO s counterclaims for patent infringement, a customer of ours has sought indemnification from us. Also in December 2006, CSIRO filed suit in the United States District Court for the Eastern District of Texas against several manufacturers and suppliers of wireless products, including customers of our 802.11a or 802.11g wireless LAN products. The complaint alleges that the manufacture, use and sale of wireless products compliant with the IEEE 802.11a or 802.11g wireless standards infringes on the CSIRO patent. As a result of CSIRO s claim for patent infringement, another customer of ours has sought indemnification from us. In response to these demands for indemnification, the Company has acknowledged the demands and incurred costs in response to them. On July 3, 2007, the Company moved to intervene in the two actions described above pending in the Eastern District of Texas, for the purposes of staying the actions as to products incorporating Marvell parts in favor of the separate action that the Company filed as described in the next paragraph. Alternatively the Company moved to disqualify the firm of Townsend, Townsend and Crew from continuing to represent CSIRO because of a conflict of interest. CSIRO opposed these motions on August 3, 2007.

On May 4, 2007, the Company filed an action in the United States District Court for the Eastern District of Texas seeking a declaratory judgment against CSIRO that the CSIRO patent is invalid and unenforceable and that the Company and its customers do not infringe the CSIRO patent. The complaint also seeks damages and a license for the Company and its customers on reasonable and non-discriminatory terms in the event the Company s 802.11a/g wireless LAN products are found to infringe and the CSIRO patent is found to be valid and enforceable. On August 3, 2007, CSIRO moved to dismiss the complaint for lack of case or controversy and failure to state a claim upon which relief can be granted, or, in the alternative, to stay the case pending the resolution of the pending lawsuits described in the preceding paragraph. The Company will oppose that motion.

Shareholder Derivative Litigation. Between July 7, 2006 and August 2, 2006, three purported shareholder derivative actions were filed in the United States District Court for the Northern District of California. Each of these lawsuits names the Company as a nominal defendant and a number of the Company s current and former directors and officers as defendants. Each lawsuit seeks to recover damages purportedly sustained by the Company in connection with its option granting processes, and seeks certain corporate governance and internal control changes. Pursuant to orders of the court dated August 17 and October 17, 2006, the three actions were consolidated as a single action, entitled *In re Marvell Technology Group Ltd. Derivative Litigation*. The plaintiffs filed an amended and consolidated complaint on November 1, 2006. On January 16, 2007, the Company filed a motion to dismiss the consolidated complaint for lack of standing or, in the alternative, stay proceedings. Pursuant to stipulations among the parties and orders of the court, our motion is currently scheduled to be heard on November 2, 2007.

On February 12, 2007, a new purported derivative action was filed in the United States District Court for the Northern District of California. Like *In re Marvell Technology Group Ltd. Derivative Litigation*, this lawsuit names the Company as a nominal defendant and a number of our current and former directors and officers as defendants. It seeks to recover damages purportedly sustained by the Company in connection with its option granting processes, and seeks certain corporate governance and internal control changes. On May 1, 2007, the court entered an order consolidating this lawsuit with *In re Marvell Technology Group Ltd. Derivative Litigation*.

On May 29, 2007, the court entered an order staying discovery in this matter pending resolution of the Company s motion to dismiss.

Securities Litigation. Between October 5, 2006 and November 13, 2006, four putative class actions were filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The complaints allege that the Company and certain of its officers and directors violated the federal securities laws by making false and misleading statements and omissions relating to the grants of stock options. The complaints seek, on behalf of persons who purchased our common stock during the period from October 3, 2001 to October 3, 2006, unspecified damages, interest, and costs and expenses, including attorneys fees and disbursements. Pursuant to an order of the court dated February 2, 2007, these four putative class actions were consolidated as a single action entitled *In re Marvell Technology Group Ltd. Securities Litigation*. The plaintiffs filed an amended complaint on August 16, 2007. Pursuant to stipulation and by order of the court, defendants have 45 days to respond to the complaint.

SEC and United States Attorney Inquiries. In July 2006, the Company received a letter of informal inquiry from the SEC requesting certain documents relating to the Company s stock option grants and practices. The Company also received a grand jury subpoena from the office of the United States Attorney for the Northern District of California requesting substantially similar documents. On April 20, 2007, the Company was informed that the SEC is now conducting a formal investigation in this matter. On June 8, 2007 and July 3, 2007, the Company received document subpoenas from the SEC. The Company has cooperated with the SEC and the United States Attorney regarding these matters and intends to continue to do so. The Company cannot predict the outcome of these investigations.

General. The Company is also party to other legal proceedings and claims arising in the normal course of business.

The legal proceedings and claims described above could result in substantial costs and could divert the attention and resources of the Company s management. Although the legal responsibility and financial impact with respect to these proceedings and claims cannot currently be ascertained, the Company does not believe that these matters will result in the payment of monetary damages, net of any applicable insurance proceeds, that in the aggregate would be material in relation to the Company s consolidated financial position or results of operations. However, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation could require the Company to pay damages or one-time license fees or royalty payments, which could adversely impact gross margins in future periods, or 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. 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.

Note 7. Stock-Based Compensation

Effective from January 29, 2006, the Company adopted SFAS 123R. SFAS 123R requires the measurement and recognition of compensation expense for all share-based awards to employees and directors, including employee stock options, restricted stock units and employee stock purchase rights based on estimated fair values. SFAS 123R supersedes previous accounting guidance under Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and related interpretations and amends SFAS No.95, Statement of Cash Flows. Under SFAS 123R, the benefits of tax deductions in excess of recognized compensation cost has to be reported as a financing cash flow, rather than as an operating cash flow. This may reduce future net cash flows from operations and increase future net financing cash flows. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107), which provides guidance regarding the interaction of SFAS 123R and certain SEC rules and regulations. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

Prior to January 29, 2006, the Company accounted for its stock based compensation plans using the intrinsic value method under the provisions of APB 25 and related guidance, using the accelerated method of amortization.

The Company adopted SFAS 123R using the modified prospective method. Under the modified prospective method, results of operations include compensation costs of unvested options granted prior to January 29, 2006, and options granted subsequent to that date. For grants prior to January 29, 2006, the Company amortizes stock-based compensation expense under the accelerated method. For grants from January 29, 2006, the Company amortizes stock-based compensation expense ratably over the vest term.

Cumulative Effect of Change in Accounting Principle

The adoption of SFAS 123R resulted in a cumulative benefit from change in accounting principle of $8.8 million net of tax as of the year ended January 27, 2007, reflecting the net cumulative impact of estimated forfeitures that were previously not included in the determination of historic stock-based compensation expense in periods prior to January 28, 2006.

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

	Three Months Ended		Six Months Ended	
	July 28, 2007	July 29, 2006	July 28, 2007	July 29, 2006
Cost of goods sold	$ 3,275	$ 3,461	$ 6,293	$ 5,895
Research and development	34,591	36,244	66,633	66,681
Selling and marketing	10,997	8,462	18,148	16,696
General and administrative	10,033	7,437	14,590	15,094
	$ 58,896	$ 55,604	$ 105,664	$ 104,366

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

	Stock Option Plans Three Months Ended		ESPP Three Months Ended	
	July 28, 2007	July 29, 2006	July 28, 2007	July 29, 2006
Volatility	45 %	59 %		41 %
Expected life (in years)	5.0	4.7		1.3
Risk-free interest rate	4.6 %	4.7 %		5.0 %
Dividend yield				
Weighted average fair value	$ 7.58	$ 14.27		

	Stock Option Plans Six Months Ended		ESPP Six Months Ended	
	July 28, 2007	July 29, 2006	July 28, 2007	July 29, 2006
Volatility	45 %	59 %		41 %
Expected life (in years)	5.0	4.7		1.3
Risk-free interest rate	4.6 %	4.7 %		5.0 %
Dividend yield				
Weighted average fair value	$ 7.66	$ 15.04		

In refining estimates used in the adoption of SFAS 123R, the Company established the expected term for employee options and awards, as well as expected forfeiture rates, based on the historical settlement experience and after giving consideration to vesting schedules. Assumptions for option exercises and pre-vesting terminations of options were stratified by employee groups with sufficiently distinct behavior patterns.

Expected volatility under SFAS 123R was developed based on the average of the Company s historical daily stock price volatility.

SFAS 123R also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. From January 29, 2006, stock-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those stock-based awards that are expected to vest.

Note 8. Shareholders Equity

Stock Plans

In April 1995, the Company adopted the 1995 Stock Option Plan (the Option Plan). The Option Plan, as amended, had 324,289,786 shares of common stock reserved for issuance thereunder as of July 28, 2007. Options granted under the Option Plan generally have a term of ten years and generally must be issued at prices not less than 100% and 85% for incentive and nonqualified stock options, respectively, of the fair market value of the stock on the date of grant. Incentive stock options granted to shareholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must

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be issued at prices not less than 110% of the fair market value of the stock on the date of grant. The options generally vest 20% one year after the vesting commencement date, and the remaining shares vest one-sixtieth per month over the remaining forty-eight months. Options granted under the Option Plan prior to March 1, 2000 may be exercised prior to vesting. The Company has the right to repurchase such shares at their original purchase price if the optionee is terminated from service prior to vesting. Such right expires as the options vest over a five-year period. Options granted under the Option Plan subsequent to March 1, 2000 may only be exercised upon or after vesting.

In August 1997, the Company adopted the 1997 Directors Stock Option Plan (the Directors Plan). The Directors Plan had 3,600,000 shares of common stock reserved thereunder as of July 28, 2007. Under the Directors Plan, an outside director is granted 30,000 options upon appointment to the Board of Directors. These options vest 20% one year after the vesting commencement date and remaining shares vest one-sixtieth per month over the remaining forty-eight months. An outside director is also granted 6,000 options on the date of each annual meeting of the shareholders. These options vest one-twelfth per month over twelve months after the fourth anniversary of the vesting commencement date. Options granted under the Directors Plan may be exercised prior to vesting. The Company has the right to repurchase such shares at their original purchase price if the director is terminated or resigns from the Board of Directors prior to vesting. Such right expires as the options vest over a five-year period.

In addition, the Company can also grant restricted stock. Restricted stock are share awards that entitle the holder to receive tradable shares of the Company s common stock upon vesting.

Employee Stock Purchase Plan

In June 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan had 33,871,612 shares of common stock reserve for issuance thereunder as of July 28, 2007. Under the Purchase Plan, employees are granted the right to purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value of the shares at (i) the participant s entry date into the two-year offering period, or (ii) the end of each six-month purchase period within the offering period. Participants purchase stock using payroll deductions, which may not exceed 20% of their total cash compensation. Offering and purchase periods begin on December 8 and June 8 of each year. For the three and six months ended July 28, 2007, there was no stock-based compensation expense related to the activity under the Purchase Plan. The Company did not issue any shares under the Purchase Plan in the three and six months ended July 28, 2007. As of July 28, 2007, there was no unrecognized compensation cost related to the Purchase Plan.

Stock option activity under the Company s stock option plans for the six months ended July 28, 2007 is summarized below (in thousands, except per share amounts):

	Options Outstanding (In thousands)	Weighted Average Exercise Price	Restricted Stock Outstanding (In thousands)
Balance at January 27, 2007	118,627	$ 13.72	2,568
Granted	2,483	$ 16.84	99
Forfeited/canceled/expired	(7,563)	$ 15.20	(135)
Exercised	(707)	$ 6.34	
Vested		$	(303)
Balance at July 28, 2007	112,840	$ 13.86	2,229
Vested or expected to vest at July 28, 2007	106,471	$ 13.42	2,048
Exercisable at July 28, 2007	51,928	$ 8.93	

Included in the preceding table are 1,690,000 shares of options granted to certain officers at an exercise price of $24.80 that will become exercisable only upon the achievement of specified annual earnings per share targets through fiscal 2010.

The aggregate intrinsic value and weighted average remaining contractual term of options vested and expected to vest at July 28, 2007 was $734.5 million and 6.5 years, respectively. The aggregate intrinsic value and weighted average remaining contractual term of options exercisable at July 28, 2007 was $543.7 million and 5.0 years, respectively. The aggregate intrinsic value is calculated based on the Company s closing stock price for all in-the-money options as of July 28, 2007.

The aggregate intrinsic value and weighted average remaining contractual term of restricted stock vested and expected to vest as of July 28, 2007 was $38.0 million and 1.1 years, respectively.

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Included in the table below is activity related to the nonvested portion of restricted stock arrangements as follows (in thousands):

	Nonvested Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Balance at January 27, 2007	2,708	$ 20.10
Granted	99	$ 16.94
Vested	(342)	$ 28.63
Canceled/Forfeited	(135)	$ 19.34
Balance at July 28, 2007	2,330	$ 19.84

The Company s current practice is to issue new shares to satisfy share option exercises. As of July 28, 2007, compensation costs related to nonvested awards not yet recognized amounted to $443.4 million. The unamortized compensation expense for stock options and restricted stock will be amortized on a straight-line basis and is expected to be recognized over a weighted-average period of 2.2 years and 2.5 years, respectively.

There was no total tax benefit attributable to options exercised in the six months ended July 28, 2007. The excess tax benefits from stock-based compensation of $0.2 million as reported on the condensed consolidated statement of cash flows in financing activities represents the reduction, in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods.

Under applicable securities laws, the Company suspended all stock option exercise transactions under its Stock Option Plan effective on the close of business on September 7, 2006. On September 8, 2006, management communicated the trading suspension, which lasted until July 13, 2007 when the Company filed all its delinquent SEC reports, to all option holders. As a result, the exercisability on all outstanding options, including vested awards held by certain separated employees, was modified. The Company recorded incremental compensation costs of $8.7 million representing the excess of the fair value of the modified award over the fair value of the original award immediately before filing of the Company s delinquent SEC reports, on affected awards in the second quarter of fiscal 2008.

In connection with the remediation steps from the Special Committee s recommendations upon completion of the review of the Company s past stock option practices during the second quarter of fiscal 2008, the Company s Chief Executive Officer, Dr. Sehat Sutardja agreed to reduce the number of shares received in his December 26, 2003 option grant by 2,000,000 shares, which is the amount of underlying shares mistakenly awarded by the Executive Compensation Committee in excess of that authorized under the applicable stock option plan. Dr. Sutardja continued employment with the Company as Chief Executive Officer. Additionally, the outstanding options of the Company s former Chief Operating Officer, Weili Dai that were unvested as of May 6, 2007 have been cancelled and the exercisability of already vested options have been limited, notwithstanding her continued employment. The cancellations of grants were not accompanied by concurrent replacement grants or other valuable consideration. As a result, the cancellations were considered a repurchase with no consideration and in accordance with SFAS 123R, the Company recorded stock compensation expense of $8.4 million in the second quarter of fiscal 2008 for the remaining unrecognized compensation cost as of the date of the cancellation of the awards.

Stock Award Activity

In the first quarter of fiscal 2007, the Company granted 140,000 restricted stock awards to its employees under the 1995 Stock Option Plan. Such awards generally vest over a period of five years from the date of grant. The restricted stock awards have the voting rights of common stock and the shares underlying the restricted are considered issued and outstanding. The Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse. The grant of restricted stock awards is deducted from the shares available for grant under the Company s stock option plan. Restricted stock activity under the Company s stock option plans for the three months ended July 28, 2007 is summarized below (in thousands, except per share amounts):

	Restricted Stock Outstanding	Weighted Average Grant Date Fair Value
Balance at January 27, 2007	140	$ 32.21
Restricted stock granted		
Restricted stock forfeited		
Restricted stock vested	(39)	32.23
Balance at July 28, 2007	101	$ 32.20

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A total of 39,332 restricted stock awards vested during the three and six months ended July 28, 2007. Based on the closing price of the Company s stock of $18.58, on July 27, 2007, the total pretax intrinsic value of all outstanding restricted stock was $1.9 million.

Note 9. Income Taxes

The Company recorded tax expense of $9.6 million and $15.6 million for the three and six months ended July 28, 2007, compared to $12.1 million and $28.0 million for the three and six months ended July 29, 2006. The income tax provision for these periods was affected by non-tax-deductible expenses such as SFAS 123R stock-based compensation expense, as well as the accrual of liabilities, interest and penalties associated with unrecognized benefits. During the three months ended July 28, 2007, $1.3 million of income tax expense was recorded as a discrete item associated with a gain on the sale of an asset under construction.

The effective tax rate for the three and six months ended July 28, 2007 increased due to a smaller proportion of profits earned in zero or low tax jurisdictions during the quarter ended July 28, 2007 and due to tax on the gain associated with the sale of an asset under construction which was treated as a discrete item in the quarter.

Effective January 28, 2007, the Company adopted the provisions of FIN 48. The adoption of FIN 48 did not result in any reclassifications of uncertain income tax liabilities and did not have a cumulative impact to retained earnings. As of January 28, 2007, the Company s liabilities for unrecognized income tax benefits totaled $116.8 million which included interest and penalties of $31.5 million. If recognized, all of the FIN 48 liabilities recorded as of the date of adoption will impact the effective tax rate. For the six months ended July 28, 2007, $3.9 million of interest expense associated with FIN 48 liabilities was accrued as a component of income tax expense.

In accordance with the Company s accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax provision. This policy did not change as a result of the adoption of FIN 48.

The Company conducts business globally and, as a result, one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is subject to examination by tax authorities throughout the world, including such major jurisdictions as Singapore, Japan, Taiwan, China, India, Israel, Netherlands, Switzerland, the United Kingdom, and the United States. The Company is subject to non-U.S. income tax examinations for years beginning with fiscal year 2002 and for U.S. income tax examinations beginning with fiscal year 2004. The U.S. subsidiaries are currently under audit by the U.S. tax authorities for the fiscal years 2004, 2005 and 2006. The U.S. tax authorities are also reviewing employment taxes with regard to the re-measured stock options. The Company has accrued for the employment taxes and believes that it has adequately provided for this liability. The Japanese tax authorities have notified one of the Company s Japanese subsidiaries that there will be an audit for the tax years 2005, 2006 and 2007 to begin during the third quarter of fiscal 2008. It is possible that the amount of the liability for unrecognized income tax benefits, including the unrecognized income tax benefit positions which have been taken during the audit cycles referenced above, may change within the next 12 months. The Company believes that it has adequately provided for any assessments. The income tax rate will be affected as events occur and income tax audits are concluded. An estimate of the range of possible changes in the effective income tax rate cannot be made at this time.

Note 10. Related Party Transactions

During the second quarters of fiscal 2008 and 2007, the Company incurred approximately $21,000 and $0.1 million, respectively, of expenses from an unrelated third-party entity, ACM Aviation, Inc. (ACM), for charter aircraft services provided to Marvell Semiconductor, Inc. (MSI) for Estopia Air LLC (Estopia Air). During the first six months of fiscal 2008 and 2007, the Company incurred approximately $73,000 and $0.5 million, respectively, of expenses from ACM, for charter aircraft services provided to MSI. The aircraft provided by ACM to the Company for such services is owned by Estopia Air. The Company s Chairman, President and Chief Executive Officer, Dr. Sehat Sutardja and the Company s Director of Strategic Marketing and Business Development, Weili Dai, through their control and ownership of Estopia Air, own the aircraft provided by ACM. Dr. Sutardja and Weili Dai are husband and wife. Expenses were incurred for business travel use of the aircraft at a cost determined to be at fair market value.

On August 19, 2005, the Company, through its subsidiaries MSI and Marvell International Ltd., entered into a License and Manufacturing Services Agreement (the License Agreement) with C2 Microsystems, Inc. (C2Micro). The License Agreement has substantially similar terms as other license and manufacturing services agreements with other third parties. The Company recognized $9,000 and $93,000 of revenue under the License Agreement with C2 Micro during the second quarters of fiscal 2008 and 2007, respectively. The Company recognized $39,000 and $0.3 million of revenue under the License Agreement with C2 Micro during the first six months of fiscal 2008 and 2007, respectively. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia LLP, are indirect shareholders of C2Micro. Herbert Chang, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2Micro. Dr. Pantas Sutardja, the Company s Chief Technology Officer, is also a shareholder of C2Micro.

On January 8, 2007, through the Company s subsidiary Marvell International Ltd., we entered into a Library/IP/Software Evaluation License Agreement (the License Agreement) with Verisilicon Holdings Co., Ltd. (Verisilicon). The License Agreement has no consideration. The Company also incurred $119,000 and $191,000 of royalty expense from Versilicon under a core license agreement assumed from its acquisition of the UTStarcom Business during the three and six months ended July 27, 2007. Sehat Sutardja, Ph.D. and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of Verisilicon. Pantas Sutardja, Ph.D., our Chief Technology Officer, is also a shareholder of Verisilicon.

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

The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, can, and similar expressions identify such forward-looking statements. These are statements that relate to future periods and include statements relating to our anticipation that the rate of new orders and shipments will vary significantly from quarter to quarter; industry trends; our anticipation that the total amount of sales through distributors will increase in future periods; our expectation that a significant percentage of our sales will continue to come from direct sales to key customers; our expectations regarding the number of days in inventory, inventory levels, and levels of accounts receivable; our expectation of additional growth in fiscal 2008 due to various reasons, including expected increases in shipments of cellular and handheld, printer ASIC and our WLAN products from new design wins, and our belief that our analog, mixed signal, digital signal processing and embedded microprocessor integrated circuit technology can be leveraged into other large volume and diverse markets; the potential opportunities for a new generation of integrated circuit solutions in response to growing demand for products enabling the storage, transmission and management of large volumes of data at high speeds; the anticipated benefits of consolidating our facilities and the sufficiency of our facilities; the anticipated features and benefits of our technology solutions; our strategy and components of our strategy, including our intention to expand our market position by developing new signal processing technologies, to leverage our technology for broadband communications applications, to continue to extend our leadership position for storage market applications, and to strengthen and expand our relationship with customers using a variety of techniques; the anticipated needs of our customers; our expectations to transition our semiconductor products to increasingly smaller line width geometries; our intention to continue to use widely available CMOS processes to manufacture our products; the benefits of our fabless manufacturing approach; our expectations regarding competition; our intention to reduce product costs to offset decreases in average selling prices; our continued efforts relating to the protection of our intellectual property; our expectations regarding the amount of customer concentration in the future; the amount of our future sales in Asia; our intention to continue to invest significant resources for research and development; our expected results, cash flows, and expenses, including those related to sales and marketing, research and development and general and administrative; our intention to complete acquired in-process research and development projects; our intention to make acquisitions, investments, strategic alliances and joint ventures; our expectations regarding revenue, sources of revenue and make-up of revenue; our expectations regarding the impact of legal proceedings and claims; our expectations regarding the adequacy of our capital resources to meet our capital needs; our expectations regarding the growth in business and operations; our expectations regarding our compliance with SEC periodic reporting requirements and NASDAQ listing requirements; our expectations regarding the impact of the restatement of our financial statements in connection with the internal review of our historical stock option granting; our plans regarding remediation of 2007 material weakness and expectations regarding the effectiveness of those remediation efforts; our plan regarding dividends; our plan regarding forward exchange contracts; and the effect of recent accounting pronouncements and changes in taxation rules. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ materially from those predicted, include but are not limited to, the impact of international conflict and continued economic volatility in either domestic or foreign markets; our dependence upon the hard disk drive industry which is highly cyclical; our ability to scale our operations in response to changes in demand for existing or new products and services; our maintenance of an effective system of internal controls; our dependence on a small number of customers; our ability to develop new and enhanced products; our success in integrating businesses we acquire and the impact such acquisitions may have on our operating results; our ability to estimate customer demand accurately; the success of our strategic relationships with customers; our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products; our ability to manage future growth; the development and evolution of markets for our integrated circuits; our ability to protect our intellectual *property; the impact of any change in our application of the United States federal income tax laws and the loss of any beneficial tax treatment that we currently enjoy; the impact of changes in international financial and regulatory conditions; the impact of changes in management; the risk that other remediation efforts will be insufficient to address our material weakness in internal controls and the outcome pending or future litigation and legal proceedings. Additional factors, which could cause actual results to differ materially, include those set forth in the following discussion, as well as the risks discussed in Item 1A, Risk Factors. These forward-looking statements speak only as of the date hereof. Unless required by law, we undertake no obligation to update publicly any forward-looking statements.*

Overview

We are a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. Our diverse product portfolio includes switching, transceiver, wireless, PC connectivity, gateways, communications controller and storage and power management solutions that serve diverse

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applications used in business enterprises, consumer electronics and emerging markets. We are a fabless integrated circuit company, which means that we rely on independent, third-party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in manufacturing products. In January 2001, we acquired Galileo Technology Ltd. (now Marvell Semiconductor Israel Ltd, or MSIL) in a stock-for-stock transaction for aggregate consideration of approximately $2.5 billion. MSIL develops high-performance internetworking and switching products for the broadband communications market. In June 2003, we acquired RADLAN Computer Communications Ltd. (RADLAN), a leading provider of embedded networking software, for aggregate consideration of approximately $134.7 million. In November 2005, we acquired the hard disk and tape drive controller business of QLogic Corporation for approximately $232.5 million. The acquired business designs and supplies controller chips for data storage peripherals, such as hard disk and tape drives. In February 2006, we acquired the semiconductor design business of UTStarcom, Inc. for approximately $40.8 million. The semiconductor design business of UTStarcom designed and supplied chipsets for cellular phone applications. In May 2006, we acquired the printer semiconductor business of Avago Technologies Limited for $263.0 million, including earnout payments of $10.0 million subsequently recognized during fiscal 2007 when milestones were met and potential additional earnout payments of up to $25.0 million. The printer semiconductor division of Avago designed and developed system-on-chip and system level solutions for both inkjet and laser jet printer systems. In November 2006, we completed the acquisition of the communications and applications processor business of Intel Corporation for approximately $605.9 million. The communications and applications processor business of Intel designed and developed cellular baseband processors for multi-mode, multi-band wireless handheld devices such as cellular handsets, PDAs and smartphones.

We offer our customers a wide range of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. Our products can be utilized in a wide array of enterprise applications including hard disk drives, high-speed networking equipment, PCs, wireless local area network solutions (WLAN) for small office/home office and residential gateway solutions, and consumer applications such as cell phones, printers, digital cameras, MP3 devices, speakers, game consoles and PDAs.

Our sales have historically been made on the basis of purchase orders rather than long-term agreements. In addition, the sales cycle for our products is long, which may cause us to experience a delay between the time we incur expenses and the time revenue is generated from these expenditures. We expect to increase our research and development, selling and marketing, and general and administrative expenditures as we seek to expand our operations. We anticipate that the rate of new orders may vary significantly from quarter to quarter. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and future quarters may be adversely affected.

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal year 2008 is comprised of 53 weeks.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods. For a description of our critical accounting policies and estimates, please refer to the Critical Accounting Policies and Estimates section of our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 27, 2007. There have been no material changes in any of our accounting policies during fiscal 2008.

On January 28, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48) to account for uncertain tax positions. Adoption of FIN 48 did not have any impact on our condensed consolidated statement of operations, and the impact on our condensed consolidated balance sheet is summarized in Note 9 Income Taxes. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, we are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations are subject to change over time. As such, changes in our subjective assumptions and judgments can materially affect our consolidated financial position, results of operations and cash flows.

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 July 28, 2007	Three Months Ended July 29, 2006	Six Months Ended July 28, 2007	Six Months Ended July 29, 2006
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating costs and expenses:				
Cost of goods sold	51.1	48.6	51.3	47.4
Research and development and other	36.0	26.6	36.4	25.8
Selling and marketing	8.2	6.9	8.1	7.1
General and administrative	5.1	3.4	4.5	3.5
Amortization of acquired intangible assets	5.7	4.8	5.8	4.1
Total operating costs and expenses	106.1	90.3	106.1	87.9
Operating income (loss)	(6.1)	9.7	(6.1)	12.1
Interest and other income, net	0.5	0.3	0.3	0.9
Interest expense	1.5	0.1	1.5	0.1
Income (loss) before income taxes	(7.1)	9.9	(7.3)	12.9
Provision for income taxes	1.5	2.1	1.2	2.5
Income (loss) before change in accounting principle	(8.6)	7.8	(8.5)	10.4
Cumulative effect of change in accounting principle, net of tax effect				0.8
Net income (loss)	(8.6)%	7.8 %	(8.5)%	11.2 %

Three and Six Months Ended July 28, 2007 and July 29, 2006

Net Revenue

	Three Months Ended July 28, 2007	July 29, 2006	Percent Change	Six Months Ended July 28, 2007	July 29, 2006	Percent Change
Net revenue	$ 656,711	$ 573,985	14.4 %	$ 1,291,761	$ 1,095,181	17.9 %

Net revenue consists primarily of product revenue from sales of our semiconductor devices, and to a much lesser extent, development revenue derived from development contracts with our customers. Net revenue is gross revenue, net of accruals for estimated sales returns and allowances and rebates. The increase in net revenue in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 reflects an increase in volume shipments of our cellular and handset products due to increased demand and acceptance of our products, which increased $135.9 million. Partially offsetting the increase in revenues were decreases in revenue of our storage SOC products and hard disk controller products. The net revenue increase in cellular and handheld products was from our initial shipments commencing in November 2006 from the acquisition of the applications and communications processor business from Intel Corporation (Intel). The decrease in revenue for our storage SOC products was due to lower seasonal demand while the decrease in hard disk controller products was primarily due to lower demand. The increase in net revenue in the first six months of fiscal 2008 compared to the first six months of fiscal 2007 reflects an increase in volume shipments of our cellular and handset products due to increased demand and acceptance for the products which increased $250.0 million. Partially offsetting the increase in revenue for the first six month of fiscal 2008 compared to the same period in fiscal 2007 was a decrease in SOC storage products due to lower demand. Net revenue derived from development contracts decreased in absolute dollars during the second quarter and first six months of fiscal 2008 as compared to the second quarter and first six months of fiscal 2007, but represented less than 10% of net revenue for each period.

Historically, a relatively small number of customers have accounted for a significant portion of our revenue. For the three months ended July 28, 2007, two customers each represented more than 10% of our net revenue, for a combined total of 27% of our net revenue. For the six months ended July 28, 2007, one customer accounted for more than 10% of our net revenue with a total of 15% of our net revenue. For the three months ended July 29, 2006, three customers each represented more than 10% of our net revenue, for a combined total of 40% of our net revenue. For the six months ended July 29, 2006, four customers each represented more than 10% of our net revenue, for a combined total of 51% of our net revenue. In addition, no distributor accounted for more than 10% of our net revenue in the three and six months ended July 28, 2007 and in the three and six months ended July 29, 2006.

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Because we sell our products to many OEM manufacturers who have manufacturing operations located in Asia, a significant percentage of our sales are made to customers located outside of the United States. Sales to customers located in Asia represented 81% and 92% of our net revenue for the three months ended July 28, 2007 and July 29, 2006 respectively Sales to customers located in Asia represented 83% and 93% of our net revenue for the six months ended July 28, 2007 and July 29, 2006 respectively. The rest of our sales are to customers located in the United States and other geographic regions. We expect that a significant portion of our revenue will continue to be represented by sales to our customers in Asia. Substantially all of our sales to date have been denominated in United States dollars.

Cost of Goods Sold

	Three Months Ended			Six Months Ended		
	July 28, 2007	July 29, 2006	Percent Change	July 28, 2007	July 29, 2006	Percent Change
Cost of goods sold	$ 335,530	$ 279,075	20.2 %	$ 662,947	$ 519,308	27.7 %
% of net revenue	51.1 %	48.6 %		51.3 %	47.4 %	
Gross margin	48.9 %	51.4 %		48.7 %	52.6 %	

Cost of goods sold consists primarily of the costs of manufacturing, assembly and test of integrated circuit devices and related overhead costs, product warranty costs, royalties and compensation and associated costs relating to manufacturing support, logistics and quality assurance personnel, including stock-based compensation costs. Gross margin is calculated as net revenue less cost of goods sold as a percentage of net revenue. The decrease in gross margin percentage for the three and six months ended July 28, 2007 compared to the three and six months ended July 29, 2006 was primarily due to higher inventory excess and obsolescence provision and to lower gross margins for cellular and handset products which commenced shipment in November 2006 as a result of the acquisition of the communications and applications processor business from Intel. The excess and obsolescence provision increased by $22.4 million and $23.3 million for the three and six months ended July 28, 2007, respectively, compared to the same periods in the prior year. The increase in excess and obsolescence provision was due to the mix and quantities on hand compared to forecasted demand for such products on hand including storage SOC, communications and applications processors and wireless products. The cellular and handset inventory that we are contractually obligated to purchase under a supply agreement with Intel are recorded at estimated fair value as required under purchase accounting. The amount of the supply agreement credited against cost of goods sold was $43.9 million and $77.6 million for the three and six months ended July 28, 2007, respectively. We anticipate that we will continue to source cellular and handset inventory under the Intel supply agreement, and that such purchases will in significant part be beyond our minimum committed levels under the agreement. We will record such inventory at cost, which will adversely impact our gross margins relative to periods where we only purchased inventory at the minimum committed level. The supply agreement requires us to purchase inventory earlier than anticipated product shipments to our customers resulting in higher levels of inventory and associated carrying costs. As a result, the higher levels of inventory increase our risk of holding excess and obsolete inventory. Our gross margins may also fluctuate in future periods due to, among other things, changes in the mix of products sold, the timing of production ramps of new products, increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting, charges for obsolete or potentially excess inventory, changes in the costs charged by our manufacturing and test subcontractors, the introduction of new products with lower margins, product warranty costs and changes in the amount of development revenue recognized.

Research and Development and Other

	Three Months Ended			Six Months Ended		
	July 28, 2007	July 29, 2006	Percent Change	July 28, 2007	July 29, 2006	Percent Change
Research and development and other	$ 236,194	$ 152,645	54.7 %	$ 470,327	$ 281,873	66.9 %
% of net revenue	36.0 %	26.6 %		36.4 %	25.8	