
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

FOR THE FISCAL YEAR ENDED JANUARY 27, 2001

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

FOR THE TRANSITION PERIOD FROM N/A TO _____ .

COMMISSION FILE NUMBER 0-30877

MARVELL TECHNOLOGY GROUP LTD.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

BERMUDA
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

77-0481679
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

4TH FLOOR, WINDSOR PLACE, 22 QUEEN STREET, P.O. BOX HM 1179, HAMILTON HM EX,
BERMUDA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(441) 296-3695
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, \$0.002 PAR VALUE PER SHARE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to the Form 10-K. ☐

As of April 20, 2001, the aggregate market value of the common stock held
by nonaffiliates of the registrant was \$1,291,189,401 based upon the last
reported sale price of the registrant's common stock as reported by the Nasdaq
National Market System.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Definitive Proxy Statement to be filed with the
Securities and Exchange Commission in connection with the Company's 2001 Annual
General Meeting of Shareholders are incorporated by reference into Part III
hereof.

As of April 20, 2001, there were 115,413,881 shares of common stock
outstanding.

TABLE OF CONTENTS

	PAGE

PART I	
Item 1. Business.....	1
Item 2. Properties.....	27
Item 3. Legal Proceedings.....	27
Item 4. Submission of Matters to a Vote of Security Holders.....	28
PART II	
Item 5..... Market for Registrant's Common Equity and Related Stockholder Matters.....	29
Item 6. Selected Consolidated Financial Data.....	31
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	32
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	52
Item 8. Financial Statements and Supplementary Data.....	53
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	76
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	76
Item 11. Executive Compensation.....	76
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	76
Item 13. Certain Relationships and Related Transactions.....	76
PART IV	
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	76

MARVELL TECHNOLOGY GROUP LTD.

PART I

ITEM 1. BUSINESS.

This report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in these forward-looking statements. Factors that may cause such a difference include, but are not limited to, those discussed in "Additional Factors that May Affect Future Results" beginning on page 38.

OVERVIEW

We design, develop and market integrated circuits utilizing proprietary communications mixed-signal and digital signal processing technology for communications-related markets. Our products provide the critical interface between analog signals and the digital information used in computing and communications systems and enable our customers to store and transmit digital information reliably and at high speeds. We initially focused our core technology on the storage market, where we provide high performance products to such companies as Samsung, Seagate, Fujitsu, Toshiba and Hitachi, who as a group accounted for 84% of our sales in fiscal 2001, 98% of our sales in fiscal 2000 and 99% of our sales in fiscal 1999. We then applied our technology to the high speed, or broadband, communications market. In March 2000, we shipped and generated revenue from our first products that are used in network access equipment to provide the interface between communications systems and data transmission media. In January 2001, we completed our acquisition of Galileo Technology Ltd. Galileo develops high-performance communications internetworking and switching products for the broadband communications market. We believe that our core technology can be used to improve performance across a wide range of communications applications. For example, we are actively developing products for the 10 Gigabit Ethernet fiber-optic market, which provides data transfer rates of 10,000 megabits per second, and for the wireless communications market. All references to Galileo in this Form 10-K refer to Galileo Technology Ltd., our wholly-owned subsidiary. For the fiscal year ended January 31, 2001, we generated \$143.9 million in net revenue.

Marvell Technology Group Ltd. was incorporated in Bermuda in January 1995. Our registered address in Bermuda is 4th Floor, Windsor Place, 22 Queen Street, P.O. Box HM 1179, Hamilton HM EX, Bermuda, and our telephone number there is (441) 296-3695. The address of our principal location in the United States is Marvell Semiconductor, Inc., 645 Almanor Avenue, Sunnyvale, California 94085, and our telephone number there is (408) 222-2500. We also have offices in Israel, Singapore, Taiwan, Japan and the United Kingdom. During fiscal 2000, we changed our fiscal year-end to the Saturday nearest January 31. In fiscal 1999, our fiscal year ended on January 31. For presentation purposes, we refer to January 31 as our fiscal year-end for all periods.

INDUSTRY BACKGROUND

Satisfying Bandwidth Demand

Businesses and consumers today are creating a rapidly growing demand for broadband access to large volumes of information in multiple forms, including voice, video and data. This demand is being driven by the introduction of new data-intensive computing and communications applications, such as web-based commerce, streaming audio and video, enterprise-wide information systems and telecommuting. In addition, information is increasingly available via networks through a variety of access devices, including personal computers, digital cable set-top boxes used in conjunction with television sets, cable modems, handheld computing devices known as personal digital assistants and wireless phones. These applications and devices require increasingly higher data transfer rates within computing systems and data storage devices and across computer networks, the public telephone infrastructure and the Internet.

Achieving high integrity data recovery and transmission becomes increasingly difficult at higher data transfer rates. Data transfer rates, often referred to as bandwidth, are measured in terms of megabits per

second transmitted over a given media. In addition, communications systems must transfer data reliably at very high speeds using a wide range of physical transmission media, including magnetic and optical storage disks, twisted pair copper wire, coaxial cable, fiber-optic cable and open air.

A critical element of these communication systems is a physical layer device, which performs the important interface functions between the communications system and the transmission media. Typically, data is transferred over the transmission media using analog signals; however, within the communications systems, data is processed digitally. The physical layer device converts digital computer information into analog signals before transmitting them over the physical media. The physical layer device also receives analog signals from the transmission media and converts them to digital data that computers can understand and manipulate. Physical layer devices often determine the overall performance of the communications system. In order to achieve high integrity in data transmission and recovery at high transfer rates, physical layer devices must overcome a number of factors that can impair signal quality and introduce errors, including substandard media, noise, signal level degradation over distance, interference from adjacent lines and signal echo. In many computing systems and networks, bandwidth bottlenecks arise where the media and physical layer devices are incapable of supporting the required data transfer rates. As transmission speeds approach the fundamental limits of a particular transmission media, physical layer devices must increasingly employ sophisticated signal processing algorithms and techniques to accurately recover the transmitted data. A digital signal processing algorithm involves mathematical manipulation of digital data.

To meet the demands of increasingly higher data transfer rates within computing systems and across computer networks, the data must be more reliably and intelligently transmitted across the system. This is resulting in a transition from repeater to switch connections. Switches route data through the communications system with bandwidth dedicated to each end-user and have the potential to intelligently manage the data transmission. Unlike a switch, a repeater, which also transmits data across the system, provides less intelligence and shares the bandwidth among end-users resulting in less reliable and predictable transmission. Additionally, there is an increased demand on today's switches as previously separate voice communications systems, video communications systems and data communications systems are converged into single systems that handle voice, video and data seamlessly.

Also, as the rate and variety of data transmission increases, the system must handle more data and employ more sophisticated functions. This puts an increasing strain on the host central processing unit, or CPU, within the system and, as a result, makes the subsystems that support the CPU more critical. The system controller supports the CPU by managing the movement of data to the various data processing functions to free up the host CPU so that it can concentrate its resources on other more processor intensive functions while the data movement is taking place.

High performance communications-related end markets in which the availability of bandwidth and the management of data present critical problems include the storage and broadband communications markets.

Storage

A substantial portion of all business and personal information is recorded in analog form on magnetic disk drives in data servers, workstations, personal computers and consumer entertainment devices. As end-user data requirements increase, disk drive suppliers must consistently offer drives with faster data transfer rates and higher capacities. Disk capacity is measured by areal density, which is the amount of data stored on one square inch of disk space. Current high performance disk drive systems offer data transfer rates of approximately 550 to 700 megabits per second and capacities of up to 100 gigabytes. In comparison, high performance disk drive systems in 1998 offered data transfer rates of approximately 200 to 250 megabits per second and capacities of up to 50 gigabytes.

A critical component in every disk drive is the read channel. The read channel is a physical layer device that transmits and receives the analog data that is stored on the magnetic disk and converts it to the digital data required for use in computing systems. The read channel plays a critical role in enabling the disk drive to achieve higher data transfer rates and areal densities. Often, the read channel can become the limiting bottleneck for the entire disk drive system because higher data transfer rates complicate recovery of the data

stored on the disk. As data tracks are packed more closely together to achieve greater areal density, problems arise from interference between adjacent data tracks. These communication challenges require increasingly sophisticated read channel designs. In addition, as disk drive manufacturers seek to reduce costs, they are increasingly demanding that functions traditionally performed by stand-alone integrated circuits be combined with the read channel into a single integrated circuit, which is referred to as a system-on-chip.

Broadband Communications

In recent years there has been a rapid increase of data transmitted across and within computer networks, the public telephone infrastructure and the Internet. Communications infrastructures are constantly evolving to support this increase in data transmission demand. In computer networks that span relatively large geographical areas, known as wide area networks, or WANs, this increase in data transmission demand has driven the deployment of high capacity fiber-optic transmission systems and new broadband access technologies, such as cable modems and digital subscriber lines. In computer networks that span relatively small geographical areas, known as local area networks, or LANs, this increase in data transmission demand has resulted in a transition from the 10 megabit per second Ethernet technology to the 100 megabit per second Fast Ethernet technology. In addition, several manufacturers of physical layer devices have publicly announced that they are developing products based on new standards to support the increasing data transmission demand. These new standards are Gigabit Ethernet, which provides data transfer rates of 1,000 megabits per second, and 10 Gigabit Ethernet, which provides data transfer rates of 10,000 megabits per second.

In the broadband communications market, physical layer devices, switches and system controllers are critical to the deployment of new, higher data rate transmission technologies. Gigabit data transmission rates present significant data recovery and management challenges. Many businesses have installed computer networks using copper twisted pair wires. As a result, we believe that businesses have made a significant investment installing copper twisted pair wires to support their LANs. A number of problems, such as interference from adjacent lines and signal echo, arise when transmitting data at gigabit rates on the existing copper twisted pair wire. The most common form of copper twisted pair wire installed was originally designed to support 100 megabit per second data rates. As a result, the deployment of Gigabit Ethernet requires either the costly and time-consuming upgrading of this wiring or the deployment of new physical layer devices that enable gigabit transmission rates on the existing infrastructure.

Today's communication networks are being re-architected to efficiently support voice, video and data. Instead of equipping and managing disparate systems -- one for voice, one for video, one for data -- the convergence of these systems creates a single, more efficient system. In the rush to provide converged networking advantages to their customers, today's broadband communications companies face significant issues, including the fact that voice networks are inefficient for transferring data and data-optimized networks were not designed to carry voice or video. To efficiently support voice, video and data, each point in the network must be re-architected to allow these different types of data to move through a single converged network with reliability and quality.

The Opportunity For New Integrated Circuit Solutions

The rapidly growing demand for high speed broadband communications products that enable the transmission of large volumes of data is creating the need for a new generation of integrated circuit solutions.

- Physical layer devices capable of supporting increasingly higher data transmission rates over existing media infrastructures require sophisticated mixed-signal and digital signal processing techniques. Mixed-signal technologies employ both analog and digital circuitry in a single integrated circuit.
- Switches that have the intelligence to process and provide routing management functions and carry information in multiple forms including voice, video and data.
- Systems controllers that more reliably manage the data transmission functions.

To keep the power consumption of these new solutions at acceptable levels, more efficient yet powerful signal processing algorithms, implemented in silicon, are required. These new generation devices must also satisfy market demands associated with large production volumes, competitive pricing, high reliability and decreased size. Also to meet these demands, we expect the trend to continue towards integrating into one chip various functions which are currently implemented in discrete integrated circuits. Integration reduces the overall number of components in a system, thereby reducing overall system cost.

OUR SOLUTION

Our integrated circuits incorporate precise mixed-signal technologies and complex signal processing algorithms. Our products allow our customers to store and move digital data reliably at high data transfer rates while using existing media infrastructures. Our products are also used for transmitting and recovering digitally converted analog signals to and from various types of broadband communications media.

Our products target high volume markets where some of the most critical success factors are performance, features, power consumption, quality and cost. We initially applied our mixed-signal and digital signal processing technology to the storage market, where we provide read channel devices and preamplifiers to meet the high data transfer rate, high areal density and data integrity requirements of our customers. A preamplifier amplifies the low level electrical signal transmitted to and from the recording heads in a disk drive device. We then applied our core technology to developing high performance physical layer devices for the broadband communications market. We introduced the first member of our communications product family, a physical layer device for 10 and 100 megabit per second Ethernet and Fast Ethernet applications, in the fourth quarter of calendar year 1999. Our Fast Ethernet physical layer devices are manufactured in 0.25- and 0.22-micron complementary metal oxide semiconductor, or CMOS, manufacturing process and provide long distance signal transmission capability and low power consumption. We introduced our first generation of Gigabit Ethernet physical layer devices for use with existing copper twisted pair wiring infrastructures in May 2000. Our Gigabit Ethernet physical layer devices are manufactured in 0.18- and 0.15-micron CMOS manufacturing processes and address the reduced signal quality of gigabit data rate signals on existing copper twisted pair wiring infrastructures.

Based on our operating management and financial reporting structure, we have determined that we have one reportable business segment: the design, development and sale of integrated circuits. Please see the financial information regarding this reportable business segment set forth in Item 6 of this Form 10-K and the information regarding our net revenues and long-lived assets based on geographic regions included in Note 11 to our Consolidated Financial Statements set forth in Item 8 of this Form 10-K.

In January 2001, we completed our acquisition of Galileo Technology Ltd. which designs integrated circuits that address the important subsystems in the broadband communications market. Galileo's system controllers, WAN communication controllers, switch Ethernet controllers and processors, and switch Packet-Over-SONET, or POS, and asynchronous transfer mode, or ATM, processors provide some of the key functionality of communications systems. Galileo also designs evaluation boards and develops basic firmware and software to provide applications support to its customers. Galileo is considered a pioneer in merchant switched Ethernet controllers, introducing its first Ethernet controller in 1996. The acquisition of Galileo brought together our physical layer technology and expertise with Galileo's system-level technology and expertise, which we believe allows us to provide our customers with complete solutions that enable them to introduce their products to the market more quickly than they can with other solutions.

Key features of our technology solutions include:

- Mixed-Signal Broadband Analog Front-End Technology. One of the most critical components of many communications-related mixed-signal integrated circuits is the analog front-end. The analog front-end is the analog-to-digital and digital-to-analog converter that serves as the interface between the digital signal processor and the physical transmission media. We have developed high precision analog front-ends that are implemented in CMOS manufacturing processes. We are able to design these broadband analog front-ends due to a number of innovations, including proprietary self-calibration techniques that compensate for the inherent variations of these processes. Our analog

circuits are designed to be highly reusable across many of our products and easily scalable to new CMOS processes as they emerge.

- Custom Digital Signal Processors. We have designed high performance, low power usage digital signal processors for broadband communications applications. These processors are customized to execute our suite of advanced digital signal processing algorithms in real time at high speeds. For example, our latest generation read channel device performs several hundred billion operations per second.
- Proprietary Digital Signal Processing Algorithms. Our advanced digital signal processing algorithms enable data transmission at high speeds across a wide range of physical transmission media with low data error rates. These digital signal processing algorithms improve performance in the presence of media imperfections such as substandard media, noise, signal level degradation over distance, interference from adjacent lines and signal echo. We have developed a broad suite of broadband communications algorithms targeted at both storage and broadband communications applications.
- Design For Advanced CMOS Manufacturing Processes. In addition to CMOS, there are several modern processes for manufacturing integrated circuits including Bipolar CMOS, or BiCMOS, silicon germanium and gallium arsenide. While it is significantly more difficult to design high performance analog integrated circuits in CMOS, CMOS provides multiple benefits compared to many other processes, including significantly lower manufacturing cost, more predictable migration to smaller process geometries, more cost effective integration of additional functions in a single integrated circuit and greater worldwide foundry capacity. We have successfully combined advanced analog signal processing blocks with high speed digital signal processors in 0.25-, 0.18- and 0.15-micron CMOS manufacturing processes. Based on conversations with our customers, we believe that we have achieved a level of circuit speed performance in CMOS process technologies that has typically only been achieved with more expensive special fabrication techniques, such as BiCMOS.
- Reusable Building Blocks For Integrated System-On-Chip Design. We have developed a proprietary set of manufacturing process design rules that we believe are scalable over several generations of manufacturing process geometries. We have also collected a significant library of circuit building blocks that can be reused with modification in successive generations of products. These design methodologies allow us to shorten time-to-market for new products and take advantage of the latest CMOS manufacturing processes.
- Internet Protocol Knowledge. Internet Protocol, or IP, technologies have been widely selected as the core technologies for converged networks. Galileo has developed intimate knowledge in IP technologies. This has allowed us to develop integrated circuits that exemplify the implementation of a state-of-the-art set of products that uses IP technologies to deliver a comprehensive solution for networks where it is critical to effectively carry multiple types of media, to guarantee quality of service, to bill for services and establish service level agreements, to provide redundancy for high reliability and to effectively bridge to other technologies like POS and ATM.

Key benefits for our customers are:

- High Performance. In the storage market, our products achieve high data transfer rates and areal densities. In the broadband communications market, our products achieve the required low error rates when used with lower quality media and attain superior signal transmission distance when used with standard media. Our broadband communications products are designed to enable businesses to upgrade their networks without the expense associated with upgrading to new wiring.
- Low Power. Our custom digital signal processors use fewer transistors to perform data transfer functions than the standard designs used by some of our competitors, thereby reducing overall system power usage. We also implement our designs in advanced CMOS processes, which further reduces power requirements. These designs allow our customers to eliminate costly heat reduction components in their products.

- **Cost Effective.** We are able to lower our manufacturing costs by using advanced manufacturing processes and our custom digital signal processing technology. These processes and technologies allow us to use a smaller silicon chip size, which results in more integrated circuits per wafer. In addition, our products generate less heat, which allow us to use less expensive packaging technologies and achieve lower cost system implementations than for products that generate more heat. These manufacturing advantages reduce the cost of next-generation communications equipment, enabling our customers to offer their products at competitive prices.
- **Higher Integration Capability.** The combination of our use of CMOS manufacturing processes, small silicon chip size and low power requirements allow us to increase the number of functions in a single integrated circuit. These capabilities position us to integrate elements of our customers' designs, currently implemented in discrete integrated circuits, into our products. Integration reduces the overall number of components in a system, thereby reducing overall system cost.
- **Accelerated Time-To-Market.** We help our customers rapidly introduce higher performance, lower cost products. Many features of our integrated circuits are software-configurable, allowing our customers to customize circuit operation for their specific applications. In addition, although our customers have traditionally internally developed the key application-specific integrated circuits, or ASICs, for their network systems or used programmable logic, such as field programmable gate-arrays, they have recently begun to outsource this product. We can provide these products at a lower cost, with higher performance and more rapidly than our customers can develop these products internally because of the larger size of our potential market and the resources we dedicate to such functions. Additionally, many of our new products are supported by evaluation boards and reference designs to accelerate our customer's development activities. Evaluation boards facilitate the adoption of our semiconductor devices by closely resembling actual end-products or subsystems within them.

OUR STRATEGY

Our objective is to be a leading provider of extreme broadband system-level communications integrated circuit solutions. Key elements of this strategy include the following:

Expand Market Position By Developing New Signal Processing Technologies For Broadband Communications-Related Applications

We have built expertise in the core areas of technology that are relevant for broadband communications, including mixed-signal circuit design methodologies, broadband signal processing algorithms, custom digital signal processors and system-level expertise. We intend to continue to invest considerable resources in developing new and enhanced algorithms and improved mixed-signal and digital signal processing technologies. We expect that our investment will allow us to develop products that can achieve data transmission speeds approaching the fundamental limits of particular transmission media infrastructures. Our core signal processing technologies can be applied to a wide range of broadband communications-related markets, including storage, data networking and wireless networking.

Leverage Technology In The Broadband Communications Market

We initially applied our mixed-signal and digital signal processing technology expertise to the communications market through the introduction of physical layer devices using the Fast Ethernet networking protocol. These physical layer devices are manufactured in 0.25- and 0.22-micron CMOS manufacturing processes and provide long distance signal transmission capability and low power consumption. We then applied our technology to developing Gigabit Ethernet physical layer devices. Additionally, we have begun to integrate our physical layer devices with functions previously provided by other integrated circuits, such as the media access controller. The media access controller is the component that controls access by different devices to the physical media to ensure that signals sent from different devices over the same channel do not collide.

With our acquisition of Galileo completed, we are able to offer our customers both physical transmission solutions and system architecture expertise. We plan to leverage our acquired strength in designing switching

and internetworking products with one of our existing core strengths - designing products which enable the movement of data at high transfer rates. This effort will allow us to integrate multiple product functions to address the demands of today's broadband communications market for single chips that decrease the cost of and increase the performance of our customers' communications systems. Additionally, we plan to leverage Galileo's technology to deliver products to one of the most promising segments of the communications market: converged-networks that carry voice, video, and data across local area networks and wide area networks.

Extend Leadership Position In The Storage Market

The storage market presents a large volume opportunity for our broadband mixed-signal and digital signal processing technologies. We believe our technology effectively addresses the increasing data access rates and higher data integrity and reliability requirements of the storage markets. We have achieved significant market share in the high performance and portable computing segments of the storage market. These segments of the storage market demand the highest performance read channel products.

We intend to extend our leadership position in the high performance and portable computing market segments by continuing to develop and introduce products enabling higher data transfer rates and areal densities. In addition, we intend to extend our market position in the general purpose personal computer segment.

We believe that, for us, the storage market is one of the technology and logistics drivers for the rapid and cost-effective development of our communications products and, therefore, it is important that we continue to develop new high performance products and product enhancements for the storage market. Applying our mixed-signal and digital signal processing technology to develop products for the high performance storage markets, and testing and improving the products for this market adds to our library of proprietary technology and allows us to more rapidly apply this technology to develop products in the communications market. In addition, the demanding logistics of product delivery to the storage market has required us to establish systems that enable efficient and timely delivery systems to support the communications market.

Strengthen And Expand Our Relationships With Current And Potential Customers

We intend to continue to strengthen and expand our relationships with customers by identifying our customers' evolving needs and designing new products and product functions to meet these needs. For example, while we design products that can be used by multiple customers, we often customize our products to incorporate our customers' specific requirements. As the markets we address become increasingly complex and competitive, we anticipate that many of our customers will increasingly wish to combine elements of their designs with our own designs. We intend to jointly develop highly integrated products with our customers to meet their cost and performance requirements and to strengthen relationships with them.

Capitalize On Widely Available CMOS Manufacturing Processes And Fabless Operating Model

We intend to continue to use widely available CMOS processes to manufacture our advanced mixed-signal and digital signal processing products. We believe this will better enable us to reliably manufacture our products in volume, thereby decreasing our time-to-market and costs, while also facilitating the development of highly integrated products. We have recently developed our own embedded memory technology for complex system-on-chip designs. We are also in the process of developing products that integrate our core mixed-signal and digital signal processors with other internal solutions, and we are developing and are in production with various products integrating our customers' silicon components and on-chip memory with our own technology.

We are a fabless integrated circuit manufacturer in the sense that we rely on third parties to manufacture, assemble and test our products. Our fabless model allows us to focus our resources on the development of proprietary and innovative mixed-signal and digital signal processing designs, while reducing capital and operating infrastructure requirements.

Expand Our System-Level Approach To Design

We intend to expand our use of a system-level approach to development of our products to improve the time-to-market and production of our products, and in turn to assist our customers to more rapidly introduce their products to the market. Our system-level approach considers the various components in a system, to anticipate and evaluate effectively the various systems issues and tradeoffs that our customers will face when designing our products into their equipment. Our architects, designers, technical marketing engineers and applications engineers have broad knowledge of communications system architectures and advanced microprocessors, allowing us to take a system-level approach in the design of our products. This helps us to partition our devices properly and to attain appropriate levels of integration. A system-level approach also results in modular offerings: a device may operate on a stand-alone basis as a complete basic system or various devices may be interconnected to form a more complex system.

In designing a product, we also conduct systems-level simulations in which the software model of a new device interacts with models of the devices with which it will interface in a typical system in order to test system-level operability. These simulations are often conducted with key customers that provide extensive feedback to our design team. As a result, we have successfully designed products highly functional on first silicon. In many cases the products are also production worthy.

MARKETS

We target communications-related markets and applications that require integrated circuit devices for high speed data transmission. We currently offer solutions for two major markets: storage and broadband communications.

Storage Market

Demand for storage is increasing rapidly due to the introduction of new data-intensive computing and communications applications, such as web-based commerce, streaming audio and video, enterprise-wide information systems, and telecommuting. We provide solutions tailored to the specific needs of the high performance, portable and general purpose personal computer segments of this market.

High Performance. The proliferation of new technologies such as redundant array of independent drives and network-based storage systems is resulting in increased usage of high performance storage devices. High performance computing applications require systems that are capable of storing and retrieving large amounts of data at high rates. As a result, manufacturers of storage devices for the high performance segment place primary importance on disk drive performance, reliability and capacity and are less concerned with the size, power consumption and absolute cost. To accommodate these requirements, we provide integrated circuits that enable reliable storage devices with high data transfer rates and high capacity that are essential for complex, large-scale processing environments.

Portable. Manufacturers of storage devices for the portable segment are primarily concerned with power consumption, heat dissipation, cost and areal density. Our product family targeted at this market segment incorporates advanced digital signal processing technologies. To meet the requirements of this segment we provide very low power consumption integrated circuits that can accommodate high data transfer rates and enable very high areal density disk drives.

General Purpose. Personal computer users have become increasingly price sensitive. As a result, disk drive manufacturers focused on this segment require integrated circuit components that facilitate design for high volume, low cost manufacturing. Our CMOS-based design is well suited to high volume, low cost manufacturing, scalable performance and integration. Due to our ability to deliver high data transfer rates while meeting the cost requirements of the general purpose personal computer segment, we offer manufacturers of general purpose personal computer storage products a migration path for building the higher performance drives of the future. In addition, we expect that emerging consumer entertainment devices, such as digital camera devices, digital video recorders and digital audio entertainment centers, will increasingly use storage systems.

Broadband Communications Market

As businesses and consumers seek faster access to increasing amounts of information through local area networks, or LANs, metropolitan area networks, or MANs, and wide area networks, or WANs, such as the Internet, these networks are constrained in their ability to process and transmit information quickly. As a result, the high speed networking equipment market is undergoing a rapid transition from first generation Ethernet technologies operating at 10 megabits per second to newer technologies, including Fast Ethernet, Gigabit Ethernet and 10 Gigabit Ethernet. A majority of the LAN equipment sold today is based on the Fast Ethernet standard. As lower cost, lower power consumption Gigabit Ethernet physical layer devices become available, we believe that Gigabit Ethernet will emerge as an important local, metropolitan and wide area network communications technology.

In addition to the transition to the Gigabit Ethernet standard, the high speed networking equipment market is being re-engineered to support voice, video and data seamlessly with converged communications equipment. As the market transitions to converged communications equipment, we believe there will be an increased demand for advanced integrated circuits that allow voice, video and data to move through a single converged network with unprecedented reliability and quality.

PRODUCTS

We design, develop and market integrated circuits using proprietary communications mixed-signal processing, or CMSP, and digital signal processing technologies for communications-related markets. We also develop high-performance communications internetworking and switching products for the broadband communications market.

Storage Products

Read Channel. The read channel is an integrated circuit providing the interface between the analog signals from magnetic storage media and the digital signals that computers can understand and manipulate. Our read channel products allow our customers to achieve fast data transfer rates, high areal densities and low power dissipation. Our read channels are designed in CMOS manufacturing processes and use customized digital signal processors and broadband analog front-ends. We introduced our first generation of read channels in 1997 and have introduced four subsequent generations of signal processing technology enhancements since then. We have migrated our manufacturing process technology from 0.5- to 0.18-micron CMOS and our product speed from 240 megabits to 1.2 gigabits per second. Our read channel integrated circuits target specific feature and performance requirements of high performance, portable and general purpose personal computer customers. Beginning with the 88C4000 product family, we implemented a strategy to consolidate the signal processing algorithms required by each of our different market segments into a single integrated circuit design. This strategy provides cost savings and reduced product line complexity.

In an effort to enhance performance and lower cost, beginning with the 88I4310 in the third quarter of 2000, we began producing integrated products that incorporate the read channel, the disk drive controller and embedded memory functions in one integrated circuit, referred to as a system-on-chip, or SOC.

Our current read channel products are shown in the table below.

READ CHANNEL	DESCRIPTION	PERFORMANCE	CMOS PROCESS	INTRODUCTION DATE*
88C4200	Third generation read channel for high performance and general purpose personal computer storage systems.	550Mbits/sec	0.25mm	1st Qtr 1999
88C4220	Derivative of the 88C4200 for lower speed but higher user bit density portable storage systems.	380Mbits/sec	0.25mm	1st Qtr 1999
88C4300	Third generation read channel for future portable and high-end general purpose personal computer applications.	550Mbits/sec	0.25mm	1st Qtr 2000
88C5200	Fourth generation read channel for use in high performance storage systems.	750Mbits/sec	0.18mm	1st Qtr 2000
88C4320	Derivative of the 88C4300 for lower speed but higher user bit density portable storage systems.	320Mbits/sec	0.25mm	2nd Qtr 2000
88I4300	Highly integrated system-on-chip which incorporates a 88C4300 read channel with a hard disk controller.	400Mbits/sec	0.25mm	3rd Qtr 2000
88I4310	Highly integrated system-on-chip which incorporates a 88C4300 read channel with a hard disk controller and embedded memory.	400Mbits/sec	0.25mm	3rd Qtr 2000
88C5500	Fifth generation read channel for use in future high performance storage systems.	1.2Gbits/sec	0.18mm	4th Qtr 2000
88I8010	Integrated device which incorporates a hard disk controller and embedded memory.	N/A	0.18mm	4th Qtr 2000
88I5220	Highly integrated system-on-chip which incorporates a 88C5200 read channel with a hard disk controller, and two microprocessors, each with independently coupled memory.	750Mbits/sec	0.18mm	4th Qtr 2000
88C5520	Derivative of the 88C5500 for lower speed but higher user bit density portable storage systems.	400Mbits/sec	0.18mm	1st Qtr 2001

* Introduction date refers to the calendar quarter in which product samples were initially made available to a customer for evaluation purposes. These products may not be available in commercial volumes for one or more quarters following sample introduction.

Preamplifier. A preamplifier amplifies the low level electrical signal transmitted to and from the recording heads in a disk drive device. Preamplifiers operate in two basic modes: read and write. In read mode, preamplifiers provide initial amplification of the high bandwidth signal from the read head. In write mode, the preamplifier provides the write head with the high frequency switched current required for writing on the magnetic media. We provide the only commercially available preamplifiers manufactured in 0.25- and 0.5-micron CMOS processes. Our CMOS-based preamplifier products provide high performance at a lower manufacturing cost than standard BiCMOS-based products. We introduced our first preamplifier product in the third quarter of 1998 and have introduced two subsequent generations of signal processing technology enhancements since then. We have also introduced derivative products targeted at a range of applications for each of these product families.

We introduced our first preamplifier with our proprietary 1st generation differential architecture in the third quarter of 2000. The differential architecture enables the preamplifier products to be insensitive to noise in the environment.

Our current preamplifier products are shown in the table below.

PREAMPLIFIERS	DESCRIPTION	PERFORMANCE	CMOS PROCESS	INTRODUCTION DATE*
81G3004	4-channel derivative of the 81G3018 design for two-disk storage platforms.	300Mbits/sec	0.5mm	3rd Qtr 1998
81G3018	8-channel high gain-bandwidth preamplifier.	300Mbits/sec	0.5mm	4th Qtr 1998
81G3002	2-channel derivative of the 81G3018.	300Mbits/sec	0.5mm	2nd Qtr 1999
81G4008	8-channel second generation high gain-bandwidth preamplifier.	500Mbits/sec	0.5mm	2nd Qtr 1999
81G4014	4-channel derivative of the 81G4008 for two-disk storage platforms.	500Mbits/sec	0.5mm	4th Qtr 1999
81G4002	2-channel derivative of the 81G4008.	500Mbits/sec	0.5mm	1st Qtr 2000
81G4052	2-channel derivative of the 81G4054.	500Mbits/sec	0.5mm	3rd Qtr 2000
81G4054	4-channel derivative of the 81G4014.	500Mbits/sec	0.5mm	3rd Qtr 2000
81G5004/14	4-channel differential preamplifier for mainstream desktop applications.	750Mbits/sec	0.25mm	3rd Qtr 2000
81G5104/14	4-channel differential preamplifier for high-performance desktop applications.	1Gbit/sec	0.25mm	1st Qtr 2001

* Introduction date refers to the calendar quarter in which product samples were initially made available to a customer for evaluation purposes. These products may not be available in commercial volumes for one or more quarters following sample introduction.

Communications Products

We are applying our mixed-signal and digital signal processing technology to a variety of broadband communications markets, including Fast Ethernet, Gigabit Ethernet and 10 Gigabit Ethernet. Our integrated circuits provide the core functionality required for building components of the communications systems, including the Ethernet network interface cards, routers, repeaters, hubs, switches and controllers.

Fast Ethernet Physical Layer Products. Our physical layer products for the Fast Ethernet communications market are highly integrated devices. These devices contain the active circuitry, or ports, needed for interfacing with five, six or eight independent network connections and are typically used by our customers in Fast Ethernet repeaters, hubs, switches and routers. We have designed our products to enable reliable communication over long cable distances and lower quality cable installations.

Our current Fast Ethernet physical layer products are listed in the table below.

FAST ETHERNET PHYSICAL LAYER PRODUCTS	DESCRIPTION	PERFORMANCE	CMOS PROCESS	INTRODUCTION DATE*
88E3080	8-port digital signal processing based Fast Ethernet physical layer device for use in workgroup and enterprise repeaters, hubs, switches and routers.	10/100Mbps/sec	0.25mm	4th Qtr 1999
88E3060	6-port digital signal processing based Fast Ethernet physical layer device for use in general purpose personal computer hubs and switches.	10/100Mbps/sec	0.25mm	1st Qtr 2000
88E3061	6-port Fast Ethernet physical layer device offering advanced features such as auto-MDI/ MDIX and SMII revision 2.1.	10/100Mbps/sec	0.22mm	3rd Qtr 2000
88E3081	8-port Fast Ethernet physical layer device offering advanced features such as auto-MDI/ MDIX and SMII revision 2.1.	10/100Mbps/sec	0.22mm	3rd Qtr 2000
88E6050	Plug-and-play, DSP-based, fully integrated 5-port 10/100BASE-T Ethernet Switch for the small office/home office (SOHO) market.	10/100Mbps/sec	0.25mm	3rd Qtr 2000

* Introduction date refers to the calendar quarter in which product samples were initially made available to a customer for evaluation purposes. These products may not be available in commercial volumes for one or more quarters following sample introduction.

Gigabit Ethernet Physical Layer Products. In May 2000, we began early customer sampling of our Gigabit Ethernet physical layer device for the communications market. At that time, we were the first to publicly announce the introduction of a Gigabit Ethernet physical layer device in a 0.18-micron CMOS manufacturing process. We have subsequently introduced our dual- and quad-port Alaska(TM) family of devices. Each product comes with an optional built in Gigabit serializer/deserializer, or SERDES, functions. Our most recent product, the Alaska(TM) quad Gigabit Ethernet transceiver provides flexibility in the selection of copper or fiber-optic interfaces on a per port basis. The design for these products incorporate sophisticated digital signal processing algorithms and power management techniques to achieve low power dissipation. Target applications include network interface cards, routers, repeaters, hubs and next-generation switches. In January 2001, Intel announced the introduction of a device integrating our Gigabit Ethernet physical layer device with an Intel media access controller.

Our current Gigabit Ethernet physical layer products are listed in the table below.

GIGABIT ETHERNET PHYSICAL LAYER PRODUCTS	DESCRIPTION	PERFORMANCE	CMOS PROCESS	INTRODUCTION DATE*
88E1000	Alaska(TM) Gigabit Ethernet over copper physical layer device (PHY) featuring low power dissipation of only 1.8 watts.	10/100/1000Mbps/sec	0.18mm	2nd Qtr 2000
88E1000S	Alaska(TM) Gigabit Ethernet over copper PHY device featuring optional SERDES serial interface.	10/100/1000Mbps/sec	0.18mm	2nd Qtr 2000
88E1010	Alaska(TM) Gigabit Ethernet over copper PHY featuring low power dissipation of only 1.8 watts, packaged in very small form factor package with physical dimensions of only 10 x 14 mm.	10/100/1000Mbps/sec	0.18mm	2nd Qtr 2000
88E1010S	Identical to the 88E1010 device featuring an optional SERDES serial interface.	10/100/1000Mbps/sec	0.18mm	2nd Qtr 2000
88E1020	Alaska(TM) II dual-port Gigabit Ethernet over copper PHY featuring low power dissipation of only 1.8 watts per port.	10/100/1000Mbps/sec	0.18mm	2nd Qtr 2000
88E1020S	Identical to the 88E1020 device featuring an optional SERDES serial interface on each port.	10/100/1000Mbps/sec	0.18mm	3rd Qtr 2000
88E1040/1/2	Alaska(TM) Quad-port Gigabit Ethernet over copper PHY featuring low power dissipation of just over 1.0 watt per port.	10/100/1000Mbps/sec	0.15mm	4th Qtr 2000
88E1040S/1S/2S	Identical to the 88E1040 device featuring an optional SERDES serial interface on each port.	10/100/1000Mbps/sec	0.15mm	1st Qtr 2001
88E1011	Alaska(TM) Gigabit Ethernet over copper PHY optimized for mobile computing market; featuring low power dissipation of just over 1.0 watts.	10/100/1000Mbps/sec	0.15mm	1st Qtr 2001

* Introduction date refers to the calendar quarter in which product samples were initially made available to a customer for evaluation purposes. These products may not be available in commercial volumes for one or more quarters following sample introduction.

System Controllers. System controllers support the CPU by managing the movement of data, to the various data processing functions, to free up the host CPU so that it can concentrate its resources on more processor intensive functions. Our highly integrated system controllers can be combined with the leading embedded reduced instruction set computers, or RISC, microprocessors to form complete CPU subsystems. Our system controllers contain all the key control blocks needed to build high-performance 32-bit and 64-bit CPU subsystems, including DRAM controllers, peripheral device controllers, direct memory access, or DMA, engines, timers, peripheral component interconnect, or PCI, interfaces, and interrupt controllers. Our system controllers support the leading microprocessors -- MIPS, Intel i960, and PowerPC. Our system controllers provide system designers with the ability to match their CPU performance to the targeted overall system price/performance by simply changing CPUs. An additional advantage to OEMs using our system controllers over internally developed solutions is that new products are generally software-compatible with older generations -- supporting fast development time by re-using software which might otherwise need to be re-developed.

The overall performance of a given system is often determined by how quickly and efficiently data is moved from one place to another within a system. For example, interface data is often moved from a PCI-bus peripheral to main memory, followed by a CPU interrupt (to inform the CPU of the presence of new data), and then by moving parts of the data from main memory to the CPU for inspection and other operations. This example involves several data movements, all of which are supported with our system controllers. Our system controllers maximize the performance of this system example by providing powerful DMA engines, which allow the CPU and peripherals to move data in and out of the main memory at high speeds with minimal CPU involvement -- allowing the CPU to concentrate its resources on other activities while this data movement is happening. Additionally, our system controllers use a multi-bus architecture internally, which allows multiple data movement operations to occur simultaneously between devices controlled by the system controller.

The majority of design wins for our system controllers are in communications applications. These applications include switches, routers (LAN-WAN edge routers and enterprise routers) and various telecom applications. Other markets in which we have a strong presence include intelligent PC add-in cards, host applications including thin clients and digital set-top boxes, and storage area networks. Galileo identified the PowerPC platform as a growing market in 1998 and introduced its first system controllers that support it in 1999. These products have garnered multiple design wins amongst communications and telecom systems suppliers.

Our current system controller products are shown in the table below.

SYSTEM CONTROLLERS	DESCRIPTION	PERFORMANCE/ FREQUENCIES	CMOS PROCESS	INTRODUCTION DATE

MIPS				
GT-32011	Low cost system controller for R3041/51/71/81 processors.	33 MHz	0.6mm	1994
GT-64012	Secondary cache controller for 64-bit MIPS-based CPUs.	50 MHz	0.5mm	1994
GT-64010A	PCI system controller for 64-bit MIPS-based CPUs.	50 MHz	0.5mm	1995
GT-64120	Advanced PCI system controller for 64-bit MIPS-based CPUs.	76 MHz	0.35mm	1997
GT-64111	PCI system controller for 64-bit MIPS-based (32-bits SysAD) CPUs.	66 MHz	0.35mm	1998
GT-64115	PCI system controller for 64-bit MIPS-based (32-bits SysAD) CPUs.	75 MHz	0.35mm	2nd Qtr 1999
GT-64120A	Advance PCI system controller for 64-bit MIPS-based CPUs.	100 MHz	0.25mm	3rd Qtr 1999
GT-64121A	Advance PCI system controller for 64-bit MIPS-based CPUs.	83 MHz	0.25mm	3rd Qtr 1999
GT-64240	High performance MIPS-based system controller for communication applications.	100 MHz	0.18mm	4th Qtr 2000
POWERPC				
GT-64130	Advanced PCI system controller for 64-bit and MPC860 PowerPC-based CPUs.	75 MHz	0.35mm	1st Qtr 1999
GT-64131	Advanced PCI system controller for 64-bit and MPC860 PowerPC-based CPUs.	76 MHz	0.35mm	1st Qtr 1999
GT-64260	High performance PowerPC system controller for communication application.	100 MHz	0.18mm	4th Qtr 2000
I1960				
GT-32090	Low cost system controller for i960Jx processor-based systems.	33 MHz	0.6mm	1995

WAN Communication Controllers. The strong technical foundation established for the creation of the system controller products has been used to create our line of WAN communications controllers. Our WAN

communications controllers integrate all the key building blocks necessary to provide access from the LAN to the WAN, essentially creating a router subsystem when coupled with a RISC microprocessor. Galileo introduced in 1997 a remote access controller co-defined with Intel, a Galileo customer for this product. This product was augmented in 1998 to provide customers with additional CPU choices including MIPS, PowerPC, and Motorola's Coldfire, in addition to Intel's i960 and i486. The WAN technologies developed for this product contributed the balance of foundation technologies necessary to create the new Horizon line of powerful WAN communications controllers. The Horizon family consists of products that integrate most of the system blocks needed to implement converged voice/data routers. Our WAN communications controllers span from the value segment GT-96010A, used today in production SOHO routers, to our recently introduced high-performance Horizon family. In general, these products enable data routing between Ethernet and various WAN technologies, such as ISDN, T1/E1, T3/E3, Frame Relay and xDSL technologies.

Our current WAN communication controllers are shown in the table below.

COMMUNICATION CONTROLLERS	DESCRIPTION	PERFORMANCE/ FREQUENCIES	CMOS PROCESS	INTRODUCTION DATE
GT-96010A	Remote Access Coprocessor.	50 MHz	0.35mm	1997
GT-96100A	High performance communication controller.	100 MHz	0.25mm	1st Qtr 2000
GT-96122	High performance channelized communication controller for MIPS-based systems.	100 MHz	0.18mm	1st Qtr 2001
GT-99132	High performance channelized communication controller for PowerPC-based systems.	100 MHz	0.18mm	2nd Qtr 2001

Switching Products. Galileo is considered to be the pioneer and an industry leader in switched Ethernet controllers and processors, in terms of established customers and breadth of product offerings. In 1999, Galileo introduced its third and fourth generation families of switched Ethernet controllers, the latter being the award-winning GalNet 3 family of Layer 3/4/5 switched processors, which expands Galileo's switched technology to the areas of POS and ATM. Our GalNet 3 family delivers a comprehensive solution for networks where it is critical to effectively carry multiple types of media, to guarantee Quality of Service, or QoS, to bill for services and establish service level agreements, to provide redundancy for high reliability, and to effectively bridge to other technologies like POS and ATM. These features specifically address the communication demands of today's systems that allow voice, video and data to move through a single converged network with unprecedented reliability and quality.

Our switching products can be used individually or can be cascaded using our proprietary GalNet protocol to produce scalable, flexible switching systems. We use a modular approach as the foundation of our system level architecture, resulting in highly programmable products that can be easily and flexibly configured by system vendors. Accordingly, customers can cost-effectively and quickly produce a suite of products with a range of price/performance characteristics. We have switching products that work with both fiber-optic and twisted pair copper physical layer devices.

In 1998, with the introduction of the GalNet-II products, Galileo implemented a proprietary chip-to-chip communications channel called "G.Link." G.Link provides much higher communications bandwidth between switch controllers than the PCI bus used in the GalNet family, and facilitates the use of "G.Link Crossbar Switches" to provide switch system expansion, management CPU interfacing, and system stacking, as well as interface to other networking architectures and protocols.

Our current switch products are listed in the table below.

LAYER 2 SWITCHED ETHERNET CONTROLLERS	DESCRIPTION	PERFORMANCE/ FREQUENCIES	CMOS PROCESS	INTRODUCTION DATE
GT-48001A	GalNet family 8-port switched Ethernet controllers.	10Mbps/sec	0.35mm	1996
GT-48002A	GalNet 2-port Fast switched Ethernet controllers.	10/100Mbps/sec	0.35mm	1996
GT-48004A	GalNet 4-port and Fast switched Ethernet controllers.	10/100Mbps/sec	0.35mm	1997
GT-48006A	GalNet 2-port and Fast switched Ethernet controllers without PCI.	10/100Mbps/sec	0.35mm	1998
GT-48207	Galaxy 8-port 10Mbps/sec+2-port 10/100 Mbps/sec unmanaged Fast switched Ethernet controllers.	10+10/100Mbps/sec	0.35mm	1997
GT-48208	Galaxy 8-port 10Mbps/sec+2-port 10/100 Mbps/sec Fast switched Ethernet controllers with advanced management.	10+10/100Mbps/sec	0.35mm	1997
GT-48212	Galaxy 10-port 10Mbps/sec+2-port 10/100 Mbps/sec Fast switched Ethernet controllers with advanced management.	10+10/100Mbps/sec	0.35mm	1997
GT-48310A	GalNet-II 8-port Fast switched Ethernet controller with advanced management.	10/100Mbps/sec	0.35mm	1998
GT-48311A	GalNet-II 8-port Fast switched Ethernet controller with standard management.	10/100Mbps/sec	0.35mm	1998
GT-48312A	GalNet-II low-cost 8-port unmanaged Fast switched Ethernet controller.	10/100Mbps/sec	0.35mm	1998
GT-48313	GalNet-II Standalone 8-port unmanaged Fast switched Ethernet controller.	10/100Mbps/sec	0.35mm	1998
GT-48314	GalNet-II Standalone 8-port Fast switched Ethernet controller.	10/100Mbps/sec	0.35mm	1998
GT-48315	GalNet-II Standalone 5-port Fast switched Ethernet controller.	10/100Mbps/sec	0.35mm	1998
GT-48320A	GalNet-II 1-port Gigabit switched Ethernet controller with advanced management.	10/100/1000Mbps/sec	0.35mm	1998
GT-48322A	GalNet-II 1-port unmanaged Gigabit switched Ethernet controller.	10/100/1000Mbps/sec	0.35mm	1998
GT-48350	GalNet-2+ 8-port Fast switched Ethernet controller with memory and advanced QoS.	10/100Mbps/sec	0.25mm	3rd Qtr 1999
GT-48360	GalNet-2+ 1-port Gigabit switched Ethernet controller with memory and advanced QoS.	10/100/1000Mbps/sec	0.25mm	1st Qtr 2000

LAYER 3 SWITCHED ETHERNET PROCESSORS	DESCRIPTION	PERFORMANCE/ FREQUENCIES	CMOS PROCESS	INTRODUCTION DATE
GT-48510A	GalNet-3 8-port converged voice/video/data network switch processor.	10/100Mbps/sec	0.18mm	4th Qtr 1999
GT-48520	GalNet-3 1-port Gigabit Ethernet converged voice/video/data network switch processor.	10/100/1000Mbps/sec	0.18mm	4th Qtr 1999
GT-48540	GalNet-3 1-port OC-12 POS/ATM converged voice/video/data network switch processor.	10/100/1000Mbps/sec	0.18mm	4th Qtr 1999
GT-48411A	GalNet-3 8-port converged voice/video/data switched Ethernet processor.	10/100Mbps/sec	0.18mm	3rd Qtr 2000
GT-48421	GalNet-3 1-port converged voice/video/data switched Ethernet processor.	10/100/1000Mbps/sec	0.18mm	3rd Qtr 2000
GT-48511A	GalNet-3 8-port converged voice/video/data network switch processor.	10/100Mbps/sec	0.18mm	3rd Qtr 2000
GT-48521	GalNet-3 1-port converged voice/video/data network switch processor.	10/100/1000Mbps/sec	0.18mm	3rd Qtr 2000
G.LINK CROSSBAR SWITCHES				
GT-48300	GalNet-II 4-port G.Link crossbar switch controller with 66 MHz PCI.	2.6 Gbps G.Link	0.35mm	1998
GT-48301	GalNet-II 4-port G.Link crossbar switch controller without PCI.	2.6 Gbps G.Link	0.35mm	1998
GT-48302	GalNet-II 8-port G.Link crossbar switch controller with 66 MHz PCI.	2.6 Gbps G.Link	0.35mm	1998
GT-48302A	GalNet-II 8-port G.Link crossbar switch controller with 66 MHz PCI.	2.9 Gbps G.Link	0.25mm	1998
GT-48303A	GalNet-II 6-port G.Link crossbar switch controller with 66 MHz PCI.	2.9 Gbps G.Link	0.25mm	1998
GT-48304	GalNet-II 12-port G.Link crossbar switch controller with 66 MHz PCI.	3.2 Gbps G.Link	0.18mm	2nd Qtr 2000
GALNET INTERFACE DEVICES				
GT-48330	Low-cost G.Link to CPU bridge device.	90 MHz	0.35mm	3rd Qtr 1999
GT-48331	G.Link to G.Link + bridge device.	90 MHz	0.35mm	3rd Qtr 1999

Wireless. We also believe there is a significant market opportunity addressing the last 100 meters of the infrastructure, commonly called the last mile. Our vision in this market is to provide the integrated circuits that allow end users to be connected to their local area network's database on wireless technology. We believe this is the way for the DSL or cable modem to be deployed cost-effectively to the end user by allowing many users to share the cost of deployment. We also see many other market opportunities and growth for the wireless local area networks. As a result, we are committing resources to the development of wireless local area network products.

CUSTOMERS, SALES AND MARKETING

Our direct sales force targets emerging high growth markets that have high intensity communications processing requirements. Our customers for read channel and preamplifier products are manufacturers of hard disk drives for the enterprise, mobile and desktop markets. Our target customers for our physical layer devices, switches and controllers are leading manufacturers of high speed networking equipment. Prior to fiscal 2001, sales of storage products represented 100% of our net revenues. In fiscal 2001, with the introduction of our first physical layer device for the broadband communications market, sales of storage products represented 85% of

our net revenue with sales of broadband communications products representing 15% of net revenue. A small number of customers have historically accounted for a substantial portion of our revenue. The percentage of our revenue accounted for by our five major customers in fiscal 2001, 2000, 1999 are set forth below.

CUSTOMER -----	2001 ----	2000 ----	1999 ----
Samsung.....	34%	36%	46%
Seagate.....	22	24	43
Fujitsu.....	11	14	2
Toshiba.....	9	10	1
Hitachi.....	8	14	7
	----	----	----
Total.....	84%	98%	99%
	=====	=====	=====

To date, substantially all of our storage product sales have been made through our direct sales force. We also complement and support our direct sales force with manufacturers' representatives for storage products in North America, Europe and Asia. In addition, we have entered into distribution agreements to support our sales and marketing activities in the communications markets. We also use stocking representatives outside of the United States for our communication products. We anticipate that sales through distributors will increase as a percentage of our revenues in future periods. However, we expect a significant percentage of our sales will continue to come from direct sales to key customers. As of March 31, 2001, our sales and marketing organization consisted of 135 employees and 35 manufacturers' representatives.

Our sales are made under purchase orders received between one and four months prior to the scheduled delivery date. These purchase orders can be cancelled without charge if notice is given within an agreed upon period. Because of the scheduling requirements of our foundries, we generally place firm orders for products with our suppliers up to sixteen weeks prior to the anticipated delivery date and typically prior to an order for the product. We generally warrant our products for a 90-day period. To date, we have not experienced material product returns or warranty expense.

Our marketing team works in conjunction with our sales force and is organized around our product applications. Due to the complexity of our products, we introduce new products to major customers with a global tour by a marketing, sales and engineering team. We believe that individual meetings are the most effective and rapid means of communicating the capabilities, benefits and extremely technical specifications of each new product.

We use field application engineers to provide intensive technical support and assistance to existing and potential customers in designing, testing and qualifying systems designs that incorporate our products. We believe that superior field applications engineering support plays a pivotal role in building long-term relationships with customers by improving our customers' time-to-market, maintaining a high level of customer satisfaction and encouraging customers to use our next-generation products. As of March 31, 2001, we had 25 field application engineers.

OUR TECHNOLOGY

We believe that our key technical competitive advantages result from the collection of proprietary technologies that we have developed. Our products are based on the following technologies:

- high bandwidth analog front-end technology;
- advanced communications algorithms;
- Internet Protocol knowledge;
- custom digital signal processors;
- design for advanced CMOS manufacturing processes; and
- reusable building blocks for integrated system-on-chip design.

High Bandwidth Analog Front-End Technology

We have developed significant expertise in mixed-signal circuit design architectures and techniques required to design high performance analog front-ends, which provide the interface between the digital signal processor and the physical transmission media. We have developed this technology for use with advanced CMOS manufacturing processes, which allow us to cost effectively integrate complex digital signal processing functions with other high level system functions on a small silicon chip. Our mixed-signal circuits achieve performance levels that are associated with more expensive, special purpose integrated circuit manufacturing process technologies, such as BiCMOS. For example, our analog front-ends for use in read channel applications achieve conversion rates of up to 1.3 GHz using a 0.18-micron CMOS process. A conversion rate of 1.3 GHz means that the analog to digital converter completes 1.3 billion analog to digital conversion cycles per second. In addition to achieving high performance, our mixed-signal circuits are designed to compensate for variations inherent in current 0.25-, 0.18- and 0.15-micron CMOS manufacturing processes.

Our high bandwidth analog front-end technology can be used in various communications-related applications. We are currently developing experimental mixed-signal technologies for extreme high bandwidth applications, such as physical layer devices for fiber-optic media operating at data rates of up to 3.125 gigabits per second for use in a high-speed shared storage devices, known as storage area networks, or SANs.

Advanced Communications Algorithms

We have also developed complex communications algorithms that are required for broadband communications-related applications. Our communications algorithms perform the signal equalization, data detection and error corrections required to overcome media imperfections such as substandard media, noise, signal level degradation over distance, interference from adjacent lines and signal echo. These communications algorithms enable us to design digital signal processors for use in storage, Fast Ethernet and Gigabit Ethernet applications as well as other possible future applications, such as broadband wireless products.

Our proprietary address recognition algorithms permit the proper identification and handling of incoming Ethernet packets at full-wire speed, while replacing expensive, fast static random access memories, or SRAMs, or content addressable memories, or CAMs, with inexpensive dynamic random access memories, or DRAMs. This algorithm is used in all of our switched Ethernet LAN controllers and in our newer WAN communications controllers. This algorithm enables these products to recognize between 8,000 and 64,000 distinct Ethernet addresses -- depending on the product -- and to manage the traffic for entire network segments.

Internet Protocol Knowledge

Our intimate knowledge in Internet Protocol, or IP, technologies is an important asset in the area of converged networks. After many years of debate as to what technology would be most appropriate to implement new-world converged networks that not only carry data, but also voice and video, IP technologies have been widely selected as the core technologies for such implementations. The result of this is that the worldwide networks that separately carry voice and data today are being re-designed into one unified converged network that uses IP technologies at its core. Our GalNet-3 family is a state-of-the-art set of products that use IP technologies to deliver a comprehensive solution for networks where it is critical to effectively carry multiple types of media, to guarantee Quality of Service, to bill for services and establish service level agreements, to provide redundancy for high reliability, and to effectively bridge to other technologies like POS and ATM. Our IP technology is especially attractive to telecommunications customers, who traditionally have not emphasized the development of this type of technology in-house.

Custom Digital Signal Processors

We target communications-related markets, which require very fast data transfer rates and low power dissipation. To achieve the required performance levels, we implement our signal processing algorithms in custom-designed digital signal processors. Our Fast Ethernet digital signal processors perform several billion operations per second while dissipating less than 100 milliwatts of power. Our fastest read channel digital

signal processors perform over 100 billion operations per second while dissipating less than 1.2 watts of power. Such performance is not readily available using standard programmable digital signal processing solutions. We believe our custom digital signal processors, when combined with our library of digital signal processing circuit building blocks, will enable us to implement application specific digital signal processors that can perform at computational rates of up to one trillion operations per second in very small silicon chips. Small silicon chips result in low power dissipation, small packaging and low overall system cooling requirements.

Design For Advanced CMOS Manufacturing Processes

While it is significantly more difficult to design high performance analog integrated circuits in CMOS, CMOS provides multiple benefits compared to many other processes for manufacturing integrated circuits, including significantly lower manufacturing cost, more predictable migration to smaller process geometries, more cost effective integration of additional functions in a single integrated circuit and greater worldwide foundry capacity. We have successfully combined advanced analog signal processing blocks with high speed digital signal processors in 0.25-, 0.18- and 0.15-micron CMOS manufacturing processes. Based on conversations with our customers, we believe that we have achieved a level of circuit speed performance in CMOS process technologies that has typically only been achieved with more expensive special fabrication techniques, such as BiCMOS.

Reusable Building Blocks For Integrated System-On-Chip Design

We have developed a proprietary set of manufacturing process design rules that we believe are scalable over several generations of manufacturing process geometries. We have also collected a significant library of circuit building blocks that can be reused with minimum modification in successive generations of products and new designs. These design methodologies frequently allow us to shorten time-to-market and reduce the cost for new products and take advantage of the latest CMOS manufacturing processes. We believe that as manufacturing process geometries continue shrinking, our customers will pursue silicon integration strategies.

RESEARCH AND DEVELOPMENT

We believe that our future success depends on our ability to introduce improvements to our existing products and to develop new products that deliver cost effective solutions for both existing and new markets. Our research and development efforts are directed largely to the development of proprietary circuit designs for high bandwidth communications-related applications. We devote a significant portion of our resources to expanding our core technology library with designs that enable high performance, reliable communications over a variety of physical transmission media. We are also focused on incorporating functions currently provided by stand-alone integrated circuits into our products to reduce customers' overall system costs.

We have assembled a core team of engineers who have extensive experience in the areas of mixed-signal circuit design, digital signal processing, CMOS technology and system-level architectures. As of March 31, 2001, we had 465 employees in engineering and process development. We have invested, and expect that we will continue to invest, significant funds for research and development. Our research and development expense was approximately \$35.2 million in fiscal 2001, \$14.5 million in fiscal 2000, and \$5.8 million in fiscal 1999.

MANUFACTURING

We believe our fabless manufacturing approach provides us with the benefits of superior manufacturing capability as well as flexibility to move the manufacture, assembly and test of our products to those vendors that offer the best capability at an attractive price. Our engineers work closely with our foundries and other subcontractors to increase yields, lower manufacturing costs and improve quality.

Integrated Circuit Fabrication

Our integrated circuits are fabricated using widely available CMOS processes, which provide greater flexibility to engage independent foundries to manufacture integrated circuits. By outsourcing manufacturing, we are able to avoid the cost associated with owning and operating our own manufacturing facility. This allows

us to focus our efforts on the design and marketing of our products. We currently outsource substantially all of our integrated circuit manufacturing to Taiwan Semiconductor Manufacturing Company. We work closely with Taiwan Semiconductor to forecast on a monthly basis our manufacturing capacity requirements. Our integrated circuits are currently fabricated in 0.60-, 0.50-, 0.35-, 0.25-, 0.18- and 0.15-micron manufacturing processes. Because finer manufacturing processes lead to enhanced performance, smaller silicon chip size and lower power requirements, we continually evaluate the benefits and feasibility of migrating to smaller geometry process technology in order to reduce cost and improve performance.

Assembly And Test

Some of our products are shipped from our third-party foundries to third-party assembly and test facilities where they are assembled into finished integrated circuit packages and tested. We outsource all product packaging and testing requirements for these products to several assembly and test subcontractors, including ST Assembly Test Services in Singapore, Siliconware Precision Industries in Taiwan and Amkor Technology in the Philippines. The remainder of our products are manufactured on a turnkey basis, in which we purchase fully assembled and tested products from our foundries. Our products are designed to use low cost, standard packages and to be tested with widely available test equipment. In addition, we specifically design our integrated circuits for ease of testability, further reducing manufacturing costs.

Quality Assurance

We build quality into our products starting with the design and development process. Our designs are subjected to extensive circuit simulation under extreme conditions of temperature, voltage and processing before being committed to manufacture. We pre-qualify each of our subcontractors and conduct regular in-depth quality audits. We closely monitor foundry production to ensure consistent overall quality, reliability and yield levels. All of our independent foundries and assembly and test subcontractors have been awarded ISO 9000 certification.

INTELLECTUAL PROPERTY

Our future revenue growth and overall success depend in large part on our ability to protect our intellectual property. We rely on a combination of patents, copyrights, trademarks, trade secret laws, contractual provisions and licenses to protect our intellectual property. We also enter into confidentiality agreements with our employees, consultants, suppliers and customers and seek to control access to, and distribution of, our documentation and other proprietary information. Despite these precautions, it may be possible for a third-party to copy or otherwise obtain and use our products and technology without authorization, develop similar technology independently or design around our patents.

As of March 31, 2001, we have been issued 19 United States patents on various aspects of our technology, with expiration dates ranging from 2015 to 2018, and we have filed a number of additional United States patent applications. However, there can be no assurance that patents will ever be issued for these applications. Furthermore, it is possible that our patents may be invalidated, circumvented, challenged or licensed to others.

In addition, the laws of some foreign countries in which our products are or may be developed, manufactured or sold, including various countries in Asia, may not protect our products or proprietary information to the same extent as do the laws of the United States and thus make the possibility of piracy of our technology and products more likely in these countries.

We have expended and will continue to expend considerable resources in establishing a patent position designed to protect our intellectual property. While our ability to compete is enhanced by our ability to protect our intellectual property, we believe that, in view of the rapid pace of technological change, the combination of the technical experience and innovative skills of our employees may be as important to our business as the legal protection of our patents and other proprietary information.

From time to time, we may desire or be required to renew or to obtain licenses from third parties in order to further develop and effectively market commercially viable products. We cannot be sure that any necessary licenses will be available or will be available on commercially reasonable terms.

The integrated circuit industry is characterized by vigorous pursuit and protection of intellectual property rights, which have resulted in significant and often time consuming and expensive litigation. Although there is currently no pending or threatened intellectual property litigation filed against us, there can be no assurance that third parties will not assert claims of infringement against us. Such claims, even those without merit, could be time consuming and result in costly litigation. We may not prevail in any such litigation or may not be able to license any valid and infringed patents from third parties on commercially reasonable terms. Litigation, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time. Any such litigation could harm our business and financial results.

COMPETITION

The markets for storage and broadband communications devices are intensely competitive and characterized by rapid technological change, evolving standards, short product life cycles and pricing pressures imposed by high volume customers. We expect competition to intensify as current competitors expand their product offerings and new competitors enter the market.

We believe that our ability to compete successfully in the rapidly evolving markets for our products depends on a number of factors, including:

- performance, features, quality and price of our products;
- the timing and success of new product introductions by us, our customers and our competitors;
- the emergence of new industry standards;
- our ability to obtain adequate foundry capacity;
- the number and nature of our competitors in a given market; and
- general market and economic conditions.

Our current products face competition from a number of sources. We believe our principal competitors in the read channel market are Lucent Technologies and STMicroelectronics. Our primary competitors in the preamplifier market are Texas Instruments and Lucent Technologies. In the broadband communications market for physical layer devices, we compete with Broadcom, Intel, Texas Instruments and National Semiconductor. In the market for system controllers, our competitors include NEC with respect to the MIPS microprocessor, and Motorola and IBM with respect to the PowerPC microprocessor. Our switched Ethernet LAN controllers compete with products from companies such as Broadcom. Our WAN communications controllers compete directly with products from companies such as Motorola, Siemens, and PMC-Sierra. In addition, we expect increased competition in the future from other emerging and established companies.

Many of our current competitors and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than us. As a result, they may be able to respond more quickly to changing customer demands or to devote greater resources to the development, promotion and sale of their products than we can. Our current or future competitors may develop and introduce new products that will be priced lower, provide superior performance or achieve greater market acceptance than our products. In addition, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so.

Furthermore, current or potential competitors have established or may establish, financial and strategic relationships among themselves or with existing or potential customers or other third parties to increase the ability of their products to address the needs of our prospective customers. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share, which would harm our business.

In addition, many of our customers and potential customers have substantial technological capabilities and financial resources. Some customers have already developed, or in the future may develop, technologies that will compete directly with our products. We may also face competition from suppliers of products based on new or emerging technologies.

Historically, average unit selling prices in the integrated circuit industry in general, and for our products in particular, have decreased over the life of a particular product. We expect that the average unit selling prices of our products will continue to be subject to significant pricing pressures. In order to offset expected declines in the average unit selling prices of our products, we will likely need to reduce the cost of our products. We intend to accomplish this by implementing design changes that lower the cost of manufacturing, assembly and testing by negotiating reduced charges by our foundries as and if volumes increase and by successfully managing our manufacturing, assembly and testing relationships. Because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities. If we fail to introduce lower cost versions of our products in a timely manner or to successfully manage our manufacturing, assembly and testing relationships, our business would be harmed.

MANAGEMENT

Set forth below is certain information regarding the executive officers and some of the other officers of Marvell and its subsidiaries, together with the positions currently held by those persons, as of April 20, 2001.

NAME OF OFFICER -----	AGE ---	POSITIONS HELD WITH MARVELL AND ITS SUBSIDIARIES -----
Sehat Sutardja.....	39	Co-Chairman of the Board, President and Chief Executive Officer of Marvell Technology Group Ltd.; President, Chief Executive Officer and Director of Marvell Semiconductor, Inc.
Weili Dai.....	39	Executive Vice President, Secretary and Director of Marvell Technology Group Ltd.; Executive Vice President of the Communications Business Group and Director of Marvell Semiconductor, Inc.
Pantas Sutardja.....	38	Vice President and Director of Marvell Technology Group Ltd.; Chief Technology Officer and Director of Marvell Semiconductor, Inc.
George Hervey.....	54	Vice President of Finance and Chief Financial Officer of Marvell Technology Group Ltd.; Vice President of Finance and Chief Financial Officer of Marvell Semiconductor, Inc.
Avigdor Willenz.....	44	Director of Marvell Technology Group Ltd.; Executive Vice President of the Communications Business Group of Galileo Technology Ltd.
Manuel Alba.....	45	Director of Marvell Technology Group Ltd.; Vice President of Strategy and Business Development of the Communications Business Group of Galileo Technology, Inc.
Alan J. Armstrong.....	37	Vice President of Marketing of the Storage Business Group of Marvell Semiconductor, Inc.
Bill Brennan.....	37	Vice President of Sales of the Storage Business Group of Marvell Semiconductor, Inc.
Gani Jusuf.....	38	Vice President of Product Development of the Communications Business Group of Marvell Semiconductor, Inc.
Dave Matteucci.....	48	Vice President and General Manager, Internetworking Products Business Unit of the Communications Business Group of Galileo Technology, Inc.
Nersi Nazari.....	42	Vice President of Signal Processing Technology of Marvell Semiconductor, Inc.
George Papa.....	52	Vice President of Worldwide Sales of the Communications Business Group of Marvell Semiconductor, Inc.
Ed Rodriguez.....	43	Vice President of Operations of Galileo Technology, Inc.
Gary Smerdon.....	39	Vice President of Marketing, Switching Products Business Unit of the Communications Business Group of Galileo Technology, Inc.
Moshe Steiner.....	42	Vice President and General Manager, Switching Products Business Unit of the Communications Business Group of Galileo Technology Ltd.
Lawrence Tse.....	42	Vice President of Engineering, Wireless of Marvell Semiconductor, Inc.
Lee Chung Yiu.....	45	Vice President of Engineering, Core Technology of Marvell Semiconductor, Inc.

Set forth below is certain information concerning the business experience during the past five years of each of the individuals named above.

Sehat Sutardja is a co-founder of Marvell. Dr. S. Sutardja has served as its President since inception and as its Co-Chairman of the Board and Chief Executive Officer since August 1995. In addition, he has served as President, Chief Executive Officer and a Director of Marvell Semiconductor, Inc. since its inception. From 1989 until 1995, Dr. Sutardja served as a manager and principal project engineer at 8X8 Inc., a designer and

manufacturer of digital communications products. Dr. Sutardja received his Master of Science and Ph.D. degrees in Electrical Engineering and Computer Science from the University of California at Berkeley. Dr. Sutardja is the husband of Weili Dai and the brother of Dr. Pantas Sutardja.

Weili Dai is a co-founder of Marvell. Ms. Dai has served as its Vice President and one of its directors since inception and its Secretary since June 2000. Ms. Dai was promoted from Vice President to Executive Vice President in 1996, which position she currently holds. Ms. Dai has also served as Executive Vice President and a Director of Marvell Semiconductor, Inc. since its inception. Ms. Dai also holds the position of Executive Vice President of the Communications Business Group of Marvell Semiconductor, Inc. effective as of April 2001. She is also responsible for the human resources functions. Ms. Dai holds a Bachelor of Science degree in Computer Science from the University of California at Berkeley. Ms. Dai is the wife of Dr. Sehat Sutardja.

Pantas Sutardja is a co-founder of Marvell. Dr. P. Sutardja has served as its Vice President and one of its directors since inception, and as Vice President of Engineering for Marvell Semiconductor, Inc. from its inception until 1999, when he was appointed Chief Technology Officer. Dr. Sutardja has also been a Director of Marvell Semiconductor, Inc. from inception. Dr. Sutardja holds Bachelor of Science, Master of Science and Ph.D. degrees in Electrical Engineering and Computer Science from the University of California at Berkeley. Dr. Sutardja is the brother of Dr. Sehat Sutardja.

George Hervey joined Marvell in April 2000 as its Vice President of Finance and Chief Financial Officer, and serves in a similar capacity for Marvell Semiconductor, Inc. From March 1997 to April 2000, Mr. Hervey served as Senior Vice President, Chief Financial Officer and Secretary for Galileo Technology Ltd., which combined with Marvell in January 2001. From June 1992 to February 1997, Mr. Hervey was Senior Vice President of Finance and Chief Financial Officer of S3 Incorporated, a designer and manufacturer of graphics and video accelerators for personal computers and related peripheral products. Mr. Hervey holds a Bachelor of Science degree in Business Administration from the University of Rhode Island.

Avigdor Willenz joined Marvell in January 2001, upon the consummation of the combination of Galileo Technology Ltd. with Marvell, as one of its directors and as Executive Vice President of the Communications Business Group of Galileo Technology Ltd. Mr. Willenz was the founder of Galileo Technology Ltd., and from its inception in November 1992 until January 2001, Mr. Willenz served as its Chairman of the Board and Chief Executive Officer. From August 1988 until February 1993, Mr. Willenz was Corporate Product Definition Manager/Chief Engineer for Integrated Device Technology (IDT), which develops semiconductor devices for data networking and telecommunications equipment. Mr. Willenz serves as a director for Radware Ltd. Mr. Willenz holds a Bachelor of Science degree in Electrical Engineering from the Technion in Israel.

Manuel Alba joined Marvell in January 2001, upon the consummation of the combination of Galileo Technology Ltd. with Marvell, as one of its directors and as Vice President of Strategy and Business Development of the Communications Business Group of Galileo Technology, Inc., a direct subsidiary of Galileo Technology Ltd. From April 1994 until the combination of Galileo Technology Ltd. with Marvell, Mr. Alba served as a director and the President of Galileo Technology Ltd. and as President of Galileo Technology, Inc. Mr. Alba holds a Bachelor of Science degree in Electrical Engineering from the National Polytechnic Institute in Mexico City, a Master of Science degree in Electrical Engineering from the University of Southern California and a Master of Business Administration degree from the University of Santa Clara.

Alan J. Armstrong has served as Vice President of Marketing of the Storage Business Group of Marvell Semiconductor, Inc. since June 1999. From 1992 until 1999, Dr. Armstrong held various positions at Cirrus Logic Inc., a designer and manufacturer of analog and mixed-signal circuits, most recently as Director of Product Planning and Applications for Data Storage Products. Dr. Armstrong holds a Bachelor of Science degree in Electrical Engineering from San Diego State University and Master of Science and Ph.D. degrees in Electrical Engineering from the University of California, San Diego.

Bill Brennan has served as Vice President of Sales of the Storage Business Group of Marvell Semiconductor, Inc. since July 2000. From 1993 until 2000, Mr. Brennan served as Vice President for Exis,

Inc., which specializes in account management for semiconductor companies. From 1986 to 1993, Mr. Brennan held various sales and marketing positions at Texas Instruments, Inc., including Sales Manager for the hard disk drive segment. Mr. Brennan holds a Bachelor of Science degree in Electrical Engineering from the University of Colorado.

Gani Jusuf has served as Vice President of Product Development of the Communications Business Group of Marvell Semiconductor, Inc., since February 2000. From 1998 to February 2000, Dr. Jusuf was a Research and Development Manager for Agilent Technologies, Inc., a subsidiary of Hewlett-Packard Company, which develops test measurement and monitoring products and devices. From 1995 to 1998, Dr. Jusuf served as Director of Engineering for Marvell Semiconductor, Inc., where he was responsible for product definition and development. Dr. Jusuf holds a Bachelor of Science, Master of Science and Ph.D. degrees in Electrical Engineering and Computer Science from the University of California at Berkeley.

David Matteucci joined Marvell in January 2001 as the Vice President and General Manager of the Internetworking Products Business Unit of the Communications Business Group of Galileo Technology, Inc., upon consummation of the combination of Galileo Technology Ltd. with Marvell. From March 2000 until the combination of Galileo Technology Ltd. with Marvell, Mr. Matteucci served as Vice President and General Manager, Internetworking Products Group for Galileo Technology Ltd. From 1976 to March 2000, Mr. Matteucci held a number of positions with National Semiconductor Corporation, most recently as Director of Information Appliance Products. Mr. Matteucci holds a Bachelor of Science degree in Electrical Engineering from the University of California at Berkeley and a Master of Business Administration degree from Santa Clara University.

Nersi Nazari has served as Vice President of Signal Processing Technology for Marvell Semiconductor, Inc. since October 1997. From 1994 until 1997, Dr. Nazari served as Chief Technologist at GEC Plessey Semiconductors Ltd., a designer and manufacturer of integrated circuits, including data storage and data communications products. Dr. Nazari holds Bachelor of Science degrees in Electrical Engineering and Mathematics from Southern Illinois University, a Master of Science degree in Electrical Engineering from the University of Missouri, and a Ph.D. in Electrical Engineering from the University of Colorado.

George Papa has served as Vice President of Worldwide Sales of the Communications Business Group of Marvell Semiconductor, Inc. since February 2000. From 1997 until 2000, Mr. Papa served as Vice President of Worldwide Sales for Level One Communications, Inc., a subsidiary of Intel Corporation. From 1991 to 1997, Mr. Papa served as Vice President of North American Sales for Siemens Corporation. Mr. Papa holds a Bachelor of Science degree in Electrical Engineering from Northeastern University.

Ed Rodriguez joined Marvell in January 2001 as Senior Vice President and Chief Operating Officer of Galileo Technology, Inc., and in April 2001 was promoted to Vice President of Operations of Galileo Technology, Inc. From May 1999 until the combination of Galileo Technology Ltd. with Marvell in January 2001, Mr. Rodriguez served as Senior Vice President and Chief Operating Officer of Galileo Technology, Inc. From March 1998 to May 1999, Mr. Rodriguez was Vice President and General Manager of the Datacom Division of Cypress Semiconductor Corporation. Prior to working at Cypress Semiconductor Corporation, Mr. Rodriguez spent 17 years at National Semiconductor Corporation, most recently as Vice President and General Manager of its Networking Products Division. Mr. Rodriguez holds Bachelor of Science and Master of Science degrees in Electrical Engineering from the University of Miami.

Gary Smerdon joined Marvell in January 2001 as the Vice President of Marketing of the Switching Products Business Unit of the Communications Business Group of Galileo Technology, Inc. From September 2000 until the combination of Galileo Technology Ltd. with Marvell in January 2001, Mr. Smerdon served as Vice President of Marketing, Switching Products Group of Galileo Technology, Inc. From May 1999 to August 2000, Mr. Smerdon was Vice President of Sales for RealChip Communications, Inc. a communications semiconductor startup. Prior to RealChip, Mr. Smerdon spent 14 years at Advanced Micro Devices, Inc. where he held marketing and sales positions, most recently as Director of Marketing for the Networking Products Division. Mr. Smerdon holds a Bachelor of Science degree in Electrical Engineering from Duke University.

Moshe Steiner joined Marvell in January 2001 as the Vice President and General Manager of the Switching Products Business Unit of the Communications Business Group of Galileo Technology Ltd. From October 1999 until the combination of Galileo Technology Ltd. with Marvell in January 2001, Mr. Steiner served as Vice President and General Manager, Switching Products Group of Galileo Technology Ltd., and from February 1998 to October 1999, he served as Local Area Network Products Director of Galileo Technology Ltd. From February 1996 to January 1998, Mr. Steiner was Vice President of Technologies at Zapex Technologies, Inc., a Japanese-American VLSI company that developed solutions for MPEG-2 digital video compression applications. Before Zapex, Mr. Steiner worked for Intel Israel for more than 10 years, most recently leading the MMX cluster development of the first Pentium-MMX CPU. Mr. Steiner holds a Bachelor of Science degree in Civil Engineering and a Master of Business Administration degree from the Technion in Israel.

Lawrence Tse has served as Vice President of Engineering, Wireless, of Marvell Semiconductor, Inc. since June 2000. From 1998 to 2000, Mr. Tse served as the Vice President of Engineering for Volterra Semiconductor Corporation, a designer and manufacturer of power management products. From 1991 until 1998, he held various positions at Chrontel, Inc., a designer and manufacturer of mixed-signal visual communication products, most recently as Vice President of Engineering. Mr. Tse holds a Bachelor of Engineering degree in Electrical Engineering from McMaster University, Canada, and a Master of Science degree in Electrical Engineering from the University of California at Berkeley.

Lee Chung Yiu has served as Vice President of Engineering, Core Technology of Marvell Semiconductor, Inc. since May 1999. From 1995 until 1997, Dr. Yiu served as the Director of Engineering for SEEQ Technology Inc., a supplier of Ethernet data communications products for networking applications. From 1997 until 1999, Dr. Yiu was the Vice President of Engineering for Newave Semiconductor Corporation, a privately held company developing integrated circuits for the telecommunications market. Dr. Yiu holds a Bachelor of Science degree in Electrical Engineering from National Taiwan University and Master of Science and Ph.D. degrees in Electrical Engineering from the University of California at Berkeley.

EMPLOYEES

As of March 31, 2001, we had a total of 753 employees, of which 465 were in research and development, 135 in sales and marketing, 62 in operations and 91 in general and administration. Our employees are not represented by any collective bargaining agreements, and we have not experienced any work stoppage. We consider our relations with our employees to be good.

ITEM 2. PROPERTIES.

Our primary facilities, housing research and design functions as well as elements of sales, marketing and administration, are located in Sunnyvale, California. These facilities consist of approximately 97,000 square feet with lease terms expiring through June 2005. In addition to these properties, we lease approximately 41,000 square feet in San Jose, California for sales, administration, and operations, approximately 33,000 square feet in Moshav Manof, Israel for research and design, and approximately 13,000 square feet in Singapore for operations, sales, marketing and administration.

We lease additional space in Israel, Taiwan, Japan, the United Kingdom and the United States which are occupied by some of our sales offices, design centers and field application engineers. Based upon our estimates of future hiring, we believe that our current facilities will be adequate to meet our requirements through fiscal 2002.

ITEM 3. LEGAL PROCEEDINGS.

We are party to claims and litigation proceedings arising in the normal course of business. Although the legal responsibility and financial impact with respect to such claims and litigation cannot currently be ascertained, we do not believe that these other matters will result in our payment of monetary damages, net of any applicable insurance proceeds, that, in the aggregate, would be material in relation to our consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At a special general meeting of shareholders held on January 18, 2001, our shareholders approved:

- the merger of Galileo Technology Ltd., a corporation formed under the laws of the State of Israel, into our subsidiary, so that Galileo became our wholly-owned subsidiary;
- the issuance of up to 31,564,708 shares of our common stock to Galileo shareholders in connection with the acquisition; and
- our assumption and adoption of the stock option plans of Galileo.

The transaction with Galileo Technology Ltd. was approved by 70,411,840 shares, with 98,127 shares voting against the transaction, 3,829 shares abstaining and 0 broker non-votes.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

MARKET INFORMATION

Our shares of common stock are listed on the Nasdaq National Market under the symbol "MRVL." Our common stock began trading on June 27, 2000, upon completion of our initial public offering. The following table shows, for the periods indicated, the high and low intra-day sale prices for our common stock on the Nasdaq National Market.

2001 FISCAL QUARTER -----	HIGH -----	LOW -----
First Quarter.....	n/a	n/a
Second Quarter.....	\$ 70.50	\$42.25
Third Quarter.....	\$109.75	\$41.63
Fourth Quarter.....	\$ 57.44	\$15.38

As of April 20, 2001, the approximate number of record holders of our common stock was 339.

DIVIDENDS

We have never declared or paid a cash dividend on our common stock and do not anticipate paying any cash dividends in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

From January 30, 2000 through January 27, 2001, we issued and sold the following unregistered securities:

- We issued an aggregate of 4,008,888 shares of common stock between February 2000 and June 2000 to our employees and directors upon exercise of stock options for aggregate consideration of approximately \$3,367,000 in cash. The exercise prices for these options ranged from \$0.03 to \$15.00 per share.
- We issued an aggregate of 91,355 shares of Series D preferred stock at \$4.33 per share in May and June 2000 pursuant to the exercise of warrants for aggregate consideration of approximately \$400,000 in cash. All shares of our Series D preferred stock automatically converted, on a four-for-one basis, into shares of common stock upon the consummation of our initial public offering in June 2000.
- We issued an aggregate of 172,947 shares of common stock in December 2000 pursuant to the exercise of warrants to purchase 45,000 shares of Series D preferred stock at \$4.33 per share which were converted to warrants to purchase 180,000 shares of common stock at \$1.0825 per share upon consummation of our initial public offering in June 2000. These warrants were exercised on a net basis, and the warrant holder surrendered warrants to purchase 7,053 shares of common stock at \$1.0825 per share in consideration for the 172,947 shares issued upon exercise.
- We issued an aggregate of 56,742 shares of common stock in December 2000 pursuant to the exercise of warrants to purchase 60,000 shares of common stock at \$1.50 per share. These warrants were exercised on a net basis, and the warrant holder surrendered warrants to purchase 3,258 shares of common stock at \$1.50 per share in consideration for the 56,742 shares issued upon exercise.

The sales and issuances of securities listed above were deemed to be exempt from registration under Regulation D under Section 4(2) of the Securities Act, as transactions not involving a public offering, or by virtue of Rule 701 under the Securities Act, as transactions pursuant to compensatory benefit plans and contracts relating to compensation. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

USE OF PROCEEDS

Our Registration Statement on Form S-1 (Registration No. 333-33086) under the Securities Act of 1933, as amended, relating to our initial public offering of our common stock became effective on June 26, 2000. A total of 6,900,000 shares of our common stock were registered. All shares were sold by the company, resulting in aggregate gross proceeds of \$103.5 million. The managing underwriters were Goldman, Sachs & Co., Lehman Brothers and J.P. Morgan & Co. The offering commenced and was completed on June 27, 2000, at a price to the public of \$15.00 per share. The initial public offering resulted in net proceeds to us of \$94.0 million, after deducting underwriting commissions of \$7.2 million and offering expenses of \$2.3 million, which were paid to unaffiliated persons. As of January 31, 2001, these proceeds were invested in money market funds.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The following selected consolidated financial data should be read in conjunction with "Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8 -- Financial Statements and Supplementary Data" contained elsewhere in this Form 10-K.

	YEARS ENDED JANUARY 31,				
	2001	2000	1999	1998	1997
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)					
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net revenue.....	\$ 143,894	\$81,375	\$21,253	\$ 625	\$ 190
Costs and expenses:					
Cost of goods sold(1).....	67,047	33,773	10,103	312	--
Research and development(2).....	35,152	14,452	5,837	5,018	1,350
Selling and marketing(3).....	21,686	10,436	4,631	1,671	618
General and administrative(4).....	6,185	3,443	1,190	1,028	468
Amortization of stock-based compensation.....	8,259	2,175	42	--	--
Amortization of goodwill and acquired intangible assets.....	8,031	--	--	--	--
Acquired in-process research and development(5).....	234,874	--	--	--	--
Total costs and expenses.....	381,234	64,279	21,803	8,029	2,436
Operating income (loss).....	(237,340)	17,096	(550)	(7,404)	(2,246)
Interest and other income, net.....	4,559	330	74	6	94
Income (loss) before income taxes.....	(232,781)	17,426	(476)	(7,398)	(2,152)
Provision for income taxes.....	2,339	4,356	483	46	1
Net income (loss).....	\$(235,120)	\$13,070	\$ (959)	\$(7,444)	\$(2,153)
Basic net income (loss) per share.....	\$ (3.55)	\$ 0.32	\$ (0.03)	\$ (0.24)	\$ (0.08)
Diluted net income (loss) per share.....	\$ (3.55)	\$ 0.16	\$ (0.03)	\$ (0.24)	\$ (0.08)
Weighted average shares -- basic.....	66,259	41,094	32,470	30,436	25,593
Weighted average shares -- diluted.....	66,259	81,545	32,470	30,436	25,593

	AS OF JANUARY 31,				
	2001	2000	1999	1998	1997
(IN THOUSANDS)					
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments.....	\$ 224,063	\$16,600	\$5,515	\$3,307	\$4,763
Working capital.....	215,787	22,611	6,865	2,682	4,426
Total assets.....	2,447,486	46,500	16,563	5,291	5,267
Notes payable and capital lease obligations, less current portion.....	--	36	897	21	--
Mandatory redeemable convertible preferred stock.....	--	22,353	17,524	13,465	7,176
Total shareholders' equity (deficit).....	2,356,666	7,940	(9,350)	(9,578)	(2,289)

(1) Excludes amortization of stock-based compensation of \$416, \$11 and \$0 in fiscal 2001, 2000 and 1999.

(2) Excludes amortization of stock-based compensation of \$3,367, \$1,373 and \$27 in fiscal 2001, 2000 and 1999.

(3) Excludes amortization of stock-based compensation of \$3,997, \$211 and \$4 in fiscal 2001, 2000 and 1999.

(4) Excludes amortization of stock-based compensation of \$479, \$580 and \$11 in fiscal 2001, 2000 and 1999.

(5) During fiscal 2001, we recorded an in-process research and development charge of \$234.9 million in connection with our acquisition of Galileo Technology Ltd.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These forward-looking statements involve a number of risks and uncertainties, including those identified in the section of this Form 10-K titled "Additional Factors that May Affect Future Results" beginning at page 38, which could cause actual results to differ from those discussed in the forward-looking statements. Forward-looking statements in this Form 10-K are identified by words such as "believes," "expects," "anticipates," "intends," "estimates," "should," "will," "may" and similar expressions. In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements that could occur after the filing of this Form 10-K. You are urged to review carefully our various disclosures in this Form 10-K and our other reports filed with the SEC that attempt to advise you of the risks and factors that may affect our business.

During fiscal 2000, we changed our fiscal year-end to the Saturday nearest January 31. In fiscal 1999, our fiscal year ended on January 31. For presentation purposes, we refer to January 31 as our fiscal year-end for all periods.

OVERVIEW

We design, develop and market integrated circuits using proprietary communications mixed-signal and digital signal processing technology for communications-related markets. We were founded in 1995, and our business has grown rapidly since inception. 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.

We began shipping our first generation read channel products in volume in June 1998 and began volume shipments of preamplifier products in June 1999. In December 1999, we introduced our first generation product for Fast Ethernet applications, which began shipping and generating revenue in March 2000. In May 2000, we introduced our Alaska(TM) Gigabit Ethernet over copper transceiver, which began shipping and generating revenue in July 2000. In September 2000, we introduced our first System-On-Chip, or SOC, products which began shipping and generating revenue in October 2000.

The storage market is highly competitive and is dominated by a small number of large companies, including Seagate, Quantum, Western Digital, Samsung, Hitachi, Fujitsu and Toshiba. These companies have historically experienced marginal profit levels from sales of their storage products and are under enormous pricing pressure from their customers, which they typically pass through to their integrated circuit suppliers.

Historically, a relatively small number of customers have accounted for a significant portion of our revenue. Sales to our three largest customers accounted for 67% of revenue for the year ended January 31, 2001, and we expect to continue to experience significant customer concentration from direct sales to key customers. In addition, a significant portion of our products are sold to customers outside of the United States. Sales to customers in Asia accounted for 92% of revenue for the year ended January 31, 2001. Because many manufacturers and subcontractors of storage and communications devices are located in Asia, we expect that a majority of our revenue will continue to be represented by sales to customers in that region. All of our sales to date have been denominated in United States dollars.

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 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 would be adversely affected.

On January 21, 2001, we completed our acquisition of Galileo Technology Ltd. in a stock-for-stock transaction. Galileo develops high-performance communications internetworking and switching products for the broadband communications market. The acquisition has been accounted for using the purchase method of accounting, and the operating results of Galileo have been included in our consolidated financial statements from the date of acquisition. The total purchase price for this acquisition was approximately \$2.5 billion.

RESULTS OF OPERATIONS

The following table sets forth, for the years ended January 31, 2001, 2000 and 1999, information derived from our consolidated statements of operations expressed as a percentage of net revenue.

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Net revenue.....	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of goods sold.....	46.6	41.5	47.5
Research and development.....	24.4	17.8	27.5
Selling and marketing.....	15.1	12.8	21.8
General and administrative.....	4.3	4.2	5.6
Amortization of stock-based compensation.....	5.7	2.7	0.2
Amortization of goodwill and acquired intangible assets.....	5.6	--	--
Acquired in-process research and development.....	163.2	--	--
Total costs and expenses.....	264.9	79.0	102.6
Operating income (loss).....	(164.9)	21.0	(2.6)
Interest and other income, net.....	3.1	0.4	0.3
Income (loss) before income taxes.....	(161.8)	21.4	(2.3)
Provision for income taxes.....	1.6	5.4	2.3
Net income (loss).....	(163.4)%	16.0%	(4.6)%

YEARS ENDED JANUARY 31, 2001 AND 2000

Net Revenue. We recognize revenue upon shipment of product to our customers, net of accruals for estimated sales returns and allowances. In March 2000, we entered into our first distribution agreement to support our sales and marketing activities in the communications market. We generally grant our distributors rights of return and price protection. We defer recognition of product revenue on sales made through distributors when such sales are subject to rights of return and price protection until the distributor sells the product to a customer.

Net revenue increased to \$143.9 million in fiscal 2001 from \$81.4 million in fiscal 2000. The increase in revenue primarily reflects increased volume shipments of storage products and commencement of volume shipments of communications products, which totaled \$21.0 million in fiscal 2001. Although average selling prices for storage products declined by approximately 8.8% from fiscal 2000 to fiscal 2001, the volume of units shipped increased to approximately 41.1 million units in 2001 from approximately 24.9 million units in 2000. The decrease in average selling prices was primarily due to a product mix change caused by an increase in preamplifier products shipped as a percentage of total storage products shipped, which have a lower average selling price than our read channel products, and to a lesser extent, a decrease in average selling prices for our read channel products. Sales of read channel products increased to \$109.1 million in fiscal 2001 from \$76.0 million in fiscal 2000. Sales of preamplifier products increased to \$13.8 million in fiscal 2001 from \$5.4 million in fiscal 2000. We expect that revenue from sales of storage products for fiscal 2002 will be relatively consistent with the level of sales of storage products we reported in fiscal 2001. However, we expect significant growth in revenue from sales of communications products, in part due to our acquisition of Galileo.

Cost of Goods Sold. Cost of goods sold consists primarily of the costs of manufacturing, assembly and test of integrated circuit devices and related overhead costs, and compensation and associated costs related to manufacturing support, logistics and quality assurance personnel. Gross profit, which equals net revenue less cost of goods sold, as a percentage of net revenue, decreased to 53.4% in fiscal 2001 from 58.5% in fiscal 2000. The decrease in gross profit was due to a decrease in average selling prices for storage products, an increase in average cost per unit for read channel products due to a product mix change, and an increase in preamplifier product revenues as a percentage of total revenues, which contribute a lower gross profit than both read channel and communications products. Our gross profits may decrease as a percentage of revenue in future periods due to changes in the mix of products sold and increased pricing pressures from our customers as well as from our competitors.

Research and Development. Research and development expense consists primarily of compensation and associated costs relating to development personnel, prototype costs, depreciation expenses and allocated occupancy costs for these operations. Research and development expense was \$35.2 million, or 24.4% of net revenue, in fiscal 2001 and \$14.5 million, or 17.8% of net revenue, in fiscal 2000. The increase in research and development expense was primarily due to increases of approximately \$8.4 million for the hiring of additional development personnel and a resulting increase in salary and related costs, approximately \$5.7 million of increased spending for prototype and related product tape-out costs for new product initiatives, approximately \$726,000 for increased depreciation expense due to significant purchases of computer aided design software tools, and approximately \$2.8 million for increased facility and other allocable expenses related to our expanding operations. We expect that research and development expense will increase in absolute dollars in future periods as we develop new products and increase our number of research and development personnel.

Selling and Marketing. Selling and marketing expense consists primarily of compensation and associated costs relating to selling and marketing personnel, sales commissions to independent sales representatives, promotional and other marketing expenses, and allocated occupancy costs for these operations. Selling and marketing expense was \$21.7 million, or 15.1% of net revenue, in fiscal 2001 and \$10.4 million, or 12.8% of net revenue, in fiscal 2000. The increase in selling and marketing expense was primarily due to the hiring of additional personnel and a resulting increase in salary and related costs of approximately \$5.1 million, increased sales commissions of approximately \$1.6 million, increased costs of approximately \$1.6 million related to expanding our sales and marketing activities as we broadened our communications customer and product base, and increased facility and other allocable expenses of approximately \$1.3 million related to our expanding operations. We expect that selling and marketing expense will increase in absolute dollars in future periods as we hire additional personnel, expand our sales and marketing efforts, particularly in communications, and pay increased sales commissions.

General and Administrative. General and administrative expense consists primarily of compensation and associated costs relating to general and administrative personnel, professional fees and allocated occupancy costs for these operations. General and administrative expense was \$6.2 million, or 4.3% of net revenue, in fiscal 2001 and \$3.4 million, or 4.2% of net revenue, in fiscal 2000. The increase in general and administrative expense was primarily due to the hiring of additional personnel and a resulting increase in salary and related costs of approximately \$2.2 million. We expect that general and administrative expenses will increase in absolute dollars in future periods as we hire additional personnel, incur consulting costs for post implementation support for our new enterprise resource planning system and incur legal and other costs associated with being a public company and expanding our operations.

Amortization of Stock-Based Compensation. In connection with the grant of stock options to our employees and directors, we recorded deferred stock-based compensation of approximately \$14.1 million through fiscal 2000 and recorded an additional \$25.6 million in fiscal 2001, \$19.8 million of which related to stock options assumed in connection with our acquisition of Galileo on January 21, 2001. Deferred stock-based compensation is being amortized under an accelerated method over the remaining option vesting period. Amortization of stock-based compensation expense was \$8.3 million, or 5.7% of net revenue, in fiscal 2001 and \$2.2 million, or 2.7% of net revenue, in fiscal 2000. The increase in amortization expense was due to the additional amounts of deferred stock-based compensation being recorded in fiscal 2001 and 2000.

Amortization of Goodwill and Acquired Intangible Assets. In connection with the acquisition of Galileo on January 21, 2001, we recorded approximately \$1.7 billion of goodwill and \$434.7 million of acquired intangible assets. Goodwill is being amortized over its estimated economic life of five years, and acquired intangible assets are being amortized over their estimated economic lives of five to ten years. Goodwill and acquired intangible asset amortization expense was approximately \$8.0 million, or 5.6% of net revenue, in fiscal 2001. The amount of amortization expense will increase significantly in fiscal 2002 because goodwill and intangible assets will be amortized for the full year in fiscal 2002 compared to only seven days of amortization in fiscal 2001.

In-Process Research and Development. In connection with the acquisition of Galileo on January 21, 2001, we purchased in-process research and development, or IPRD, of approximately \$234.9 million which represented approximately 9.4% of the total purchase price. As of the acquisition date, the IPRD efforts had not yet reached technological feasibility, and the IPRD had no alternative future uses. Accordingly, the value of the purchased IPRD was expensed on the date of acquisition.

The fair values of Galileo's IPRD, as well as their developed technologies, 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 and venture capital surveys, adjusted upward to reflect additional risks inherent in the development life cycle. A discount rate of 16.5% was used for developed technology, and rates between 21.5% and 34.0% were used for IPRD, depending on the stage of completion of each technology. As of the date of acquisition, the estimated cost to complete the technology under development was approximately \$21.0 million. Development of this technology remains a substantial risk due to a number of factors, including the remaining effort to achieve technological feasibility, rapidly changing customer markets and competitive threats from other companies.

Interest and Other Income, Net. Interest and other income, net consists primarily of interest earned on cash, cash equivalents and short-term investments, offset by interest paid on notes payable and capital lease obligations. Interest and other income, net was \$4.6 million in fiscal 2001 and \$330,000 in fiscal 2000. The increase in interest and other income, net was due to interest being earned on higher invested cash balances in fiscal 2001. The net proceeds from our initial public offering of common stock, which were received on June 30, 2000, contributed to the significant increase in interest and other income, net in fiscal 2001.

Provision for Income Taxes. Our effective tax rate was (1%) for fiscal 2001 compared to 25% for fiscal 2000. Our effective rate for fiscal 2001 was affected by non-deductible expenses relating to our acquisition of Galileo in January 2001 which was recorded using the purchase method of accounting. Excluding the effect of goodwill and acquired intangible asset amortization and in-process research and development expense, our effective tax rate for fiscal 2001 was 23%.

The difference between our effective rate and the federal rate of 35% is due to the lower tax rates imposed on our operations in Bermuda, Singapore and Israel and to the benefits realized from research and development credits in the United States, partially offset by potential taxes on the portion of Bermuda income that may be considered to be effectively connected with the conduct of a trade or business in the United States. We have an undertaking from the government of Bermuda that we will not be subject to tax on our income and capital gains in Bermuda until March 28, 2016. Our operations in Singapore are subject to a statutory tax rate of 26%; however, the Economic Development Board of Singapore granted us Pioneer Status in July 2000, for a period of six years commencing July 1, 1999, which could reduce the amount of taxes we pay in Singapore. Our newly acquired operations in Israel have Approved Enterprise Status which provides us with a tax holiday on undistributed Israeli income. We anticipate that we will start paying some income tax in Israel beginning in 2004.

YEARS ENDED JANUARY 31, 2000 AND 1999

Net Revenue. Net revenue increased to \$81.4 million in fiscal 2000 from \$21.3 million in fiscal 1999. Revenue increased primarily as a result of continued market acceptance of our read channel products and commencement of volume shipment of our preamplifier products. Although average selling prices declined by approximately 20% from fiscal 1999 to fiscal 2000, the volume of units shipped increased to approximately

24.9 million units in fiscal 2000 from 5.1 million units in fiscal 1999. Sales of read channel products increased to \$76.0 million in fiscal 2000 from \$21.2 million in fiscal 1999, while sales of preamplifier products increased to \$5.4 million in fiscal 2000 from \$8,000 in fiscal 1999.

Cost of Goods Sold. Cost of goods sold consists primarily of the costs of manufacturing, assembly and test of integrated circuit devices and related overhead costs, and compensation and associated costs related to manufacturing support, logistics and quality assurance personnel. Gross profit, which equals net revenue less cost of goods sold, as a percentage of net revenue, increased to 58.5% in fiscal 2000 from 52.5% in fiscal 1999. The increase in gross profit was primarily due to the substantial increase in sales and a reduction in product costs per unit in fiscal 2000 of approximately 15%.

Product costs per unit declined in fiscal 2000 due to a general decrease in the prices charged by contract manufacturers of integrated circuits because of the availability of capacity within the integrated circuit manufacturing industry, as well as improvements in the manufacturing yields achieved through the third quarter of fiscal 2000. We experienced a decline in yields in the fourth quarter of fiscal 2000 due to the initial production ramp up of our newer, more complex, read channel products.

Research and Development. Research and development expense consists primarily of compensation and associated costs relating to development personnel, prototype costs, depreciation expenses and allocated occupancy costs for these operations. Research and development expense was \$14.5 million, or 17.8% of net revenue, in fiscal 2000 and \$5.8 million, or 27.5% of net revenue, in fiscal 1999. The increase in research and development expense in absolute dollars was primarily due to increases of approximately \$3.6 million for the hiring of additional development personnel, approximately \$1.4 million for increased spending for prototype and related product tape-out costs for new product initiatives and approximately \$537,000 for depreciation expense arising from significant purchases of computer aided design software tools.

Selling and Marketing. Selling and marketing expense consists primarily of compensation and associated costs relating to selling and marketing personnel, sales commissions to independent sales representatives, promotional and other marketing expenses, and allocated occupancy costs for these operations. Selling and marketing expense was \$10.4 million, or 12.8% of net revenue, in fiscal 2000 and \$4.6 million, or 21.8% of net revenue, in fiscal 1999. The increase in selling and marketing expense in absolute dollars was due primarily to the hiring of additional personnel and a resulting increase in salary and related costs of approximately \$2.3 million, increased sales commissions of approximately \$1.8 million and increased costs of approximately \$627,000 related to expanding our sales and marketing activities as we broadened our customer and product base.

General and Administrative. General and administrative expense consists primarily of compensation and associated costs relating to general and administrative personnel, professional fees and allocated occupancy costs for these operations. General and administrative expense was \$3.4 million, or 4.2% of net revenue, in fiscal 2000 and \$1.2 million, or 5.6% of net revenue, in fiscal 1999. The increase in general and administrative expense in absolute dollars was due primarily to the hiring of additional personnel and a resulting increase in salary and related costs of approximately \$1.6 million and increases in legal, accounting and consulting fees of approximately \$403,000.

Amortization of Stock-Based Compensation. In connection with the grant of stock options to our employees and directors, we have recorded deferred stock-based compensation of approximately \$14.1 million, which is being amortized under an accelerated method over the remaining option vesting period. Amortization of stock-based compensation expense was \$2.2 million, or 2.7% of net revenue, in fiscal 2000 and \$42,000, or 0.2% of net revenue, in fiscal 1999. The increase in amortization expense was due to deferred stock-based compensation recorded in fiscal 2000.

Interest and Other Income, Net. Interest and other income, net consists primarily of interest earned on cash and cash equivalents, offset by interest paid on notes payable and capital lease obligations. Interest and other income, net was \$330,000 in fiscal 2000 and \$74,000 in fiscal 1999. The increase in interest and other income, net was due to interest earned on higher invested cash balances.

Provision for Income Taxes. We accrued income taxes at an effective tax rate of 25% since achieving consolidated profitability in fiscal 2000. The difference between this rate and the federal rate of 35% is due to the lower tax rates imposed on our operations in Bermuda and Singapore and to the benefits realized from research and development credits in the United States, offset by potential taxes on the portion of Bermuda income that may be considered to be effectively connected with the conduct of a trade or business in the United States.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity as of January 31, 2001 consisted of \$224.1 million of cash, cash equivalents and short-term investments. Prior to receiving the net proceeds from our initial public offering, we financed our operations through a combination of private sales of convertible preferred stock, bank loans and capital lease financing and, beginning in fiscal 2000, operating cash flows. We raised net proceeds of \$94.0 million through our initial public offering in June 2000. In addition, we received \$68.5 million of cash and cash equivalents, net of acquisition costs paid, and \$39.9 million of short-term investments as a result of our acquisition of Galileo in January 2001.

During fiscal 2001, cash provided by operating activities was \$12.2 million as compared to cash provided by operating activities of \$12.6 million during fiscal 2000 and cash used in operating activities of \$2.9 million during fiscal 1999. The cash inflow from operations in fiscal 2001 and 2000 was primarily a result of our generation of income in both years (excluding the non-cash impact of depreciation and amortization, stock-based compensation, and acquired in-process research and development expense), and increases in accounts payable, accrued liabilities and income taxes payable, partially offset by increases in accounts receivable, inventory and prepaid expenses and other assets. The cash outflow from operations in fiscal 1999 was primarily as a result of our net loss for the year and increases in accounts receivable and inventory, partially offset by increases in accounts payable and accrued liabilities. Due to the nature of our business, we experience working capital needs for accounts receivable and inventory. We typically bill customers on an open account basis on net 30-day payment terms. If sales levels were to increase, it is likely that our level of accounts receivable would also increase. Our level of accounts receivable would also increase if customers delayed their payments. Additionally, in order to maintain an adequate supply of product for our customers, we must carry a certain level of inventory. This inventory level may vary based primarily upon the timing of orders received from customers and our forecast of demand for these products. Other considerations in determining inventory levels may include the product life cycle stage of the products and competitive situations in the marketplace. Such considerations are balanced against risk of obsolescence or potentially excess inventory levels.

Net cash provided by investing activities was \$56.4 million during fiscal 2001, compared to net cash used in investing activities of \$6.8 million during fiscal 2000 and \$1.6 million during fiscal 1999. The net cash provided by investing activities during fiscal 2001 is attributable to the net cash received as a result of our acquisition of Galileo, partially offset by purchases of property and equipment. The net cash used in investing activities during fiscal 2000 and 1999 resulted solely from purchases of property and equipment.

Net cash provided by financing activities was \$99.0 million during fiscal 2001, \$5.3 million during fiscal 2000 and \$6.7 million during fiscal 1999. During fiscal 2001, cash provided by financing activities was primarily due to our initial public offering in June 2000 which raised net proceeds of \$94.0 million. During fiscal 2000 and 1999, cash provided by financing activities was primarily attributable to proceeds from the issuance of convertible preferred stock and the exercise of stock options and proceeds from borrowings on notes payable, partially offset by the repayment of notes payable.

Our relationships with our foundries allow us to cancel all outstanding purchase orders but require us to pay the foundries for expenses they have incurred in connection with the purchase orders through the date of cancellation. As of January 31, 2001, our foundries had incurred approximately \$16.0 million of manufacturing expenses on our outstanding purchase orders.

We believe that the net proceeds from our initial public offering, together with existing cash and investment balances and cash generated by operations, are sufficient to meet our capital requirements for at least the next 12 months. After this period, capital requirements will depend on many factors, including the

rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects and increases in operating expenses. To the extent that the net proceeds from our initial public offering, together with existing cash and investment balances and cash generated by operations, are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing. Although we are currently not a party to any agreement or letter of intent with respect to a potential acquisition or strategic arrangement, we may enter into acquisitions or strategic arrangements in the future, which also could require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

INFLATION

The impact of inflation on our business has not been material for fiscal 2001, 2000 and 1999.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133." In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended certain terms and conditions of SFAS 133. SFAS 133, as amended, requires that all derivative instruments be recorded on the balance sheet at their fair market value. Changes in the fair market value of derivatives are recorded each period in current earnings or comprehensive income, depending on whether a derivative is designed as part of a hedge transaction, and if so, the type of hedge transaction. All of our revenues and the majority of our costs have been denominated in United States dollars, and to date we have not entered into any derivative contracts. We will adopt SFAS No. 133 and 138 on February 1, 2001. The adoption is not expected to have a significant impact on our consolidated financial statements.

ADDITIONAL FACTORS THAT MAY AFFECT FUTURE RESULTS

In addition to the factors discussed in the "Overview" and "Liquidity and Capital Resources" sections of this "Management's Discussion and Analysis of Financial Condition and Results of Operations," the following additional factors may affect our future results. Many of these factors are beyond our control, including business cycles and seasonal trends of the computing, semiconductor and related industries.

THE RECENT SLOWDOWN IN THE WORLDWIDE ECONOMY HAS NEGATIVELY AFFECTED OUR PROJECTED REVENUES AND OUR RESULTS OF OPERATIONS IN FISCAL 2002.

Over the last several months there has been a slowdown in worldwide economies, including the United States, that has resulted in delays of new orders for our products as well as reschedules of existing orders. This slowdown has been brought about by a number of factors, including concerns about inflation, decreased consumer confidence and reports of reduced corporate profits. If economic conditions worsen, our revenues and results of operations in fiscal 2002 and beyond will be materially and adversely affected.

WE HAVE DEPENDED ON SALES OF OUR READ CHANNEL AND PREAMPLIFIER PRODUCTS FOR A SIGNIFICANT PORTION OF OUR REVENUE TO DATE, AND GALILEO HAS DEPENDED ON SALES OF ITS SYSTEM CONTROLLERS AND ETHERNET LAN CONTROLLERS FOR A SIGNIFICANT PORTION OF ITS REVENUES TO DATE. SIGNIFICANT REDUCTIONS IN ORDERS FOR THESE PRODUCTS, OR THE DEVICES INTO WHICH SUCH PRODUCTS ARE INCORPORATED, WOULD SIGNIFICANTLY REDUCE OUR REVENUES.

A significant portion of our revenue to date has been derived from sales of our read channel and preamplifier products. In fiscal 2000 and 2001, we experienced rapid growth in sales of our read channel and preamplifier products; however, we anticipate that our sales for these products in fiscal 2002 will be relatively consistent with the level of sales we reported for these products in fiscal 2001.

A significant portion of Galileo's revenues to date have come from sales of system controllers and switched Ethernet LAN controllers, and we expect that a significant portion of their revenues will continue to come from these products.

Unless we are able to diversify our sales through increased sales of our existing broadband communications products and the introduction of new storage and broadband communications products, we will continue to be dependent on sales of our read channel and preamplifier products and on Galileo's system controllers and switched Ethernet LAN controllers. Our read channel and preamplifier products are incorporated into storage devices by our customers primarily for sale to the personal computer and computer server markets. Any reduction in the demand for storage devices that incorporate our products would likely result in reduced demand for our products and would harm our sales. The storage market is rapidly evolving and is subject to substantial fluctuation. For example, the storage market may be affected by:

- shifts in market share among storage device manufacturers, driven by technological advances, price reductions, the level of end-user satisfaction with the storage devices and the level of support provided to the end-users; and
- fluctuations in the market for computing devices and products containing storage devices.

WE DEPEND ON A SMALL NUMBER OF LARGE CUSTOMERS FOR A SUBSTANTIAL MAJORITY OF OUR SALES. THE LOSS OF, OR A SIGNIFICANT REDUCTION OR CANCELLATION IN SALES TO, ANY KEY CUSTOMER WOULD SIGNIFICANTLY REDUCE OUR REVENUES.

In fiscal 2001, our five largest customers accounted for approximately 84% of our sales. Of these customers, Samsung accounted for 34%, Seagate for 22%, Fujitsu for 11%, Toshiba for 9% and Hitachi for 8%. Sales to these large customers have fluctuated significantly from period to period, primarily due to the timing and number of design wins with each customer, and will likely continue to fluctuate dramatically in the future. The loss of any of our largest customers, or a significant reduction in sales we make to them, or any problems we encounter collecting amounts from them, would likely seriously harm our results of operations and financial condition. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, to purchase fewer products than they did in the past, or to alter their purchasing patterns in some other way, particularly because:

- we do not have any long-term purchase arrangements or contracts with these or any of our other customers or exclusive arrangements with any customers;
- substantially all of our sales are made on a purchase order basis, which permits our customers to cancel, change or delay product purchase commitments with little or no notice to us and without penalty; and
- our customers purchase integrated circuits from our competitors.

Our customers may also discontinue sales in the markets for which they purchase our products.

IF WE ARE UNABLE TO DEVELOP NEW AND ENHANCED PRODUCTS THAT ACHIEVE MARKET ACCEPTANCE IN A TIMELY MANNER, OUR OPERATING RESULTS AND COMPETITIVE POSITION WILL BE HARMED.

Our future success will depend on our ability, in a timely and cost-effective manner, to develop new products for the broadband communications markets and to introduce product enhancements to our read channel and preamplifier products. We must also achieve market acceptance for these products and enhancements. If we do not successfully develop and achieve market acceptance for new and enhanced products, our ability to maintain or increase revenues will suffer. The development of our products is highly complex. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. In particular, we have a limited history in developing products for the broadband communications market and may encounter technical difficulties in developing 10 Gigabit Ethernet fiber-optic or other products for this market that could prevent or delay the successful introduction of these products. Unanticipated problems in developing broadband communications products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements for the storage market, and could substantially increase our costs. Even if the new and enhanced products are introduced to the market, we may not be able to achieve market acceptance of these products in a timely manner.

Successful product development and market acceptance of our products depends on a number of factors, including:

- timely and cost-effective completion and introduction of new product designs;
- adoption of our products by customers that are among the first to adopt new technologies and by customers perceived to be market leaders;
- timely qualification and certification of our products for use in our customers' products;
- the level of acceptance of our products by existing and potential customers;
- cost and availability of foundry, assembly and testing capacity;
- availability, price, performance, power, use and size of our products and competing products and technologies;
- our customer service and support capabilities and responsiveness;
- successful development of our relationships with existing and potential customers and strategic partners; and
- our ability to predict and respond to changes in technology, industry standards or end-user preferences.

WE MAY NOT SUCCESSFULLY COMPLETE THE INTEGRATION OF OUR BUSINESS OPERATIONS WITH THOSE OF GALILEO, WHICH COULD HARM OUR OPERATING RESULTS AND SHARE PRICE.

Integrating the operations of Galileo with ours is a difficult, time consuming and costly task. While we have begun the process of integrating several of our operations with those of Galileo, the completion of that integration may distract management from our day-to-day business. We must successfully integrate, among other things:

- product offerings;
- product development, sales and marketing;
- customer service functions;
- human resources and other administrative functions;
- research and development; and
- management information systems.

Among the challenges in integrating the companies is demonstrating to our respective customers that the acquisition has not and will not result in an adverse change in business focus and persuading each company's personnel that each company's business cultures are compatible. In addition, Galileo operates in some locations in which we did not otherwise operate. Therefore, to successfully integrate Galileo's operations, we will need to retain management, key employees and business partners of Galileo. If we are not able to effectively complete the integration of our operations, technology and personnel in a timely and efficient manner, then we will not realize the benefits we expected from the acquisition. In particular, if the integration is not successful:

- our operating results may be harmed;
- we may lose key personnel;
- we may not be able to retain or expand our market position; and
- the market price of our common stock may decline.

GALILEO IS INCORPORATED UNDER THE LAWS OF, AND ITS PRINCIPAL OFFICES ARE LOCATED IN, THE STATE OF ISRAEL AND THEREFORE ITS BUSINESS OPERATIONS MAY BE HARMED BY ADVERSE POLITICAL, ECONOMIC AND MILITARY CONDITIONS AFFECTING ISRAEL.

Galileo is both incorporated under the laws of and has its principal offices in the State of Israel. In addition, Galileo maintains its research and development operations in Israel. Thus, Galileo is directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving or within Israel could disrupt Galileo's research and development and other business operations. For example, continued hostilities between Israel and the Palestinian Authority in recent months caused substantial political unrest, which could lead to a potential economic downturn in Israel. Also, the interruption or curtailment of trade between Israel and its present trading partners or a significant downturn in the economic or financial condition of Israel could reduce Galileo's sales and its financial results. A number of countries restrict business with Israel or Israeli companies, and if the countries in which Galileo's customers or potential customers conduct their businesses adopt restrictive laws or policies toward Israel or Israeli businesses this could harm Galileo's ability to retain or increase its sales.

WE ARE A RELATIVELY SMALL COMPANY WITH LIMITED RESOURCES COMPARED TO SOME OF OUR CURRENT AND POTENTIAL COMPETITORS, AND WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY AND INCREASE OR MAINTAIN REVENUES AND MARKET SHARE.

We may not be able to compete successfully against current or potential competitors. If we do not compete successfully, our market share and revenues may not increase or may decline. In addition, most of our current and potential competitors have longer operating histories, significantly greater resources and name recognition and a larger base of customers than us. As a result, these competitors may have greater credibility with our existing and potential customers. Moreover, our competitors may foresee the course of market developments more accurately than us. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than us, which would allow them to respond more quickly than us to new or emerging technologies or changes in customer requirements. In addition, new competitors or alliances among existing competitors could emerge. We expect to face competition in the future from our current competitors, other manufacturers and designers of integrated circuits, and innovative start-up integrated circuit design companies. Many of our customers are also large, established integrated circuit suppliers. Our sales to and support of such customers may enable them to become a source of competition to us, despite our efforts to protect our intellectual property rights.

As we have entered the broadband communications market, we have faced competition from a number of additional competitors who have a longer history of serving that market. Many of these competitors have established reputations in that market and long-standing relationships with the customers to whom we intend to sell our products that could prevent us from competing successfully. Competition could increase pressure on us to lower our prices and lower our margins.

DUE TO OUR LIMITED OPERATING HISTORY, WE MAY HAVE DIFFICULTY IN ACCURATELY PREDICTING OUR FUTURE SALES AND APPROPRIATELY BUDGETING FOR OUR EXPENSES, AND WE MAY NOT BE ABLE TO MAINTAIN OUR EXISTING GROWTH RATE.

We were incorporated in 1995 and did not begin generating any meaningful sales until June 1998. This limited operating experience, combined with the rapidly changing nature of the markets in which we sell our products, limits our ability to accurately forecast quarterly or annual sales. Additionally, because many of our expenses are fixed in the short term or incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. We are currently expanding our staffing and increasing our expense levels in anticipation of future sales growth. If our sales do not increase as anticipated, significant losses could result due to our higher expense levels.

Although we have experienced sales and earnings growth in prior quarterly and annual periods, we may not be able to sustain these growth rates, particularly in the period of economic slowdown we are currently experiencing. Accordingly, you should not rely on the results of any prior quarterly or annual periods as an indication of our future performance.

BECAUSE WE DO NOT HAVE LONG-TERM COMMITMENTS FROM OUR CUSTOMERS, WE MUST ESTIMATE CUSTOMER DEMAND, AND ERRORS IN OUR ESTIMATES CAN HAVE NEGATIVE EFFECTS ON OUR INVENTORY LEVELS AND SALES.

Our sales are made on the basis of individual purchase orders rather than long-term purchase commitments. In addition, our customers may cancel or defer purchase orders. We have historically placed firm orders for products with our suppliers up to 16 weeks prior to the anticipated delivery date and typically prior to receiving an order for the product. Therefore, our order volumes are based on our forecasts of demand from our customers. This process requires us to make multiple demand forecast assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect or at all. As a result, we would have excess inventory, which would harm our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would forego revenue opportunities, lose market share and damage our customer relationships. On occasion, we have been unable to adequately respond to unexpected increases in customer purchase orders, and therefore, were unable to benefit from this increased demand.

WE RELY ON INDEPENDENT FOUNDRIES AND SUBCONTRACTORS FOR THE MANUFACTURE, ASSEMBLY AND TESTING OF OUR INTEGRATED CIRCUIT PRODUCTS, AND THE FAILURE OF ANY OF THESE THIRD-PARTY VENDORS TO DELIVER PRODUCTS OR OTHERWISE PERFORM AS REQUESTED COULD DAMAGE OUR RELATIONSHIPS WITH OUR CUSTOMERS, DECREASE OUR SALES AND LIMIT OUR GROWTH.

We do not have our own manufacturing, assembly or testing facilities. Therefore, we must rely on third-party vendors to manufacture, assemble and test the products we design. We currently rely on Taiwan Semiconductor Manufacturing Company to produce substantially all of our integrated circuit products. We also currently rely on Taiwan Semiconductor and other third-party assembly and test subcontractors to assemble, package and test our products. If these vendors do not provide us with high quality products and services in a timely manner, or if one or more of these vendors terminates its relationship with us, we may be unable to obtain satisfactory replacements to fulfill customer orders on a timely basis, our relationships with our customers could suffer, our sales could decrease and our growth could be limited. Other significant risks associated with relying on these third-party vendors include:

- our customers or their customers may fail to approve or delay approving our selected supplier;
- we have reduced control over product cost, delivery schedules and product quality;
- the warranties on wafers or products supplied to us are limited; and
- we face increased exposure to potential misappropriation of our intellectual property.

We currently do not have long-term supply contracts with any of our third-party vendors. They therefore are not obligated to perform services or supply products to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. None of our third-party foundry or assembly and test subcontractors has provided contractual assurances to us that adequate capacity will be available to us to meet future demand for our products. These foundries may allocate capacity to the production of other companies' products while reducing deliveries to us on short notice. In particular, foundry customers that are larger and better financed than us or that have long-term agreements with these foundries may cause these foundries to reallocate capacity to those customers, decreasing the capacity available to us. If we need another integrated circuit foundry or assembly and test contractor because of increased demand or the inability to obtain timely and adequate deliveries from our providers at the time, we might not be able to develop relationships with other vendors who are able to satisfy our requirements. Even if other integrated circuit foundries or assembly and test contractors are available at that time to satisfy our requirements, it would likely take several months to acquire a new provider. Such a change may also require the approval of our customers, which would take time to effect and could cause our customers to cancel orders or fail to place new orders.

IF OUR FOUNDRIES DO NOT ACHIEVE SATISFACTORY YIELDS OR QUALITY, OUR RELATIONSHIPS WITH OUR CUSTOMERS AND OUR REPUTATION WILL BE HARMED.

The fabrication of integrated circuits is a complex and technically demanding process. Our foundries have from time to time experienced manufacturing defects and reduced manufacturing yields. In the fourth quarter of fiscal 2000, we experienced low yields in the production of our newly introduced read channel product, which decreased our gross profits for that quarter. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Poor yields from our foundries, or defects, integration issues or other performance problems in our products could cause us significant customer relations and business reputation problems, harm our financial results and result in financial or other damages to our customers. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. In addition, defects in our existing or new products could result in significant warranty, support and repair costs, and divert the attention of our engineering personnel from our product development efforts.

BECAUSE FOUNDRY CAPACITY IS LIMITED, WE MAY TAKE VARIOUS ACTIONS TO TRY TO SECURE CAPACITY, WHICH MAY BE COSTLY AND HARM OUR OPERATING RESULTS.

Foundry capacity is limited and competition for capacity is increasing. In order to secure foundry capacity as competition increases, we may enter into various arrangements with suppliers that could be costly and harm our operating results. As competition for foundry space increases, additional arrangements may be required, including:

- option payments or other prepayments to a foundry;
- nonrefundable deposits with or loans to foundries in exchange for capacity commitments;
- contracts that commit us to purchase specified quantities of integrated circuits over extended periods;
- issuance of our equity securities to a foundry;
- investment in a foundry; and
- other partnership relationships with foundries.

We may not be able to make any such arrangement in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility, and not be on terms favorable to us. Moreover, if we are able to secure foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

WE DEPEND ON KEY PERSONNEL WITH WHOM WE DO NOT HAVE EMPLOYMENT AGREEMENTS TO MANAGE OUR BUSINESS, AND IF WE ARE UNABLE TO RETAIN OUR CURRENT PERSONNEL AND HIRE ADDITIONAL PERSONNEL, OUR ABILITY TO DEVELOP AND SUCCESSFULLY MARKET OUR PRODUCTS COULD BE HARMED.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. The loss of any key employees or the inability to attract or retain qualified personnel, including engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell, our products. We believe that our future success is highly dependent on the contributions of Sehat Sutardja, our co-founder, President and Chief Executive Officer, Pantas Sutardja, our co-founder and Vice-President, and Chief Technology Officer of Marvell Semiconductor, Weili Dai, our co-founder and Executive Vice President of the Communications Business Group of Marvell Semiconductor and Avigdor Willenz, Executive Vice President of the Communications Business Group of Galileo Technology Ltd. We do not have employment contracts with these or any other key personnel, and their knowledge of the business and industry would be extremely difficult to replace.

There is currently a shortage of qualified technical personnel with significant experience in the design, development, manufacture, marketing and sales of integrated circuits for use in communications products. In particular, there is a shortage of engineers who are familiar with the intricacies of the design and manufacture of products based on analog technology, and competition for these engineers is intense. Our key technical personnel represent a significant asset and serve as the source of our technological and product innovations. We may not be successful in attracting and retaining sufficient numbers of technical personnel to support our anticipated growth.

OUR RAPID GROWTH HAS STRAINED OUR RESOURCES AND OUR INABILITY TO MANAGE ANY FUTURE GROWTH COULD HARM OUR PROFITABILITY.

Our rapid growth has placed, and future growth of our operations will continue to place, a significant strain on our management personnel, systems and resources. We anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. We also expect that we will need to continue to expand, train, manage and motivate our workforce. All of these endeavors will require substantial management effort. If we are unable to effectively manage our expanding operations, our profitability could be harmed.

As a result of this growth, we believe that our current facilities will be inadequate to meet our requirements past fiscal 2002. We expect we will need to locate additional space in California, and may find it necessary to vacate our current locations. If we relocate, we may have to pay rent on two leases for a period of time. Because of the competition for space in the area of California in which we are located, additional space may cost substantially more than existing facilities. We may also incur significant additional capital expenditures for construction of tenant improvements. These relocations could also result in temporary disruptions of operations and diversion of management's attention and resources.

WE FACE FOREIGN BUSINESS, POLITICAL AND ECONOMIC RISKS, WHICH MAY HARM OUR RESULTS OF OPERATIONS, BECAUSE A MAJORITY OF OUR PRODUCTS AND OUR CUSTOMERS' PRODUCTS ARE MANUFACTURED AND SOLD OUTSIDE OF THE UNITED STATES.

A substantial portion of our business is conducted outside of the United States and as a result, we are subject to foreign business, political and economic risks. All of our products are manufactured outside of the United States. Our current qualified integrated circuit foundries are located in the same region within Taiwan, and our primary assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located outside of the United States, primarily concentrated in Singapore, Taiwan and Japan, which further exposes us to foreign risks. Sales outside of the United States accounted for 92% and 99% of our revenues in fiscal 2001 and fiscal 2000, respectively. We anticipate that our manufacturing, assembly, testing and sales outside of the United States will continue to account for a substantial portion of our operations and revenue in future periods. Accordingly, we are subject to international risks, including:

- difficulties in obtaining domestic and foreign export, import and other governmental approvals, permits and licenses;
- compliance with foreign laws;
- difficulties in staffing and managing foreign operations;
- trade restrictions or higher tariffs;
- transportation delays;
- difficulties of managing distributors, especially because we expect to continue to increase our sales through international distributors;
- political and economic instability, including hostilities and political unrest, and boycotts, curtailment of trade and other business restrictions; and
- inadequate local infrastructure.

Because all of our sales to date have been denominated in United States dollars, increases in the value of the United States dollar will increase the price of our products so that they become relatively more expensive to customers in the local currency of a particular country, potentially leading to a reduction in sales and profitability for us in that country. A portion of our international revenue may be denominated in foreign currencies in the future, which will subject us to risks associated with fluctuations in exchange rates for those foreign currencies.

THE CURRENT SHORTAGE OF ELECTRICITY IN CALIFORNIA AND THE CORRESPONDING INCREASES IN PRICES AND ROLLING BLACKOUTS MAY NEGATIVELY AFFECT OUR RESEARCH AND DEVELOPMENT AND OTHER OPERATIONS.

California has recently suffered a severe shortage of electricity, which has resulted in one instance in recent months in which we were subjected to a "rolling blackout." When we are subjected to rolling blackouts, all electricity to our facilities is cut off and we are unable to use our computers, telephones and other equipment that is critical to our research and development and other functions. Some of our customers who have operations in California are also being negatively affected by the electricity shortage. The predictions for the summer of calendar year 2001 are for even more severe electricity shortages, which may result in substantial down time for California businesses. If we are subjected to a series of rolling blackouts or to a single extended rolling blackout, our research and development and other operations will be negatively affected.

OUR THIRD-PARTY FOUNDRIES AND SUBCONTRACTORS ARE CONCENTRATED IN TAIWAN AND ELSEWHERE IN THE PACIFIC RIM, AN AREA SUBJECT TO SIGNIFICANT EARTHQUAKE RISKS. ANY DISRUPTION TO THE OPERATIONS OF THESE FOUNDRIES AND SUBCONTRACTORS RESULTING FROM EARTHQUAKES OR OTHER NATURAL DISASTERS COULD CAUSE SIGNIFICANT DELAYS IN THE PRODUCTION OR SHIPMENT OF OUR PRODUCTS.

Substantially all of our products are produced by Taiwan Semiconductor Manufacturing Company located in Taiwan. Currently our only alternative manufacturing source is also located in Taiwan. In addition, substantially all of our assembly and testing facilities are located in Singapore, Taiwan and the Philippines. The risk of an earthquake in Taiwan and elsewhere in the Pacific Rim region is a significant risk due to the proximity of major earthquake fault lines to the facilities of our foundries and subcontractors. In September 1999, a major earthquake in Taiwan affected the facilities of several of these third-party contractors. As a consequence of this earthquake, these contractors suffered power outages and disruptions that impaired their production capacity. The occurrence of an earthquake or other natural disaster could result in the disruption of our foundry or assembly and test capacity. Any disruption resulting from such events could cause significant delays in the production or shipment of our products until we are able to shift our manufacturing, assembling or testing from the affected contractor to another third-party vendor. We may not be able to obtain alternate capacity on favorable terms, if at all.

WE RELY ON THIRD-PARTY DISTRIBUTORS AND THE FAILURE OF THESE DISTRIBUTORS TO PERFORM AS EXPECTED COULD REDUCE OUR FUTURE SALES.

We sell our communications products to customers primarily through distributors and manufacturers' representatives. Our relationships with our distributors and manufacturers' representatives have been established within the last year, and we are unable to predict the extent to which some of these distributors and manufacturers' representatives will be successful in marketing and selling our products. Moreover, many of our manufacturers' representatives and distributors also market and sell competing products. Our representatives and distributors may terminate their relationships with us at any time. Our future performance will also depend, in part, on our ability to attract additional distributors or manufacturers' representatives that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. If we cannot retain our current distributors or manufacturers' representatives or recruit additional or replacement distributors or manufacturers' representatives, our sales and operating results will be harmed. The loss of one or more of our distributors or manufacturers' representatives could harm our sales and results of operations. We generally realize a higher gross margin on direct sales and from sales

through manufacturers' representatives than on sales through distributors. Accordingly, if our distributors were to account for an increased portion of our net sales, our gross margins would decline.

PRODUCTS THAT CONTAIN ERRORS OR DEFECTS COULD RESULT IN SIGNIFICANT COSTS FOR US AND HARM OUR REPUTATION.

Our products are complex. Despite demanding testing and quality control, we cannot be certain that errors and defects will not be found in connection with the introduction of our products or product enhancements.

We have experienced errors and defects in the past in connection with new products. Introductions by us of new or enhanced products with reliability, quality or compatibility problems could significantly delay or hinder market acceptance of such products, and could adversely affect our ability to retain our existing customers and to attract new customers. Alleviating these problems could require significant expenditures of capital and additional development costs, and diversion of technical and other resources by us.

These problems may also result in claims by our customers or others against us.

OUR FUTURE ACQUISITIONS AND TRANSACTIONS MAY NOT BE SUCCESSFUL.

We expect to continue to make acquisitions of, and investments in, businesses that offer complementary products, services and technologies, augment our market segment coverage, or enhance our technological capabilities. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities or that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be successful.

Any transactions or relationships will be accompanied by the risks commonly encountered with those matters. Risks that could have a material adverse effect on our business, results of operations or financial condition include, among other things:

- the difficulty of assimilating the operations and personnel of the acquired businesses;
- the potential disruption of our ongoing business;
- the distraction of management from our business;
- the potential inability of management to maximize the financial and strategic position of us as a result of the acquisition;
- the potential difficulty maintaining uniform standards, controls, procedures and policies;
- the impairment of relationships with employees and clients as a result of any integration of new management personnel;
- the risk of entering market segments in which we have no or limited direct prior experience and where competitors in such market segments have stronger market segment positions; and
- the potential loss of key employees of an acquired company.

THE AVERAGE SELLING PRICES OF PRODUCTS IN OUR MARKETS HAVE HISTORICALLY DECREASED RAPIDLY AND WILL LIKELY DO SO IN THE FUTURE, WHICH COULD HARM OUR GROSS PROFITS AND SALES.

The products we develop and sell are used for high volume applications. As a result, the prices of those products have historically decreased rapidly. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing our costs, or developing new or enhanced products on a timely basis with higher selling prices or gross profits. We expect that, as a result of pricing pressure from our customers, our gross profits on our storage products are also likely to decrease over the next fiscal year below levels we have historically experienced. Because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase. In the past, we have reduced the

average unit price of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future.

WE HAVE A LENGTHY AND EXPENSIVE SALES CYCLE, WHICH DOES NOT ASSURE PRODUCT SALES, AND WHICH IF UNSUCCESSFUL MAY HARM OUR OPERATING RESULTS.

The sales cycle for our products is long and requires us to invest significant resources with each potential customer without any assurance of sales to that customer. Our sales cycle typically begins with a three to six month evaluation and test period, also known as qualification, during which our products undergo rigorous reliability testing by our customers.

Qualification is followed by a 12 to 18 month development period by our customers and an additional three to six month period before a customer commences volume production of equipment incorporating our products. This lengthy sales cycle creates the risk that our customers will decide to cancel or change product plans for products incorporating our integrated circuits. During our sales cycle, our engineers assist customers in implementing our products into the customers' products. We incur significant research and development and selling, general and administrative expenses as part of this process, and this process may never generate related revenues. We derive revenue from this process only if our design is selected. Once a customer selects a particular integrated circuit for use in a storage product, the customer generally uses solely that integrated circuit for a full generation of its product. Therefore, if we do not achieve a design win for a product, we will be unable to sell our integrated circuit to a customer until that customer develops a new product or a new generation of its product. Even if we achieve a design win with a customer, the customer may not ultimately ship products incorporating our products or may cancel orders after we have achieved a sale. In addition, we will have to begin the qualification process again when a customer develops a new generation of a product for which we were the successful supplier.

Also, during the final production of a mature product, our customers typically exhaust their existing inventory of our integrated circuits. Consequently, orders for our products may decline in those circumstances, even if our products are incorporated into both our customers' mature and replacement products. A delay in a customer's transition to commercial production of a replacement product may cause the customer to lose sales, which would delay our ability to recover the lost sales from the discontinued mature product. In addition, customers may defer orders in anticipation of new products or product enhancements from us or our competitors.

WE ARE SUBJECT TO THE CYCLICAL NATURE OF THE INTEGRATED CIRCUIT INDUSTRY. THE CURRENT AND ANY FUTURE DOWNTURNS WILL LIKELY REDUCE OUR REVENUE AND RESULT IN EXCESS INVENTORY.

The integrated circuit industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. The industry has experienced, and is currently experiencing, significant downturns, often connected with, or in anticipation of, maturing product cycles of both integrated circuit companies' and their customers' products and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. The current downturn and any future downturns will likely reduce our revenue or our percentage of revenue growth on a quarter-to-quarter basis and result in us having excess inventory.

Furthermore, any upturn in the integrated circuit industry could result in increased competition for access to third-party foundry, assembly and test capacity.

WE ARE DEPENDENT UPON THE HARD DISK DRIVE INDUSTRY, WHICH IS HIGHLY CYCLICAL AND EXPERIENCES RAPID TECHNOLOGICAL CHANGE.

Prior to March 2000, all of our sales were to customers in the hard disk drive industry. The hard disk drive industry is intensely competitive and the technology changes rapidly. As a result, this industry is highly

cyclical, with periods of increased demand and rapid growth followed by periods of oversupply and subsequent contraction. These cycles may affect us as our customers are suppliers to this industry. Hard disk drive manufacturers tend to order more components than they may need during growth periods, and sharply reduce orders for components during periods of contraction. In addition, advances in existing technologies and the introduction of new technologies may result in lower demand for disk drive storage devices, thereby reducing demand for our products.

Rapid technological changes in the hard disk drive industry often result in significant and rapid shifts in market share among the industry's participants. If the hard disk drive manufacturers supplied by our customers do not retain or increase market share, our sales may decrease.

THE DEVELOPMENT AND EVOLUTION OF MARKETS FOR OUR INTEGRATED CIRCUITS ARE DEPENDENT ON FACTORS, SUCH AS INDUSTRY STANDARDS, OVER WHICH WE HAVE NO CONTROL. FOR EXAMPLE, IF OUR CUSTOMERS ADOPT NEW OR COMPETING INDUSTRY STANDARDS WITH WHICH OUR PRODUCTS ARE NOT COMPATIBLE OR FAIL TO ADOPT STANDARDS WITH WHICH OUR PRODUCTS ARE COMPATIBLE, OUR EXISTING PRODUCTS WOULD BECOME LESS DESIRABLE TO OUR CUSTOMERS AND OUR SALES WOULD SUFFER.

The emergence of markets for our integrated circuits is affected by a variety of factors beyond our control. In particular, our products are designed to conform to current specific industry standards. Our customers may not adopt or continue to follow these standards, which would make our products less desirable to our customers and reduce our sales. Also, competing standards may emerge that are preferred by our customers, which could also reduce our sales and require us to make significant expenditures to develop new products.

We have made a significant investment in the development and production of our Gigabit Ethernet products. However, the Gigabit Ethernet technology is relatively new compared to the more established 10 and 100 megabits per second Fast Ethernet technologies. If the Gigabit Ethernet technology does not achieve widespread market acceptance, our Gigabit Ethernet products may never be profitable.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY, WHICH WOULD NEGATIVELY AFFECT OUR ABILITY TO COMPETE.

We believe one of our key competitive advantages results from our collection of proprietary technologies that we have developed since our inception. If we fail to protect these intellectual property rights, competitors could sell products based on technology that we have developed, which could harm our competitive position and decrease our revenues. We believe that the protection of our intellectual property rights is and will continue to be important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies. We also enter into confidentiality or license agreements with our employees, consultants and business partners, and control access to and distribution of our documentation and other proprietary information. As of March 31, 2001, we have been issued 19 United States patents and had a number of pending United States patent applications. However, a patent may not be issued as a result of any applications or, if issued, claims allowed may not be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. Despite our efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or proprietary technology. Monitoring unauthorized use of our technology is difficult, and the steps that we have taken may not prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

SIGNIFICANT LITIGATION OVER INTELLECTUAL PROPERTY IN OUR INDUSTRY MAY CAUSE US TO BECOME INVOLVED IN COSTLY AND LENGTHY LITIGATION, WHICH COULD SUBJECT US TO LIABILITY, REQUIRE US TO STOP SELLING OUR PRODUCTS OR FORCE US TO REDESIGN OUR PRODUCTS.

Litigation involving patents and other intellectual property is widespread in the high-technology industry and is particularly prevalent in the integrated circuit industry, where a number of companies aggressively bring numerous infringement claims to protect their patent portfolios. We may become a party to litigation in the future either to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. These lawsuits could subject us to significant liability for damages and invalidate our proprietary

rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling products or using technology that contain the allegedly infringing intellectual property;
- pay damages to the party claiming infringement;
- attempt to obtain a license to the relevant intellectual property, which license may not be available on reasonable terms or at all; and
- attempt to redesign those products that contain the allegedly infringing intellectual property.

WE ARE INCORPORATED IN BERMUDA, AND, AS A RESULT, IT MAY NOT BE POSSIBLE FOR OUR SHAREHOLDERS TO ENFORCE CIVIL LIABILITY PROVISIONS OF THE SECURITIES LAWS OF THE UNITED STATES.

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

OUR BYE-LAWS CONTAIN A WAIVER OF CLAIMS OR RIGHTS OF ACTION BY OUR SHAREHOLDERS AGAINST OUR OFFICERS AND DIRECTORS, WHICH WILL SEVERELY LIMIT OUR SHAREHOLDERS' RIGHT TO ASSERT A CLAIM AGAINST OUR OFFICERS AND DIRECTORS UNDER BERMUDA LAW.

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

WE ARE SUBJECT TO UNCERTAINTY CONCERNING OUR TAX SITUATION.

As a Bermuda corporation, we are subject to United States federal income tax at regular corporate rates and to United States branch profits tax, in each case to the extent that our income is effectively connected with the conduct of a trade or business in the United States. The determination of whether income of a foreign corporation is effectively connected with the conduct of a trade or business in the United States and, therefore, is subject to United States tax, involves a consideration of all the facts and circumstances and the application of legal standards that are uncertain. There have been few court cases or rulings by the Internal Revenue Service addressing the application of these legal standards, and we believe that none of these cases or rulings relate to facts precisely like ours. Our position is that our business operations do not generate any income effectively connected with a United States trade or business. Because of the uncertainty as to how United States federal income tax laws apply to the way we conduct our business, we believe the Internal Revenue Service will probably disagree with our past or future positions as to the amount of effectively connected income that we earn. Therefore, if our positions are disallowed, the amount we have accrued on our financial

statements for United States federal income taxes may be insufficient to the extent of the difference between the income tax rate ultimately determined to apply and the tax rate that we have used to accrue for income taxes in our financial statements. In addition, we could be required to make significant cash payments for back taxes and interest based on the difference between the income tax rate ultimately determined to apply and the effective rate at which we paid those taxes.

TAX BENEFITS WE RECEIVE MAY BE TERMINATED OR REDUCED IN THE FUTURE, WHICH WOULD INCREASE OUR COSTS.

Under current Bermuda law, we are not subject to tax on our income or capital gains. We have obtained from the Minister of Finance of Bermuda under the Exempt Undertakings Tax Protection Act 1966, as amended, an undertaking that, in the event that Bermuda enacts any legislation imposing tax computed on income or capital gains, those taxes should not apply to us until March 28, 2016. However, this exemption may not be extended beyond that date.

The Economic Development Board of Singapore granted Pioneer Status to our wholly-owned subsidiary in Singapore in July 2000 for a period of at least six years, commencing July 1, 1999. As a result, we anticipate that a significant portion of the income we earn in Singapore during this period will be exempt from the 26% Singapore tax rate. We are required to meet several requirements as to investment, headcount and activities in Singapore to retain this status. If our Pioneer Status is terminated early, our financial results could be harmed.

The Israeli government has granted Approved Enterprise Status to our wholly-owned subsidiary in Israel, which provides for a tax holiday on undistributed Israeli income. We expect that we will start paying some income tax in Israel beginning in 2004. In order to maintain our qualification, we must continue to meet specified conditions, including the making of investments in fixed assets in Israel.

IF WE ARE CLASSIFIED AS A PASSIVE FOREIGN INVESTMENT COMPANY, OUR SHAREHOLDERS MAY SUFFER ADVERSE TAX CONSEQUENCES.

Because we are incorporated in Bermuda and have operations in the United States, Israel and Singapore, we are subject to special rules and regulations, including rules regarding a passive foreign investment company, or PFIC. We believe that we are not a PFIC, and we expect to continue to manage our affairs so that we will not become a PFIC. However, whether we should be treated as a PFIC is a factual determination that is made annually and is subject to change. If we are classified as a PFIC, then each United States holder of our common stock would, upon qualifying distributions by us or upon the pledge or sale of their shares of common stock at a gain, be liable to pay tax at the then prevailing rates on ordinary income plus an interest charge, generally as if the distribution or gain had been earned ratably over the shareholder's holding period. In addition to the risks related to PFIC status, we and our shareholders could also suffer adverse tax consequences if we are classified as a foreign personal holding company, a personal holding company or a controlled foreign corporation.

OUR OFFICERS AND DIRECTORS OWN A LARGE PERCENTAGE OF OUR VOTING STOCK, AND THREE EXISTING DIRECTORS, WHO ARE ALSO SIGNIFICANT SHAREHOLDERS, ARE RELATED BY BLOOD OR MARRIAGE. THESE FACTORS MAY ALLOW THE OFFICERS AND DIRECTORS AS A GROUP OR THE THREE RELATED DIRECTORS TO CONTROL THE ELECTION OF DIRECTORS AND THE APPROVAL OR DISAPPROVAL OF SIGNIFICANT CORPORATE ACTIONS.

As of March 31, 2001, our executive officers and directors beneficially owned or controlled, directly or indirectly, approximately 52% of the outstanding shares of our common stock. Additionally, Sehat Sutardja and Weili Dai are husband and wife and Sehat Sutardja and Pantas Sutardja are brothers. All three are directors and together they held approximately 31% of our outstanding common stock as of March 31, 2001. As a result, if the directors and officers as a group or any of Sehat Sutardja, Pantas Sutardja and Weili Dai act together, they will significantly influence, and will likely control, the election of our directors and approval or disapproval of our significant corporate actions. This influence over our affairs might be adverse to the interests of other shareholders. In addition, the voting power of these officers or directors could have the effect of delaying or preventing an acquisition of us on terms that other shareholders may desire.

Under Bermuda law all of our officers, in exercising their powers and discharging their duties, must act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Majority shareholders do not owe fiduciary duties to minority shareholders. As a result, the minority shareholders will not have a direct claim against the majority shareholders in the event the majority shareholders take actions that damage the interests of minority shareholders. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda, except the Bermuda courts would be expected to follow English case law precedent, which would permit a shareholder to bring an action in our name if the directors or officers are alleged to be acting beyond our corporate power, committing illegal acts or violating our Memorandum of Association or Bye-laws. In addition, minority shareholders would be able to challenge a corporate action that allegedly constituted a fraud against them or required the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with the action.

CLASS ACTION LITIGATION DUE TO STOCK PRICE VOLATILITY COULD CAUSE US TO INCUR SUBSTANTIAL COSTS AND DIVERT OUR MANAGEMENT'S ATTENTION AND RESOURCES.

In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. Companies in the integrated circuit industry and other technology industries are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. Accordingly, we may in the future be the target of securities litigation. Securities litigation could result in substantial costs and could divert the attention and resources of our management.

FUTURE SALES OF OUR COMMON STOCK IN THE PUBLIC MARKET MAY DEPRESS OUR STOCK PRICE.

Future sales of a substantial number of shares of our common stock in the public market could cause our stock price to decline. As of March 31, 2001, we had 115,373,385 shares of common stock outstanding. None of these shares are currently subject to any underwriter's lock-up agreements. The market price of our stock could drop significantly if the holders of these shares sell them or are perceived by the market as intending to sell them. In addition, the sale of these shares could impair our ability to raise capital through the sale of additional stock.

OUR BYE-LAWS CONTAIN PROVISIONS THAT COULD DELAY OR PREVENT A CHANGE IN CORPORATE CONTROL, EVEN IF THE CHANGE IN CORPORATE CONTROL WOULD BENEFIT OUR SHAREHOLDERS.

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

- authorizing the issuance of preferred stock without shareholder approval;
- providing for a classified board of directors with staggered, three-year terms; and
- requiring two-thirds of the outstanding shares to approve amendments to our Bye-laws.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk. Our cash equivalents and short-term investments are exposed to financial market risk due to fluctuations in interest rates, which may affect our interest income. As of January 31, 2001, our cash equivalents and short-term investments consisted of money market securities; corporate debt securities; State, county and municipal debt securities; and foreign government securities. Due to the short-term nature of our investment portfolio, we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates. We do not use our investment portfolio for trading or other speculative purposes.

Foreign Currency Exchange Risk. All of our sales and the majority of our expenses to date have been denominated in U.S. dollars, and, as a result, we have relatively little exposure to foreign currency exchange risk. We do not currently enter into forward exchange contracts to hedge exposures denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. However, in the event our exposure to foreign currency risk increases, we may choose to hedge those exposures in the future.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE

Report of Independent Accountants.....	54
Consolidated Balance Sheets.....	55
Consolidated Statements of Operations.....	56
Consolidated Statements of Shareholders' Equity (Deficit)...	57
Consolidated Statements of Cash Flows.....	58
Notes to Consolidated Financial Statements.....	59

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
Marvell Technology Group Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Marvell Technology Group Ltd. and its subsidiaries (the "Company") as of January 31, 2001 and 2000, and the results of its operations and its cash flows for the three years in the period ended January 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Jose, California
February 22, 2001

MARVELL TECHNOLOGY GROUP LTD.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

	JANUARY 31,	
	2001	2000
Current assets:		
Cash and cash equivalents.....	\$ 184,128	\$16,600
Short-term investments.....	39,935	--
Accounts receivable, net of allowances of \$1,218 and \$100, respectively.....	37,543	14,701
Inventory, net.....	30,924	4,830
Prepaid expenses and other current assets.....	7,717	1,195
Deferred income taxes.....	3,762	1,456
Total current assets.....	304,009	38,782
Property and equipment, net.....	31,184	7,413
Goodwill and acquired intangible assets.....	2,100,839	--
Other noncurrent assets.....	11,454	305
Total assets.....	\$2,447,486	\$46,500
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 24,818	\$ 5,698
Accrued liabilities.....	9,521	3,050
Accrued employee compensation.....	7,802	1,474
Accrued merger costs.....	29,530	--
Income taxes payable.....	9,998	5,875
Deferred revenue.....	6,516	--
Capital lease obligations.....	37	74
Total current liabilities.....	88,222	16,171
Long-term liabilities.....	2,598	36
Total liabilities.....	90,820	16,207
	=====	=====
Commitments (Note 10)		
Mandatorily redeemable convertible preferred stock, \$0.002 par value; 8,000,000 shares authorized; zero and 6,609,875 shares issued and outstanding, respectively.....	--	22,353
Shareholders' equity:		
Common stock, \$0.002 par value; 242,000,000 shares authorized; 115,337,133 and 48,931,560 shares issued and outstanding, respectively.....	231	98
Additional paid-in capital.....	2,617,490	17,580
Deferred stock-based compensation.....	(28,113)	(11,897)
Accumulated other comprehensive income.....	19	--
Retained earnings (deficit).....	(232,961)	2,159
Total shareholders' equity.....	2,356,666	7,940
Total liabilities and shareholders' equity.....	\$2,447,486	\$46,500
	=====	=====

The accompanying notes are an integral part of these Consolidated Financial Statements.

MARVELL TECHNOLOGY GROUP LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Net revenue.....	\$ 143,894	\$81,375	\$21,253
Costs and expenses:			
Cost of goods sold(1).....	67,047	33,773	10,103
Research and development(2).....	35,152	14,452	5,837
Selling and marketing(3).....	21,686	10,436	4,631
General and administrative(4).....	6,185	3,443	1,190
Amortization of stock-based compensation.....	8,259	2,175	42
Amortization of goodwill and acquired intangible assets...	8,031	--	--
Acquired in-process research and development.....	234,874	--	--
Total costs and expenses.....	381,234	64,279	21,803
Operating income (loss).....	(237,340)	17,096	(550)
Interest and other income.....	4,683	486	175
Interest and other expense.....	(124)	(156)	(101)
Income (loss) before income taxes.....	(232,781)	17,426	(476)
Provision for income taxes.....	2,339	4,356	483
Net income (loss).....	\$(235,120)	\$13,070	\$ (959)
Net income (loss) per share:			
Basic net income (loss) per share.....	\$ (3.55)	\$ 0.32	\$ (0.03)
Diluted net income (loss) per share.....	\$ (3.55)	\$ 0.16	\$ (0.03)
Weighted average shares -- basic.....	66,259	41,094	32,470
Weighted average shares -- diluted.....	66,259	81,545	32,470

(1) Excludes amortization of stock-based compensation of \$416, \$11 and \$0 in fiscal 2001, 2000 and 1999.

(2) Excludes amortization of stock-based compensation of \$3,367, \$1,373 and \$27 in fiscal 2001, 2000 and 1999.

(3) Excludes amortization of stock-based compensation of \$3,997, \$211, and \$4 in fiscal 2001, 2000 and 1999.

(4) Excludes amortization of stock-based compensation of \$479, \$580 and \$11 in fiscal 2001, 2000 and 1999.

The accompanying notes are an integral part of these Consolidated Financial Statements.

MARVELL TECHNOLOGY GROUP LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	DEFERRED STOCK-BASED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS (DEFICIT)	TOTAL
	SHARES	AMOUNT					
Balance at January 31, 1998.....	39,434,000	\$ 79	\$ 295	\$ --	\$--	\$ (9,952)	\$ (9,578)
Common stock options exercised.....	5,486,592	11	1,081	--	--	--	1,092
Common stock repurchased.....	(375,008)	(1)	(12)	--	--	--	(13)
Issuance of warrants in connection with Series D Mandatorily Redeemable Convertible Preferred Stock.....	--	--	66	--	--	--	66
Deferred stock-based compensation...	--	--	262	(262)	--	--	--
Amortization of deferred stock-based compensation.....	--	--	--	42	--	--	42
Net loss.....	--	--	--	--	--	(959)	(959)
Balance at January 31, 1999.....	44,545,584	89	1,692	(220)	--	(10,911)	(9,350)
Common stock options exercised.....	4,437,376	9	2,070	--	--	--	2,079
Common stock repurchased.....	(51,400)	--	(34)	--	--	--	(34)
Deferred stock-based compensation...	--	--	13,852	(13,852)	--	--	--
Amortization of deferred stock-based compensation.....	--	--	--	2,175	--	--	2,175
Net income.....	--	--	--	--	--	13,070	13,070
Balance at January 31, 2000.....	48,931,560	98	17,580	(11,897)	--	2,159	7,940
Issuance of common stock in public offering, net of issuance costs...	6,900,000	14	93,968	--	--	--	93,982
Conversion of Mandatorily Redeemable Preferred Stock into common stock.....	26,804,920	54	22,699	--	--	--	22,753
Issuance of common stock and options in connection with acquisition....	29,110,455	58	2,473,253	(19,837)	--	--	2,453,474
Common stock options exercised.....	4,468,557	9	3,794	--	--	--	3,803
Common stock warrants exercised.....	229,689	--	--	--	--	--	--
Common stock repurchased.....	(1,211,819)	(2)	(478)	--	--	--	(480)
Purchases of common stock under the employee stock purchase plan.....	103,771	--	1,323	--	--	--	1,323
Deferred stock-based compensation, net.....	--	--	4,638	(4,638)	--	--	--
Amortization of deferred stock-based compensation.....	--	--	--	8,259	--	--	8,259
Tax benefit from employee stock transactions.....	--	--	713	--	--	--	713
Comprehensive income (loss):							
Unrealized gain (loss) on available-for-sale investments....	--	--	--	--	19	--	19
Net income (loss).....	--	--	--	--	--	(235,120)	(235,120)
Total comprehensive income (loss)...							(235,101)
Balance at January 31, 2001.....	115,337,133	\$231	\$2,617,490	\$(28,113)	\$19	\$(232,961)	\$2,356,666

The accompanying notes are an integral part of these Consolidated Financial Statements.

MARVELL TECHNOLOGY GROUP LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss).....	\$(235,120)	\$13,070	\$ (959)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	12,744	1,652	701
Amortization of deferred stock-based compensation.....	8,259	2,175	42
Acquired in-process research and development.....	234,874	--	--
Tax benefit from employee stock transactions.....	713	--	--
Changes in assets and liabilities, net of assets acquired and liabilities assumed in purchase acquisition:			
Accounts receivable.....	(9,254)	(9,204)	(5,398)
Inventory.....	(8,720)	(2,515)	(2,050)
Prepaid expenses and other assets.....	(6,981)	(1,187)	(228)
Accounts payable.....	10,078	1,963	3,264
Accrued liabilities.....	2,261	1,618	1,089
Accrued employee compensation.....	1,746	998	296
Income taxes payable.....	2,512	4,686	770
Deferred revenue.....	771	--	--
Deferred income taxes.....	(1,691)	(614)	(453)
Net cash provided by (used in) operating activities.....	12,192	12,642	(2,926)
Cash flows from investing activities:			
Net cash received from purchase acquisition.....	68,542	--	--
Purchases of property and equipment.....	(12,161)	(6,808)	(1,564)
Net cash provided by (used in) investing activities.....	56,381	(6,808)	(1,564)
Cash flows from financing activities:			
Proceeds from the issuance of convertible preferred stock, net.....	400	4,829	4,125
Proceeds from the issuance of common stock, net.....	99,108	2,045	1,079
Repurchases of common stock.....	(480)	--	--
Principal payments on capital lease obligations and notes payable.....	(73)	(3,579)	(211)
Proceeds from borrowings on notes payable.....	--	1,956	1,705
Net cash provided by financing activities.....	98,955	5,251	6,698
Net increase in cash and cash equivalents.....	167,528	11,085	2,208
Cash and cash equivalents at beginning of period.....	16,600	5,515	3,307
Cash and cash equivalents at end of period.....	\$ 184,128	\$16,600	\$ 5,515
Supplemental cash flow information:			
Cash paid for interest.....	\$ 2	\$ 174	\$ 101
Cash paid for income taxes.....	\$ 318	\$ 284	\$ 166
Acquisition of property and equipment under capital lease obligations.....	\$ --	\$ 176	\$ --

The accompanying notes are an integral part of these Consolidated Financial Statements.

MARVELL TECHNOLOGY GROUP LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES:

The Company

Marvell Technology Group Ltd. (the "Company"), a Bermuda exempted company, was incorporated on January 11, 1995. The Company designs, develops and markets integrated circuits using proprietary communications mixed-signal processing, or CMSP, and digital signal processing technologies for communications-related markets. On January 21, 2001, the Company completed its acquisition of Galileo Technology Ltd. ("Galileo"), an Israeli company. Galileo develops high-performance communications internetworking and switching products for the broadband communications market.

Initial public offering

In June 2000, the Company completed its initial public offering of common stock. A total of 6,900,000 shares were sold by the Company at a price of \$15.00 per share. The offering resulted in proceeds to the Company of approximately \$94.0 million, net of underwriting discounts and offering costs. At the closing of the offering, all issued and outstanding shares of the Company's Mandatorily Redeemable Convertible Preferred Stock were converted into an aggregate of 26,804,920 shares of common stock.

Basis of presentation

During fiscal 2000, the Company changed its fiscal year-end to the Saturday nearest January 31. In fiscal 1999, its fiscal year ended on January 31. For presentation purposes, the consolidated financial statements and notes refer to January 31 as the Company's fiscal year-end.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting in future periods.

Principles of consolidation

The 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 subsidiaries is the United States dollar.

Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amounts for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities, accrued employee compensation and accrued merger costs approximate their respective fair values because of the short-term maturity of these items. The carrying value of the Company's debt approximates fair market value because of prevailing interest rates.

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 consist of cash on deposit with banks, money market funds and commercial deposits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Investments

The Company's investments are classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses are reported, net of taxes, in accumulated other comprehensive income (loss), 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 income or interest expense. The Company views its available-for-sale portfolio as available for use in its current operations. Accordingly, the Company has classified all investments as short-term, even though the stated maturity date may be one year or more beyond the current balance sheet date. The specific identification method is used to determine the cost of securities sold. Interest and dividends on securities classified as available-for-sale are included in interest income.

The Company also has equity investments in privately-held companies. These investments are recorded at cost as the Company does not have the ability to exercise significant influence over the operating and financial policies of these companies. These investments are included in other long-term assets on the Company's balance sheet. The Company monitors these investments for impairment and makes appropriate reductions in carrying values when an impairment is deemed to be other than temporary.

Concentration of credit risk and significant customers

Financial instruments that potentially subject the Company to significant concentrations 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 the storage and communications industries, 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 evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary but generally requires no collateral.

The following table sets forth sales to customers comprising 10% or more of the Company's total revenue for the periods indicated:

CUSTOMER	YEARS ENDED JANUARY 31,		
	2001	2000	1999
A.....	34%	36%	46%
B.....	22%	24%	43%
C.....	11%	14%	*
D.....	*	14%	*
E.....	*	10%	*

- - - - -

* Less than 10% of total revenue

The Company's accounts receivable were concentrated with three customers at January 31, 2001 (representing 13%, 12% and 10% of aggregate gross receivables) and four customers at January 31, 2000 (representing 48%, 16%, 15% and 14% of aggregate gross receivables).

Inventory

Inventory is 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Property and equipment

Property and equipment, including capital leases and leasehold improvements, are stated at cost less accumulated depreciation or amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to five years. Assets held under capital leases and leasehold improvements are amortized over the term of the lease or their estimated useful lives, whichever is shorter.

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. Goodwill and other acquisition-related intangibles are amortized on a straight-line basis over their estimated economic lives of five years for goodwill, five years for developed technology, ten years for trade names and six years for workforce.

Long-lived assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be recoverable. An impairment loss is recognized if the sum of the expected future cash flows (undiscounted and before interest) from the use of the asset is less than the net book value of the asset. The amount of the impairment loss will generally be measured as the difference between net book values of the assets and their estimated fair values. The Company believes that no long-lived assets were impaired at January 31, 2001 or 2000.

Foreign currency transactions

Monetary accounts maintained in currencies other than the United States dollar are remeasured using the foreign exchange rate at the balance sheet date. Operational accounts and nonmonetary balance sheet accounts are measured and recorded at the rate in effect at the date of the transaction. The effects of foreign currency remeasurement are reported in current operations. The effect of foreign currency remeasurement was not significant in fiscal years 2001, 2000 or 1999.

Revenue recognition

Revenue from the sale of integrated circuits is recognized upon shipment, net of accruals for estimated sales returns and allowances. Revenue generated by sales to distributors under agreements allowing certain rights of return are deferred for financial reporting purposes until the products are sold by distributors.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The Company adopted SAB No. 101 in the fourth quarter of fiscal 2001, and it did not have a material impact on the Company's financial statements.

Research and development

Research and development costs are expensed as incurred.

Stock-based compensation

The Company's employee stock option plan is accounted for in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compen-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

sation" ("SFAS 123"). Expense associated with stock-based compensation is amortized on an accelerated basis over the vesting period of the individual awards consistent with the method described in Financial Accounting Standards Board Interpretation No. 28, ("FIN 28"). Application of FIN 28 results in amortization of approximately 46% of the compensation in the first 12 months of vesting, 26% of the compensation in the second 12 months of vesting, 15% of the compensation in the third 12 months of vesting, 9% of the compensation in the fourth 12 months of vesting and 4% of the compensation in the fifth 12 months of vesting. The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force Consensus No. 96-18, "Accounting for Equity Instruments that are Offered to Other Than Employees for Acquiring of in Conjunction with Selling Goods or Services" ("EITF 96-18"). Under SFAS 123 and EITF 96-18, stock option awards issued to non-employees are accounted for at their fair value using the Black-Scholes method. The fair value of each non-employee stock award is remeasured at each period end until a commitment date is reached, which is generally the vesting date.

Comprehensive income (loss)

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. For the year ended January 31, 2001, comprehensive loss is comprised of net loss and unrealized gains and losses on available-for-sale securities. There was no difference between the Company's net income or loss and its total comprehensive income or loss for the years ended January 31, 2000 and 1999.

Net income (loss) per share

The Company reports both basic net income (loss) per share, which is based upon the weighted average number of common shares outstanding excluding contingently issuable or returnable shares, and diluted net income (loss) per share, which is based on the weighted average number of common shares outstanding and dilutive potential common shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock (in thousands, except per share amounts):

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Numerator:			
Net income (loss).....	<u>\$(235,120)</u>	<u>\$13,070</u>	<u>\$ (959)</u>
Denominator:			
Basic --			
Weighted-average shares of common stock outstanding.....	71,074	46,428	40,459
Less: unvested common shares subject to repurchase.....	<u>(4,815)</u>	<u>(5,334)</u>	<u>(7,989)</u>
Denominator for basic calculation.....	<u>66,259</u>	<u>41,094</u>	<u>32,470</u>
Effect of dilutive securities --			
Unvested common shares subject to repurchase...	--	5,334	--
Mandatorily redeemable convertible preferred stock and warrants.....	--	25,336	--
Common stock options and warrants.....	--	9,781	--
Denominator for diluted calculation.....	<u>66,259</u>	<u>81,545</u>	<u>32,470</u>
Basic net income (loss) per share.....	<u>\$ (3.55)</u>	<u>\$ 0.32</u>	<u>\$ (0.03)</u>
Diluted net income (loss) per share.....	<u>\$ (3.55)</u>	<u>\$ 0.16</u>	<u>\$ (0.03)</u>

The following table sets forth potential shares of common stock, assuming conversion of preferred stock and preferred stock warrants that are not included in the diluted net loss per share calculation above because to do so would be anti-dilutive for the periods presented (in thousands):

	YEARS ENDED JANUARY 31,	
	2001	1999
Unvested common stock subject to repurchase.....	4,815	7,989
Mandatorily Redeemable Convertible preferred stock and warrants.....	11,130	25,962
Common stock options and warrants.....	10,431	12,896

Recent accounting pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of FASB Statement No. 133." In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended certain terms and conditions of SFAS 133. SFAS 133, as amended, requires that all derivative instruments be recorded on the balance sheet at their fair market value. Changes in the fair market value of derivatives are recorded each period in current earnings or comprehensive income, depending on whether a derivative is designed as part of a hedge transaction, and if so, the type of hedge transaction. All of the Company's revenues and the majority of its costs are denominated in U.S. dollars, and to date the Company has not entered into any derivative contracts. The Company will adopt SFAS No. 133 and 138 on February 1, 2001. The adoption is not expected to have a significant impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 -- ACQUISITION:

Effective January 21, 2001, the Company acquired Galileo Technology Ltd. in a stock-for-stock transaction. Galileo develops high-performance communications internetworking and switching products for the broadband communications market. The acquisition has been accounted for using the purchase method of accounting, and the operating results of Galileo have been included in the Company's consolidated financial statements from the date of acquisition. The total purchase price for this acquisition was approximately \$2.5 billion. The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the acquisition date. The purchase price consisted of 29,110,455 shares of the Company's common stock (estimated fair value of \$2.1 billion), options to purchase 6,826,407 shares of the Company's common stock (estimated fair value of \$381.4 million) and acquisition-related expenses of approximately \$16.1 million. The allocation of the purchase price was as follows (in thousands):

Net tangible assets.....	\$ 125,710
Intangible assets:	
Goodwill.....	1,674,142
Developed technology.....	388,955
Trade name.....	33,241
Workforce.....	12,532
Deferred stock-based compensation.....	19,837
In-process research and development.....	234,874

Total.....	\$2,489,291
	=====

The amounts allocated to goodwill and other intangible assets are amortized on a straight-line basis over periods between five and ten years.

The amount allocated to deferred stock-based compensation relates to the intrinsic value of the unvested Galileo stock options assumed. The Galileo stock options generally vest over a period of four years. This deferred stock-based compensation is amortized on an accelerated basis over the vesting period of the individual awards consistent with the method described in FIN 28. Application of FIN 28 results in amortization of approximately 52% of the compensation in the first 12 months of vesting, 27% of the compensation in the second 12 months of vesting, 15% of the compensation in the third 12 months of vesting and 6% of the compensation in the fourth 12 months of vesting.

The amount allocated to in-process research and development was determined based on an appraisal completed by an independent third party using established valuation techniques in the high-technology industry and was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. The fair values of Galileo's in-process research and development ("IPRD"), as well as their developed technologies, 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 and venture capital surveys, adjusted upward to reflect additional risks inherent in the development life cycle. A discount rate of 16.5% was used for developed technology, and rates between 21.5% and 34.0% were used for IPRD, depending on the stage of completion of each technology. As of the date of acquisition, the estimated cost to complete the technology under development was approximately \$21.0 million. Development of this technology remains a substantial risk due to a number of factors, including the remaining effort to achieve technological feasibility, rapidly changing customer markets and competitive threats from other companies.

The unaudited pro forma information below assumes that Galileo had been acquired at the beginning of fiscal 2000 and includes the effect of amortization of goodwill and other intangible assets from that date. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

impact of charges for purchased in-process research and development has been excluded. This data is presented for informational purposes only and is not necessarily indicative of the results of future operations or the results that would have been achieved had the acquisition taken place on that date. The pro forma information is as follows (in thousands, except per share data):

	YEARS ENDED JANUARY 31,	
	2001	2000
Net revenues.....	\$ 250,425	\$ 161,092
Net loss.....	\$(393,668)	\$(389,168)
Basic net loss per share.....	\$ (4.15)	\$ (5.54)
Diluted net loss per share.....	\$ (4.15)	\$ (5.54)

NOTE 3 -- AVAILABLE-FOR-SALE SECURITIES:

The fair value and the amortized cost of available-for-sale securities at January 31, 2001 are presented in the following tables (in thousands):

	JANUARY 31, 2001			
	AMORTIZED COST	UNREALIZED HOLDING GAINS	UNREALIZED HOLDING LOSSES	ESTIMATED FAIR VALUE
Corporate debt securities.....	\$41,832	\$ 3	\$--	\$41,835
State, county and municipal debt securities.....	27,699	16	--	27,715
Foreign government securities.....	13,888	--	--	13,888
	-----	---	---	-----
	\$83,419	\$19	\$--	\$83,438
	=====	===	==	=====
Reported as:				
Cash equivalents.....	\$43,503	\$--	\$--	\$43,503
Short-term investments.....	39,916	19	--	39,935
	-----	---	---	-----
	\$83,419	\$19	\$--	\$83,438
	=====	===	==	=====

The contractual maturities of available-for-sale debt securities classified as short-term investments at January 31, 2001 are as follows (in thousands):

	AMORTIZED COST	FAIR VALUE
	-----	-----
Due in one year or less.....	\$23,110	\$23,129
Due between one and three years.....	12,456	12,456
Due between three and five years.....	4,350	4,350
	-----	-----
	\$39,916	\$39,935
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 -- BALANCE SHEET DETAILS (IN THOUSANDS):

	JANUARY 31,	
	2001	2000
INVENTORY:		
Work-in-process.....	\$ 15,530	\$ 4,830
Finished goods.....	15,394	--
	\$ 30,924	\$ 4,830
PROPERTY AND EQUIPMENT:		
Machinery and equipment.....	\$ 21,631	\$ 3,890
Computer software.....	13,605	3,981
Furniture and fixtures.....	6,119	1,633
Leasehold improvements.....	7,582	685
	48,937	10,189
Less: Accumulated depreciation and amortization.....	(17,753)	(2,776)
	\$ 31,184	\$ 7,413
GOODWILL AND INTANGIBLE ASSETS:		
Goodwill.....	\$1,674,142	\$ --
Developed technology.....	388,955	--
Trade name.....	33,241	--
Workforce.....	12,532	--
	2,108,870	--
Less: Accumulated amortization.....	(8,031)	--
	\$2,100,839	\$ --

Machinery and equipment include \$133 and \$320 of assets under capital leases at January 31, 2001 and 2000, respectively. Accumulated depreciation for such equipment was \$85 and \$124 at January 31, 2001 and 2000, respectively.

NOTE 5 -- MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK:

Mandatorily redeemable convertible preferred stock at January 31, 2000 consisted of the following (in thousands):

	SHARES		PROCEEDS	LIQUIDATION
	AUTHORIZED	OUTSTANDING	NET OF ISSUANCE COSTS	AMOUNT
Series A.....	525	525	\$ 350	\$ 350
Series B.....	1,119	1,119	1,199	1,231
Series C.....	2,184	2,090	7,098	7,316
Series D.....	3,750	2,526	10,206	10,945
Series E.....	422	350	3,500	3,500
	8,000	6,610	\$22,353	\$23,342
	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of activity in mandatorily redeemable convertible preferred stock (in thousands):

	SHARES -----	TOTAL AMOUNT -----
Balance at January 31, 1998.....	4,838	\$ 13,465
Issuance of Series D Mandatorily Redeemable Convertible Preferred Stock.....	1,043	4,059
Balance at January 31, 1999.....	5,881	17,524
Issuance of Series E Mandatorily Redeemable Convertible Preferred Stock.....	350	3,500
Issuance of Series C and Series D Mandatorily Redeemable Convertible Preferred Stock upon exercise of warrants.....	379	1,329
Balance at January 31, 2000.....	6,610	22,353
Issuance of Series D Mandatorily Redeemable Convertible Preferred Stock upon exercise of warrants.....	91	400
Conversion of Series A, Series B, Series C, Series D and Series E Mandatorily Redeemable Convertible Preferred Stock into common stock.....	(6,701)	(22,753)
Balance at January 31, 2001.....	--	\$ --
	=====	=====

Effective upon the closing of the Company's initial public offering in June 2000, all outstanding shares of Series A, Series B, Series C, Series D and Series E were automatically converted into a total of 26,804,920 shares of common stock.

NOTE 6 -- PREFERRED AND COMMON STOCK WARRANTS:

In connection with the issuance of Series C, the Company issued warrants to purchase 471,428 shares of Series C at \$3.50 per share. Warrants to purchase 377,142 shares of Series C were exercised in April and May 1999, and the remaining 94,286 warrants expired during fiscal 2000.

During fiscal 1998, in connection with the issuance of Series D, the Company received bridge financing of approximately \$2,200,000 for which it issued warrants to purchase 93,473 shares of Series D at \$4.33 per share. The Company valued the warrants under the "Black-Scholes" formula at approximately \$84,000. The warrant value has been recorded as interest expense. Warrants to purchase 2,118 shares of Series D were exercised during fiscal 2000, and warrants to purchase the remaining 91,355 shares of Series D were exercised during fiscal 2001.

During fiscal 1999, in connection with the Company's Loan and Security Agreement with a bank, the Company issued warrants to purchase 45,000 shares of Series D at \$4.33 per share which were exercisable on a net basis. The Company valued the warrants under the "Black-Scholes" formula at approximately \$66,000. The warrant value has been recorded as interest expense. Upon the closing of the Company's initial public offering, these warrants converted into warrants to purchase 180,000 shares of common stock at \$1.0825 per share. These warrants were exercised on a net basis for 172,947 shares of common stock in fiscal 2001.

In July 1999, in connection with the Company's Loan and Security Agreement with a bank, the Company issued warrants to purchase 60,000 shares of common stock at \$1.50 per share which were exercisable on a net basis. The Company valued the warrants under the "Black-Scholes" formula at approximately \$23,000. The warrant value has been recorded as interest expense. These warrants were exercised on a net basis for 56,742 shares of common stock in fiscal 2001.

NOTE 7 -- COMMON STOCK:

In January 2000, the Board of Directors approved an increase in the number of authorized common shares to 242,000,000. This increase was approved by the Company's shareholders on March 17, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock dividend

On March 17, 2000, the Company's shareholders approved two 100% common stock dividends. All references throughout the consolidated financial statements to number of shares, per share amounts and stock option data have been restated to reflect the common stock dividends.

1995 Stock Option Plan

In April 1995, the Company adopted the 1995 Stock Option Plan (the "Option Plan"). The Option Plan, as amended, had 33,268,553 shares of common stock reserved for issuance thereunder as of the end of fiscal 2001. The Option Plan allows for the issuance of incentive and nonqualified stock options to employees and consultants of the Company.

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 be issued at prices not less than 110% of the fair market value of the stock on the date of grant. The options 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 vesting.

1997 Directors' Stock Option Plan

In August 1997, the Company adopted the 1997 Directors' Stock Option Plan (the "Directors' Plan"). The Directors' Plan has 900,000 shares of common stock reserved thereunder. Under the Directors' Plan, an outside director is granted 180,000 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 36,000 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.

Other stock option arrangements

In October 1995, the Company granted to a director nonqualified stock options to purchase 1,500,000 shares of common stock at \$0.0333 per share. These options vest ratably over a five year vesting period. The options may be exercised prior to vesting but will remain subject to repurchase until vested. These options were exercised in October 1995. In July 1996, the Company granted to the same director nonqualified stock options to purchase 1,500,000 shares of common stock at \$0.0367 per share. These options vest 20% one year after the date of grant, and the remaining shares vest one-sixtieth per month over the remaining forty-eight months. These options may also be exercised prior to vesting but will remain subject to repurchase until vested.

In January 1998, the Company granted to a director nonqualified stock option to purchase 450,000 shares of common stock at \$0.25 per share. The options vest 20% one year after the vesting commencement date, and the remaining shares vest one-sixtieth per month over the remaining forty-eight months. The options may be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

exercised prior to vesting but will remain subject to repurchase until vested.
The options were exercised in March 2000.

Combined option plan activity

The following table summarizes the activity under the Option Plan, the Directors' Plan and other stock option arrangements:

	SHARES AVAILABLE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
	(IN THOUSANDS)		
Balance at January 31, 1998.....	4,228	12,738	\$ 0.12
Additional shares authorized.....	6,400	--	--
Options granted.....	(6,677)	6,677	\$ 0.49
Options canceled.....	1,032	(1,032)	\$ 0.13
Shares repurchased.....	375	--	\$ 0.03
Options exercised.....	--	(5,487)	\$ 0.20
	-----	-----	
Balance at January 31, 1999.....	5,358	12,896	\$ 0.28
Additional shares authorized.....	3,600	--	--
Options granted.....	(5,289)	5,289	\$ 1.80
Options canceled.....	1,363	(1,363)	\$ 0.39
Shares repurchased.....	51	--	\$ 0.66
Options exercised.....	--	(4,437)	\$ 0.44
	-----	-----	
Balance at January 31, 2000.....	5,083	12,385	\$ 0.87
Additional shares authorized.....	10,595	--	--
Options granted and assumed.....	(14,355)	14,355	\$19.32
Options canceled.....	837	(837)	\$ 7.32
Shares repurchased.....	1,156	--	\$ 0.32
Options exercised.....	--	(4,468)	\$ 0.85
	-----	-----	
Balance at January 31, 2001.....	3,316	21,435	\$12.98
	-----	-----	

The following table summarizes information relating to stock options outstanding and exercisable under the Option Plan, the Directors' Plan and other stock option arrangements at January 31, 2001:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----	-----	-----
	(IN THOUSANDS)			(IN THOUSANDS)	
Range of exercise prices:					
\$ 0.03 - \$ 0.25.....	3,047	5.69	\$ 0.07	3,034	\$ 0.07
\$ 0.33 - \$ 1.75.....	3,351	8.13	\$ 1.05	3,348	\$ 1.05
\$ 2.00 - \$10.00.....	6,493	8.70	\$ 6.99	3,161	\$ 4.53
\$11.12 - \$46.56.....	8,094	9.44	\$25.04	912	\$24.10
\$47.01 - \$93.88.....	450	9.64	\$58.52	--	--
	-----			-----	
	21,435			10,455	
	=====			=====	

In connection with the acquisition of Galileo Technology Ltd., the Company has assumed Galileo's stock option plans. Upon acquisition, a total of 6,826,407 shares of the Company's common stock were reserved for issuance under the assumed plans, and the related options are included in the preceding tables. These options

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

will continue to be governed by the terms and conditions of the original option agreements which generally included a four-year vesting schedule and an eight to ten year option term.

At January 31, 2001, a total of 3,603,430 unvested shares remain subject to the Company's repurchase rights under the Option Plan, the Directors' Plan and other stock option arrangements.

2000 Employee Stock Purchase Plan

In May 2000, the Board of Directors approved the 2000 Employee Stock Purchase Plan (the "Purchase Plan"). In June 2000, the Company's stockholders approved the Purchase Plan, and 1,000,000 shares of common stock were reserved for issuance thereunder. 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. Participant's purchase stock using payroll deductions, which may not exceed 20% of their total cash compensation. Offering and purchase periods will begin on December 1 and June 1 of each year, with the exception that the first offering period of the Purchase Plan began on June 26, 2001, the date of our initial public offering. During the year ended January 31, 2001, a total of 103,771 shares were issued under the Purchase Plan at an average price of \$12.75 per share.

Issuance of common stock to founders

In January 1995, the Company issued 36,000,000 shares of its common stock ("the Founders' Shares") to its founders. Each founder has granted the Company a call right on 50% of his or her shares, exercisable in the event such founder's employment terminated for any reason. The call right expires at a rate of 1/60 per month. At January 31, 2001, no Founders' Shares are subject to call.

Stock-based compensation

During fiscal 2001, 2000 and 1999, the Company granted options to employees and directors and recognized deferred stock-based compensation of approximately \$5,761,000, \$13,852,000 and \$262,000, respectively. Also during fiscal 2001, the Company recorded \$19,837,000 of deferred stock-based compensation relating to the assumed options of Galileo. Such deferred stock-based compensation is being amortized using an accelerated method over the vesting period of the options.

Pro forma disclosures

Had compensation expense for the Company's stock options been determined based on the fair value at the grant dates, as prescribed by SFAS 123, the Company's net income (loss) would have been as follows (in thousands, except per share data):

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Net income (loss):			
As reported.....	\$(235,120)	\$13,070	\$ (959)
Pro forma.....	\$(242,762)	\$11,857	\$(1,572)
Basic net income (loss) per share:			
As reported.....	\$ (3.55)	\$ 0.32	\$ (0.03)
Pro forma.....	\$ (3.66)	\$ 0.29	\$ (0.05)
Diluted net income (loss) per share:			
As reported.....	\$ (3.55)	\$ 0.16	\$ (0.03)
Pro forma.....	\$ (3.66)	\$ 0.15	\$ (0.05)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the purpose of the above noted SFAS 123 pro forma disclosure, the fair value of each stock option granted prior to the Company's initial public offering in June 2000 was estimated on the date of grant using the minimum value method, which does not consider stock price volatility, as prescribed by SFAS 123. Stock options granted subsequent to the Company's initial public offering have been valued using the Black-Scholes option pricing model. Among other things, the Black-Scholes model considers the expected volatility of the Company's stock price in arriving at an option valuation. The fair value of the Company's stock options granted in fiscal 2001 subsequent to the initial public offering was estimated using an expected volatility of 70%. The following table summarizes the estimated fair value of options and additional assumptions used in the SFAS 123 calculations:

	STOCK OPTION PLANS			ESPP
	2001	2000	1999	2001
Estimated fair value.....	\$7.80	\$2.96	\$0.38	\$5.06
Expected term (in years).....	3.3	5.0	5.0	0.4
Risk-free interest rate.....	6.3%	6.1%	4.5%	5.3%
Dividend yield.....	--	--	--	--

NOTE 8 -- BENEFIT PLAN:

Effective January 1, 1994, the Company adopted a 401(k) plan which allows all employees to participate by making salary deferred contributions to the 401(k) plan ranging from 1% to 20% of eligible earnings. The Company may make discretionary contributions to the 401(k) plan upon approval by the Board of Directors. No Company contributions were made to the 401(k) plan from inception through January 31, 2001.

NOTE 9 -- INCOME TAXES:

The provision for income taxes consists of the following (in thousands):

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Current tax expense:			
Federal.....	\$ 2,085	\$ 387	\$ 571
State.....	734	1	1
Foreign.....	1,211	4,582	364
Total current tax expense.....	4,030	4,970	936
Deferred income tax:			
Federal.....	(1,107)	(380)	(298)
State.....	(584)	(234)	(155)
Total deferred income tax expense (benefit)....	(1,691)	(614)	(453)
Total provision for income taxes.....	\$ 2,339	\$4,356	\$ 483
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Deferred tax assets (liabilities) consist of the following (in thousands):

	AS OF JANUARY 31,		
	2001	2000	1999
Research and development credits.....	\$2,240	\$1,281	\$598
California investment credits.....	158	29	29
Reserves and accruals.....	1,320	324	213
Depreciation.....	44	--	2
Total deferred tax assets.....	3,762	1,634	842
Deferred tax liabilities.....	--	(178)	--
Net deferred tax assets.....	\$3,762	\$1,456	\$842

Reconciliation of the statutory federal income tax to the Company's effective tax:

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Provision (benefit) at federal statutory rate.....	(34.0)%	35.0%	(34.0)%
In-process research and development.....	35.5	--	--
Non-U.S. losses.....	--	--	242.1
Difference in U.S. and non-U.S. taxes.....	(2.1)	(10.6)	(7.8)
State taxes, net of federal benefit.....	(0.2)	(0.9)	(21.4)
General business credits.....	(0.5)	(3.0)	(81.0)
Non-cash stock compensation.....	1.2	4.4	3.0
Other.....	1.1	0.1	0.6
Effective tax rate.....	1.0%	25.0%	101.5%

The U.S. and non-U.S. components of income (loss) before income taxes are (in thousands):

	YEARS ENDED JANUARY 31,		
	2001	2000	1999
U.S. operations.....	\$ 2,743	\$ 1,222	\$ 580
Non-U.S. operations.....	(235,524)	16,204	(1,056)
	\$ (232,781)	\$ 17,426	\$ (476)

As of January 31, 2001, the Company had federal research tax credit carryforwards for U.S. federal income tax return purposes of approximately \$1.0 million that expire through 2021. As of January 31, 2001, the Company had unused California research tax credits of approximately \$1.2 million that will carry forward indefinitely until utilized. Federal and state tax laws impose restrictions on the utilization of tax credit carryforwards in the event of an "ownership change" as defined by the Internal Revenue Code.

The Company has an undertaking from the government of Bermuda that it will not be subject to tax on its income and capital gains in Bermuda until March 28, 2016; however, the Company is subject to United States federal income tax on income of its wholly-owned subsidiary, Marvell Semiconductor, Inc., and on any portion of its non-U.S. income which is considered effectively connected with the conduct of a trade or business within the United States.

Effective July 1, 1999, the Company's Singapore operations have been granted Pioneer Status which could reduce the amount of Singapore taxes the Company will pay on certain non-investment income for a period of six years. This tax holiday is conditional upon the Company complying with certain conditions for minimum levels of investment, headcount and the nature of its activities at its Singapore operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As discussed in Note 1, on January 21, 2001, the Company acquired Galileo Technology Ltd. Galileo's Israeli operations have been granted Approved Enterprise Status by the Israeli government under the Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"). The Approved Enterprise Status provides the Company with a tax holiday on undistributed Israeli income. This tax holiday is conditional upon the Company fulfilling the conditions stipulated by the Investment Law, regulations published thereunder and the instruments of approval for the specific investments in Approved Enterprises. The Company anticipates that it will start paying some income tax in Israel beginning in 2004.

NOTE 10 -- COMMITMENTS

The Company leases its facilities under noncancelable operating leases. Future minimum lease payments under the operating leases are as follows (in thousands):

FISCAL YEAR -----	OPERATING LEASES -----
2002.....	\$ 4,354
2003.....	3,073
2004.....	2,938
2005.....	2,801
2006.....	1,873
Thereafter.....	7,054

Total future minimum lease payments.....	\$22,093
	=====

Rent expense on the operating leases for the years ended January 31, 2001, 2000 and 1999 was approximately \$2,358,000, \$859,000 and \$214,000, respectively.

Purchase commitments

The Company's manufacturing relationships with foundries allow for the cancellation of all outstanding purchase orders, but requires repayment of all expenses incurred to date. As of January 31, 2001, foundries had incurred approximately \$16,004,000 of manufacturing expenses on the Company's outstanding purchase orders.

NOTE 11 -- SEGMENT AND GEOGRAPHIC INFORMATION:

The Company has adopted Statement of Financial Accounting Standards No. 131 "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). Based on its operating management and financial reporting structure, the Company has determined that it has one reportable business segment: the design, development and sale of integrated circuits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables present net revenues and long-lived asset information based on geographic region. Net revenues are based on the destination of the shipments and long-lived assets are based on the physical location of the assets (in thousands):

NET REVENUES:	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Japan.....	\$ 20,085	\$20,218	\$ 2,162
Korea.....	2,199	5,524	9,897
Singapore.....	65,555	40,620	8,868
Taiwan.....	21,756	5,290	--
United States.....	11,486	404	276
Others.....	22,813	9,319	50
	\$143,894	\$81,375	\$21,253

LONG-LIVED ASSETS:	AS OF JANUARY 31,		
	2001	2000	1999
Israel.....	\$14,069	\$ --	\$ --
United States.....	15,896	7,034	1,911
Others.....	1,219	379	170
	\$31,184	\$7,413	\$2,081

The following table presents net revenues for groups of similar products (in thousands):

NET REVENUES:	YEARS ENDED JANUARY 31,		
	2001	2000	1999
Storage products.....	\$122,850	\$81,375	\$21,253
Communications products.....	21,044	--	--
	\$143,894	\$81,375	\$21,253

SUPPLEMENTARY DATA (UNAUDITED)

FISCAL 2001				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net revenue.....	\$29,664	\$32,175	\$36,212	\$ 45,843
Gross profit.....	16,484	17,095	19,213	24,055
Net income (loss).....	2,068	624	1,798	(239,610)
Net income (loss) per share:				
Basic.....	\$ 0.04	\$ 0.01	\$ 0.02	\$ (2.85)
Diluted.....	\$ 0.02	\$ 0.01	\$ 0.02	\$ (2.85)

FISCAL 2000				
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net revenue.....	\$14,056	\$16,860	\$23,463	\$26,996
Gross profit.....	7,861	9,740	14,589	15,412
Net income.....	2,078	2,517	5,291	3,184
Net income per share:				
Basic.....	\$ 0.06	\$ 0.06	\$ 0.13	\$ 0.08
Diluted.....	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.04

During the fourth quarter of fiscal 2001, the Company recorded an in-process research and development charge of \$234.9 million in connection with the acquisition of Galileo Technology Ltd.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain of the information required by this Item with respect to our executive officers is set forth under the caption "Management" in Part I. The remaining information required by Items 401 and 405 of Regulation S-K is set forth in our Definitive Proxy Statement in connection with our 2001 Annual General Meeting of Shareholders which will be filed with the Securities and Exchange Commission no later than 120 days after January 27, 2001. Our 2001 Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee," "Report of the Audit Committee" and "Stock Price Performance Graph," is incorporated herein by this reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by Item 402 of Regulation S-K is set forth in our 2001 Proxy Statement. Our 2001 Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee," "Report of the Audit Committee" and "Stock Price Performance Graph," is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 403 of Regulation S-K is set forth in our 2001 Proxy Statement. Our 2001 Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee," "Report of the Audit Committee" and "Stock Price Performance Graph," is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Item 404 of Regulation S-K is set forth in our 2001 Proxy Statement. Our 2001 Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee," "Report of the Audit Committee" and "Stock Price Performance Graph," is incorporated herein by this reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements:

	PAGE REFERENCE -----
Consolidated Balance Sheets as of January 31, 2001 and 2000.....	55
Consolidated Statements of Operations for the years ended January 31, 2001, 2000 and 1999.....	56
Consolidated Statements of Shareholders' Equity (Deficit) for the years ended January 31, 2001, 2000 and 1999.....	57
Consolidated Statements of Cash Flows for the years ended January 31, 2001, 2000 and 1999.....	58
Notes to Consolidated Financial Statements.....	59

2. Financial Statement Schedules:

Schedules not listed above have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

3. Exhibits.

See Item 14(c) below.

(b) Reports on Form 8-K

On January 24, 2001, we filed a current report on Form 8-K in connection with (i) the issuance of a press release dated January 19, 2001 announcing shareholder approval of our pending acquisition of Galileo Technology Ltd.; and (ii) the issuance of a press release dated January 22, 2001 announcing that we had completed our acquisition of Galileo Technology Ltd. as a direct wholly-owned subsidiary.

(c) Index to Exhibits

See Index to Exhibits on page I-1.

(d) Financial Statements Required by Regulation S-X which are excluded from the annual report to Shareholders by Rule 14a-3(b).

Not applicable.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sunnyvale, California, on April 26, 2001.

MARVELL TECHNOLOGY GROUP LTD.

By: /s/ SEHAT SUTARDJA

 Sehat Sutardja
 President and Chief Executive
 Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

NAME AND SIGNATURE -----	TITLE -----	DATE ----
/s/ SEHAT SUTARDJA ----- Sehat Sutardja	Co-Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	April 26, 2001
/s/ GEORGE HERVEY ----- George Hervey	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	April 26, 2001
/s/ WEILI DAI ----- Weili Dai	Executive Vice President, Secretary and Director	April 26, 2001
/s/ PANTAS SUTARDJA ----- Pantas Sutardja	Vice President and Director	April 26, 2001
/s/ AVIGDOR WILLENZ ----- Avigdor Willenz	Director	April 26, 2001
/s/ MANUEL ALBA ----- Manuel Alba	Director	April 26, 2001
/s/ DIOSDADO P. BANATAO ----- Diosdado P. Banatao	Co-Chairman of the Board	April 26, 2001
/s/ HERBERT CHANG ----- Herbert Chang	Director	April 26, 2001
/s/ JOHN M. CIOFFI ----- John M. Cioffi	Director	April 26, 2001
/s/ PAUL R. GRAY ----- Paul R. Gray	Director	April 26, 2001
/s/ RON VERDOORN ----- Ron Verdoorn	Director	April 26, 2001

INDEX TO EXHIBITS

EXHIBIT NUMBER - - - - -	DESCRIPTION - - - - -
3.1	Memorandum of Association of the registrant, incorporated by reference to Exhibit 3.1 of the registrant's registration statement on Form S-1 (file no. 333-33086), as filed on March 23, 2000.
3.2	Amended and Restated Bye-laws of the registrant, incorporated by reference to Exhibit 3.2 of the registrant's registration statement on Form S-1(A) (file no. 333-33086), as filed on June 8, 2000.
4.1	Specimen common stock certificate of the registrant, incorporated by reference to Exhibit 4.1 of the registrant's registration statement on Form S-1/A (file no. 333-33086), as filed on May 5, 2000.
10.1	Amended and Restated 1995 Stock Option Plan.
10.2	1997 Directors' Stock Option Plan, incorporated by reference to Exhibit 10.2 of the registrant's registration statement on Form S-1 (file no. 333-33086), as filed on March 23, 2000.
10.3	2000 Employee Stock Purchase Plan, incorporated by reference to Exhibit 10.3 of the registrant's registration statement on Form S-1 (file no. 333-33086), as filed on March 23, 2000.
10.4	Galileo Technology Ltd. 1997 Employees' Stock Option Plan.
10.5	Galileo Technology Ltd. 1997 GTI Stock Option Plan.
10.6	Sublease between Netscape Communications, Inc. and Marvell Semiconductor, Inc. dated October 1, 1998, incorporated by reference to Exhibit 10.4 of the registrant's registration statement on Form S-1 (file no. 333-33086), as filed on March 23, 2000.
10.7	First Amendment to Sublease between Netscape Communications, Inc. and Marvell Semiconductor, Inc. dated October 1, 1999, incorporated by reference to Exhibit 10.5 of the registrant's registration statement on Form S-1 (file no. 333-33086), as filed on March 23, 2000.
10.8	Investors Rights Agreement dated September 10, 1999, incorporated by reference to Exhibit 10.6 of the registrant's registration statement on Form S-1 (file no. 333-33086), as filed on March 23, 2000.
10.9	Wafer Purchase Agreement by and between Marvell Technology Group Ltd. and Taiwan Semiconductor Manufacturing Corporation dated June 30, 1997, incorporated by reference to Exhibit 10.7 of the registrant's registration statement on Form S-1/A (file no. 333-33086), as filed on May 5, 2000.
10.10	Master Development, Purchasing and License Agreement between Intel Corporation and Marvell Semiconductor, Inc. (portions redacted pursuant to a request for confidential treatment granted by the Securities Exchange Commission on June 26, 2000), incorporated by reference to Exhibit 10.8 of the registrant's registration statement on Form S-1/A (file no. 333-33086), as filed on June 23, 2000.
10.11	Lease Agreement dated June 1, 2000 by and between Marvell Semiconductor, Inc. and 525 Almanor LLC, incorporated by reference to Exhibit 10.9 of the registrant's quarterly report on Form 10-Q for the period ended July 29, 2000 as filed on September 12, 2000.
10.12	Lease Agreement, dated June 30, 2000 by and between Galileo Technology Ltd. and Zanker Development Co.
21.1	Subsidiaries of the registrant.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Accountants.

MARVELL TECHNOLOGY GROUP LTD.

AMENDED AND RESTATED

1995 STOCK OPTION PLAN

1. Purpose. This Plan is intended to attract and retain the best available individuals as Employees and Consultants of the Company and its Subsidiaries, to provide additional incentives to those Employees and Consultants, and to promote the success of the Company's business.

2. Defined Terms. The meanings of defined terms (generally, capitalized terms) in this Plan are provided in Section 22 ("Glossary").

3. Shares Reserved. Subject to Section 14, a maximum aggregate of 29,500,000 Shares may be issued under this Plan; provided however, that beginning the first business day of each fiscal year starting January 30, 2000 or after, there shall be added to this Plan the lesser of an additional (i) 5,000,000 shares of Common Stock, (ii) 5.0% of the outstanding shares of capital stock on such date, or (iii) an amount determined by the Board. The Shares may be authorized, but unissued, or reacquired Common Stock. If an Option expires or becomes unexercisable for any reason, any unpurchased Optioned Stock shall be available for future issuance under this Plan. Shares retained to satisfy tax withholding obligations do not reduce the number authorized for issuance.

4. Administration.

(a) In General. This Plan shall be administered by the Board or a Committee appointed by the Board. Once appointed, a Committee shall serve until otherwise directed by the Board. From time to time, the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and appoint new members in their stead, fill vacancies however caused, and terminate the Committee and thereafter directly administer this Plan.

(b) After Exchange Act Applies. After the Company becomes subject to the Exchange Act, the Board may provide for administration of this Plan with respect to Employees who are also officers or directors of the Company by a Committee constituted so as to permit this Plan to comply as a discretionary plan with Rule 16b-3 promulgated under the Exchange Act or any successor thereto. A Committee appointed under this Section 4(b) may be separate from any Committee appointed to administer this Plan with respect to Employees who are neither officers nor directors.

(c) Powers of the Administrator. Subject to the provisions of this Plan and in the case of a Committee, the specific duties delegated by the Board, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock;

(ii) to grant Options to such Consultants and Employees as it selects;

(iii) to determine the terms and conditions of each Option granted, including without limitation the number of Shares of Optioned Stock, the exercise price per share, and whether an Option is to be granted as an ISO or a NSO;

(iv) to approve forms of agreement for use under this Plan;

(v) to determine whether and under what circumstances to offer to buy out an Option for cash or Shares under Section 13;

(vi) to modify grants of Options to participants who are foreign nationals or employed outside of the United States in order to recognize differences in local law, tax policies, or customs; and

(vii) to construe and interpret the terms of this Plan and Options granted pursuant to this Plan.

(d) Administrator's Decisions Binding. All decisions, determinations, and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options, and no member of the Administrator shall be liable for any such determination, decision, or interpretation made in good faith.

5. Eligibility.

(a) NSOs/ISOs. Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option may, if otherwise eligible, be granted additional Options.

(b) Limitations.

(i) If the Company or a successor issues any class of equity securities required to be registered under Section 12 of the Exchange Act or if this Plan is assumed by a corporation that has a class of such securities, the following limitations shall apply to grants of Options to Employees:

(ii) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 1,000,000 Shares, adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14. If an Option is granted but canceled in the same fiscal year, it shall nonetheless count against the foregoing limit. Reduction of an Option's exercise price is treated as a cancellation of the Option and the grant of a new Option.

6. Term of Options. The term of each Option shall be determined by the Administrator at the time of grant but shall not exceed ten years. In the case of an ISO granted to an Optionee who, at the time of grant, owns stock representing more than ten percent of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the Option term shall not exceed five years.

7. Date of Grant. Unless otherwise determined by the Administrator, the date of grant of an Option shall be the date on which the Administrator completes the actions necessary to grant the Option. Notice of the grant shall be given to the Optionee within a reasonable time after the date of the grant.

8. Exercise Price and Form of Consideration.

(a) Price. The per-Share exercise price of an Option shall be determined by the Administrator at the time of grant, but:

(i) In the case of an ISO:

(A) granted to an Employee who, at the time of grant, owns stock representing more than ten percent of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per-Share exercise price shall be at least 110% of the Fair Market Value on the date of grant; or

(B) granted to any other Employee, the per-Share exercise price shall be at least the Fair Market Value on the date of grant.

(ii) In the case of a NSO:

(A) granted to an Employee who, at the time of grant, owns stock representing more than ten percent of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per-Share exercise price shall be at least the Fair Market Value on the date of grant; or

(B) granted to any other Employee, the per-Share exercise price shall be at least 85% of the Fair Market Value on the date of grant.

(b) Form of Payment. Payment for Shares upon exercise of an Option shall be made in any lawful consideration approved by the Administrator and may, without limitation, consist of (1) cash, (2) check, (3) other Shares that have a Fair Market Value on the date of payment equal to the aggregate exercise price of the Shares as to which Option is exercised, (4) delivery by a broker or brokerage firm approved by the Administrator of a properly executed exercise notice together with payment of the exercise price and such other documentation as the Administrator shall require, or (5) any combination of the foregoing.

9. Exercise.

(a) Exercisability. Each Option shall be exercisable at such times and under such conditions as determined by the Administrator at the time of grant.

(b) Vesting. Each Option and the corresponding Optioned Stock shall vest at such times and under such conditions as determined by the Administrator at the time of grant, and as are otherwise permissible under the terms of this Plan, including without limitation, performance criteria with respect to the Company and/or the Optionee.

(c) Fractional Shares. An Option may not be exercised for a fraction of a Share.

(d) Manner of Exercise; Rights as a Shareholder. Unless otherwise allowed by the Administrator, an Option shall be exercised by delivery to the Company of all of the following: (i) written notice of exercise by the Optionee, in a form approved by the Administrator and in accordance with the terms of the Option, (ii) full payment for the Shares with respect to which the Option is exercised, and (iii) payment (or provision for payment) of withholding taxes pursuant to Subsection (g), below. Delivery of any of the foregoing may be by electronic means approved by the Administrator. The Optionee shall be treated as a shareholder of the Company with respect to the purchased Shares upon completion of exercise of the Option.

(e) Optionee Representations. If Shares purchasable pursuant to the exercise of an Option have not been registered under the Securities Act of 1933, as amended, at the time the Option is exercised, the Optionee shall, if required by the Administrator, as a condition to exercise of all or any portion of the Option, deliver to the Company an investment representation statement in a form approved by the Administrator.

(f) Termination of Employment or Consulting Relationship. If an Optionee's Continuous Service terminates, the Optionee (or the Optionee's estate or heirs, if termination is due to death or the Optionee dies during the post-termination exercise

period of the Option) may exercise the Option, (i) only within such period of time as is determined by the Administrator (but no later than the expiration date for the Option determined by the Administrator at the time of grant) and the Option shall terminate at the end of that period, and (ii) unless otherwise determined by the Administrator, only to the extent that the Optionee was entitled to exercise it at the date of termination.

(g) Tax Withholding. The Company's obligation to deliver Shares upon exercise of an Option is subject to payment (or provision for payment satisfactory to the Administrator) by the Optionee of all federal, state, and local income and employment taxes that the Administrator determines in its discretion to be due as a result of the exercise of the Option or sale of the Shares.

10. Rule 16b-3. Except to the extent determined by the Administrator, Options granted to persons subject to Section 16(b) of the Exchange Act shall comply with Rule 16b-3 and shall contain such terms as may be required or desirable to qualify Plan transactions for the maximum exemption from Section 16 of the Exchange Act.

11. Non-Transferability of Options. Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

12. Lockup Agreement. Grant and exercise of each Option are subject to the Optionee's agreement, upon the request of (and in form and substance satisfactory to) the Company or the underwriters managing an initial firmly underwritten public offering of the Company's securities, not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any Shares or any derivative security (unless included in the registration of Shares offered) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of the registration as the Company or underwriters may specify.

13. Buyout of Options. The Administrator may at any time offer to buy out an Option for a payment in cash or Shares, based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time of the offer.

14. Changes in Capitalization or Control.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Optioned Stock and the number of Shares that have been authorized for issuance under this Plan but as to which no Options have then been granted or that have been returned to this Plan upon cancellation or expiration of an Option, as well as the price per share of Optioned Stock, shall be proportionately adjusted

for any change in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other change in the number of issued Shares effected without receipt of consideration by the Company (not counting Shares issued upon conversion of convertible securities of the Company as "effected without receipt of consideration"). Such adjustment shall be made by the Board and shall be final, binding, and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no consequent adjustment shall be made with respect to, the number or price of Shares subject to this Plan.

(b) Change in Control. The Administrator may, in its discretion, determine at any time from and after the grant of an Option the effect that a Change in Control shall have upon the Option; provided however, that a Change in Control shall not have the effect of impairing the rights of any Optionee under any then-outstanding Option without his or her prior written consent. Without limiting the foregoing sentence, the Administrator may determine that upon a Change in Control, an Option:

(i) shall become fully vested and exercisable either for a limited period following the Change in Control or for the remainder of the Option's term;

(ii) shall terminate upon or after a specified period following the Change in Control;

(iii) shall be cancelled in exchange for cash in the amount of the excess of the fair market value of the Optioned Shares over the exercise price upon termination; or

(iv) shall be treated as provided under a combination of clauses (i) through (iii), or shall be so treated only if not adequately assumed (or substituted for) by a surviving or successor person or entity in the transactions or events that give rise to the Change in Control.

For purposes of this Section 14(b), (x) the occurrence of any of the foregoing clauses (i), (ii), (iii) or (iv) shall not constitute an impairment of the rights of any Optionee and (y) the "Administrator" shall be the Administrator as constituted before the Change in Control occurs.

15. Amendments. The Board may at any time amend, alter, suspend, or discontinue this Plan, but no such action shall impair the rights of any Optionee under any then-outstanding Option without his or her prior written consent.

16. Securities Regulation Requirements.

(a) Compliance with Rule; Buy-out Offer. In general, Shares shall not be issued pursuant to the exercise of an Option unless the exercise of the Option and issuance of the Shares comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, the requirements of any stock exchange upon which the Shares may then be listed, and the requirements of any regulatory body having jurisdiction. When the Company receives notice of exercise of an Option, if the Administrator believes in its discretion that the period before Shares may be issued will exceed 21 days, the Administrator shall (unless it determines that such an offer is itself prevented by the rules described in the preceding sentence) make an offer pursuant to Section 13 to buy out the portion of the Option corresponding to the number of Shares whose issuance is thus prevented. The buy-out offer shall be valid for at least 21 days.

(b) Optionee Investment Representation. As a condition to the exercise of an Option, the Company may require the person exercising the Option to represent and warrant that the Shares are being purchased only for investment and without any present intention to sell or distribute the Shares if, in the opinion of counsel for the Company, such a representation is required by law.

17. Written Option Agreements. Options shall be evidenced by written agreements in a form the Administrator approves from time to time. The written agreement shall designate the Option as either an Incentive Stock Option or a Nonstatutory Stock Option. Delay in executing a written agreement shall not affect the date of grant of an Option; however, an Option may not be exercised until a written agreement has been executed by the Company and the Optionee.

18. Shareholder Approval. This Plan is subject to approval by the shareholders of the Company within 12 months after the Board adopts this Plan. Shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any stock exchange upon which the Common Stock is listed.

19. Information to Optionees. The Company shall provide to each Optionee copies of financial statements at least annually, at the same time and in the same form as it furnishes such information to its shareholders. The Company shall not be required to provide such statements to key employees whose duties assure their access to equivalent information.

20. No Employment Rights. This Plan does not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the

Company, nor shall it interfere in any way with the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

21. Term of Plan. This Plan shall become effective upon the earlier to occur of adoption by the Board or approval by the shareholders of the Company, as described in Section 18. It shall continue in effect for a term of ten years unless sooner terminated under Section 15.

22. Glossary. The following definitions apply for purposes of this Plan:

(a) "Administrator" means the Board or a committee appointed by the Board under Section 4.

(b) "Board" means the Board of Directors of the Company.

(c) "Change in Control" means a change in ownership or control of the Company by any of:

(i) a merger or consolidation in which the holders of stock possessing a majority of the voting power in the surviving entity (or a parent of the surviving entity) did not own a majority of the Common Stock immediately before the transaction;

(ii) the sale of all or substantially all of the Company's assets to any other person or entity (other than a Subsidiary);

(iii) the liquidation or dissolution of the Company;

(iv) the direct or indirect acquisition by any person or related group of persons of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders that the Board does not recommend that the shareholders accept, or

(v) a change in composition of the Board over a period of 36 consecutive months such that a majority of the Board ceases, by reason of one or more contested elections for Board membership, to be composed of individuals who either (A) have been Board members continuously since the beginning of that period or (B) have been elected or nominated for election as Board members during that period by at least a majority of the Board members described in clause (A) who were in office when the Board approved the election or nomination.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Common Stock" means the Common Stock of the Company.

(f) "Company" means Marvell Technology Group Ltd., a Bermuda corporation.

(g) "Consultant" means any person, other than an Employee, who is engaged by the Company or any Parent or Subsidiary to perform consulting or advisory services.

(h) "Continuous Service" means that an Optionee's employment and/or consulting relationship with the Company or a Parent or Subsidiary is not interrupted or terminated. Continuous Service is not interrupted by (i) any leave of absence approved by the Company, (ii) transfers between locations of the Company or between the Company, a Parent, a Subsidiary, or any successor, or (iii) changes in status from Employee to Consultant or Consultant to Employee.

(i) "Employee" means any person employed by the Company or any Parent or Subsidiary of the Company.

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" means, as of any date, the value of common Stock determined as follows:

(i) If the Common Stock is quoted on an established stock exchange or national market system, including without limitation the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") National Market System, Fair Market Value shall be the closing sales price (or the closing bid, if no sales are reported) as quoted on that exchange or system for the day of the determination, as reported in The Wall Street Journal or an equivalent source, or if the determination date is not a trading day, then on the most recent preceding trading day;

(ii) If the Common Stock is quoted on NASDAQ (but not on the National Market System) or regularly quoted by a recognized securities dealer but selling prices are not reported, Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of the determination, or on the most recent preceding trading day if the determination date is not a trading day; or

(iii) In the absence of an established market for the Common Stock, Fair Market Value shall be determined by the Administrator.

(l) "Incentive Stock Option" or "ISO" means an Option intended to qualify as an "incentive stock option" within the meaning of, and to the extent otherwise permitted by, Section 422 of the Code.

(m) "Nonstatutory Stock Option" or "NSO" means an Option not intended to qualify as an ISO.

(n) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(o) "Option" means a stock option granted pursuant to this Plan.

(p) "Optioned Stock" means the Common Stock subject to an Option.

(q) "Optionee" means the Employee or Consultant who receives an Option and includes any person who owns all or any part of an Option, or who is entitled to exercise an Option, after the death or disability of an Optionee.

(r) "Parent" means a "parent corporation," present or future, as defined in Section 424(e) of the Code.

(s) "Plan" means this Amended and Restated 1995 Marvell Technology Group Ltd. Stock Option Plan.

(t) "Share" means a share of the Common Stock, as adjusted in accordance with Section 14(a).

(u) "Subsidiary" means a "subsidiary corporation," present or future, as defined in Section 424(f) of the Code.

APPENDIX TO THE AMENDED AND
 RESTATED 1995 STOCK OPTION PLAN
 OF MARVELL TECHNOLOGY GROUP LTD.
 IN RESPECT OF ISRAELI EMPLOYEES

1. PURPOSE

The purpose of this appendix is to modify, to the extent set forth herein, the Amended and Restated 1995 Marvell Technology Group Ltd. Stock Option Plan (the "PLAN") in respect of the Israeli employees of the Marvell Technology Group Ltd. and its affiliates and subsidiaries who are eligible to participate in the Plan in accordance with its terms, in order to reflect the specific requirements of the Israeli law.

2. DEFINED TERMS

(a) Capitalised terms used but not defined herein shall have the meanings provided in Section 22 of the Plan.

(b) In addition, in this Appendix, the following terms shall have the meanings set forth beside them:

"102 PROVISIONS"	The provisions of section 102 of the Ordinance and of the Income Tax Rules (Tax Relief in Allocating Shares to Employees), 5749-1989, as they shall apply from time to time on shares and options issued hereunder, including the Special Conditions;
"EFFECTIVE DATE"	The latest of the date the Options were issued or the date of the Income Tax Commissioner approval that the Plan satisfies the Special Conditions;
"EMPLOYER"	The Company, any of its Subsidiaries or its Parent employing Israeli Employees;
"ISRAELI EMPLOYEES"	Employees subject to taxation in Israel;
"TRUSTEE"	Galileo Technology Ltd., or in the alternate, the Trust Company of Investek Bank, or any other trustee who shall replace same by the Board for the purposes of this Plan;
"ORDINANCE"	The Income Tax Ordinance (New Version), 5721-1961;
"SPECIAL CONDITIONS"	Special conditions set by the Israeli Income Tax Commissioner in connection with the issuance of the Options hereunder, by the power

vested in him/her under section 102 of the Ordinance, if and to the extent the Commissioner shall so set;

"TAX LOCKUP PERIOD" Two years following the Effective Date or such other period of time in accordance with the 102 Provisions, as they shall be amended from time to time.

- (c) The Israeli Employees shall be entitled to exercise their options in accordance with the terms of the Plan, subject to the terms of this Appendix. In the event of any contradiction between any term of this Appendix and any term of the Plan, the provisions of this Appendix shall override with respect to the Israeli Employees, in respect of whom this Appendix shall constitute an integral part of the Plan and references to the Plan in respect of the Israeli Employees shall be interpreted accordingly.

3. SPECIAL CONDITIONS

- (a) The Company shall apply to the Income Tax Commissioner to approve the Trustee and the Plan under the 102 Provisions. Subject to the approval of this Plan by the Israeli Income Tax Commissioner, the Special Conditions shall apply to the plan and to this Appendix.
- (b) The Administrator shall exercise its discretion under the Plan in accordance with the terms of this Appendix.

4. ELIGIBILITY

Options shall not be granted to any Israeli Employee who is, or on giving effect to such grant, will become, the holder of a controlling interest ('baal shlita') in the Company, as defined in section 32(9) of the Ordinance.

5. TRUST

- (a) The Options and the Shares shall be issued directly in the name of the Trustee and shall be held in escrow by the Trustee for the Israeli Employees' benefit, for no less than the Tax Lockup Period, all according to the terms of this Appendix.
- (b) In the event that bonus shares shall be issued on account of the Shares, such bonus shares shall be issued by the Company to the Trustee. The 102 Provisions shall apply to such bonus shares for all purposes.
- (c) The Trustee shall be entitled to set additional exercise procedures to those described in the Plan, as the Trustee shall see fit, provided that the Trustee has given the Company prior written notice of any such procedures.

6. TAXES

- (a) The Israeli Employees shall be taxed in respect of the Options in accordance with the provisions of the Ordinance, including the 102 Provisions. The Israeli Employee will not be entitled to the exemption from tax contained in sections 95 or 97(a) of the Ordinance.
- (b) Without derogating from section 9(g) of the Plan, any tax imposed in respect of the Options and/or the Shares and/or the sale and/or the transfer of the Options and/or the Shares shall be borne solely by the Israeli Employee, and in the event of the death of the Israeli Employee, by the Israeli Employee's heirs or successors. The Employer, shall not bear the aforementioned taxes, directly or indirectly, nor shall the Employer be required to gross such tax up in the Israeli Employee's salaries or remuneration. The imposed tax shall be paid by the Israeli Employee or deducted, on the date such tax is payable, from the sale consideration paid to the Trustee by the Israeli Employee, as applicable.
- (c) At the end of the Tax Lockup Period, the Israeli Employee (or the Israeli Employee's heirs or successors) shall be entitled at any time to instruct the Trustee to transfer the Options or the Shares to which such Israeli Employee is entitled to the Israeli Employee or its nominees, or, if appropriate, to sell the Shares and pay the consideration received to the Israeli Employee.

Subject to the 102 Provisions, the Trustee shall not transfer the Options and/or the Shares to the Israeli Employee's name, and shall not transfer the consideration received from the sale of the Shares to the Israeli Employee, unless one of the following conditions shall be fulfilled:

- (i) The Israeli Employee has provided the Trustee with certification from the assessing officer that the tax has been paid; or
- (ii) The Israeli Employee has paid the Trustee an amount equal to 30% of the 'consideration', as defined in section 102 of the Ordinance (the "Taxable Consideration") for such sale, and the Trustee has reviewed the manner of calculating the payable amount and is fully satisfied that the calculation was performed lawfully; or
- (iii) The Trustee has deducted an amount equal to 30% of the Taxable Consideration from the consideration received from the sale of the Shares.
- (d) The effects of any future amendment to the tax arrangements which apply to the issuance of securities to the Israeli Employees, shall apply to the Israeli Employees in accordance with such provisions of law, and the Israeli Employees shall bear the full cost thereof, unless the modified arrangement expressly provides otherwise.

- (e) Each Israeli Employee shall indemnify the Employer and/or the Trustee, immediately upon receipt of notice from the Employer and/or the Trustee, for any amount (including interest and/or fines of any type and/or linkage differentials in respect of tax and/or withheld tax) payable by such Israeli Employee under law (including under the 102 Provisions), and which has been paid by the Employer or the Trustee or which the Employer or the Trustee are required to pay by the tax authorities.
- (f) Should the Israeli Amendment of Tax Law Bill 2000 (or any other substantially similar draft legislation) (the "NEW LAW") enter into effect, the Board shall be entitled, at its absolute discretion, to order the Trustee to make an application to the Israeli Tax Commission in order to request that the provisions set out in the New Law, which replace the 102 Provisions, shall apply to the Israeli Employees, regarding either existing or future allotments, as shall be determined in the New Law.

7. MISCELLANEOUS

- (a) The Israeli Employees shall sign any document required by the Trustee or the Income Tax Commission to give effect to the provisions of this Appendix.
- (b) Without derogating section 20 of the Plan, it is hereby acknowledged that the Options and/or the Exercise Shares are extraordinary, one-off benefits granted to the Offerees, and are not and shall not be deemed a salary component for any purpose whatsoever, including in connection with calculating severance compensation under the Severance Pay Law, 5723-1963 and the regulations promulgated thereunder.
- (c) The grant of Options to each Israeli Employee shall be made in consideration of a waiver on the part of such Israeli Employee of a portion of the Israeli Employee's salary in the amount of NIS 1.
- (d) In the event of a change in control of the Company is proposed during the Tax Lock Up Period, the consummation which will cause the breach of the terms of the 102 Provisions, the Company will use its best efforts to apply to the Israeli Tax Authorities to obtain a pre-ruling to regulate the tax treatment applicable to the Options in the context of the proposed transaction.
- (e) Except as expressly provided in this Appendix, the provisions of this Appendix do not supercede any provisions of the Plan, and the provisions of the Plan shall govern all Options granted to Israeli Employees.

GALILEO TECHNOLOGY LTD.

1997 EMPLOYEES' STOCK OPTION PLAN

A. NAME, PURPOSE AND SCOPE.

This plan, as amended from time to time, shall be known as the "Galileo Technology Ltd. 1997 Employee Stock Option Plan," or "Plan."

2. PURPOSE.

The purpose and intent of the Plan is to provide incentives to employees of Galileo Technology Ltd. (the "Company") by providing them with opportunities to purchase Ordinary Shares of the Company (the "Shares"), pursuant to this Plan which was approved by the Board of Directors of the Company - which is designed to benefit from, and is made pursuant to, the provisions of Section 102 of the Israeli Income Tax Ordinance [New Version], 1961, and the rules and regulations promulgated thereunder.

3. SCOPE.

Subject to the provisions of Section 11 of the Plan, the number of authorized Shares (whether already issued or yet unissued) for purposes of the Plan shall be 2,910,000 (two million, nine hundred ten thousand); provided, however, that the number of shares that may be subject to option and sold under this Plan and the Galileo Technology Ltd. 1997 GTI Stock Option Plan (the "GTI Plan") shall be increased each year by an aggregate of four percent of the outstanding Shares of the Company. Such increase shall be effected each year on January 1, and the allocation of the Shares to the Plan and the GTI Plan will be as determined by the Board of Directors. All Shares under the Plan, in respect of which the right hereunder of a Grantee to purchase the same shall, for any reason, terminate, expire or otherwise cease to exist, shall again be available for grant through Options under the Plan.

B. GENERAL TERMS AND CONDITIONS OF THE PLAN.

4. ADMINISTRATION.

4.1 The Plan will be administered by the Board of Directors of the Company (the "Board") or by a committee appointed by the Board (the "Committee"), which, if appointed, will consist of such number of Directors of the Company as may be fixed, from time to time, by the Board. If a Committee is not appointed, the term Committee, whenever used herein, shall mean the Board. The Board shall appoint the members of the Committee, may from time to time remove members from, or add members to, the Committee and shall fill vacancies in the Committee however caused.

4.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall determine. Actions approved by a majority of the voting members of the Committee at a meeting at which a majority of its members is present, or acts approved in writing by all members of the Committee, shall be the valid acts of

the Committee. The Committee shall make such rules and regulations for the conduct of its business as it shall deem advisable. The Committee may appoint a Secretary, who shall keep records of its meetings.

4.3 Subject to the express general terms and conditions of this Plan, the Committee shall have the full authority in its discretion, from time to time and at any time, to determine the following issues: (i) the persons (herein "Grantees") to whom the options to purchase Shares ("Option/s") shall be granted, (ii) the number of Shares to be covered by each Option, (iii) the time or times at which the same shall be granted, (iv) the price, schedule and conditions on which such Options may be exercised and on which such Shares shall be paid for, and (v) any other matter which is necessary or desirable for, or incidental to, the administration of the Plan. In determining the number of Shares covered by the Option to be granted to each Grantee, the Committee may consider, among other things, the Grantee's position and salary, and the duration of the Grantee's employment by the Company.

4.4 The Committee may, from time to time, adopt such rules and regulations for carrying out the Plan as it may deem necessary. No member of the Board or of the Committee shall be liable for any act or determination made in good faith with respect to the Plan or any Option granted thereunder.

4.5 The interpretation and construction by the Committee of any provision of the Plan or of any Option thereunder shall be final and conclusive unless otherwise determined by the Board.

5. ELIGIBLE GRANTEES.

The Committee, at its discretion, may grant Options to any employee or consultant (the term "employees" in this Plan shall be interpreted to include consultants) of the Company, including Directors who are employees of the Company. Anything in this Plan to the contrary notwithstanding, all grants of Options to Directors and Office Holders ("Nosei Misra" as such term is defined in the Companies Ordinance (New Version) 1983, as amended from time to time - the "Companies Ordinance"), shall be authorized and implemented only in accordance with the provisions of the Companies Ordinance. The grant of an Option to a Grantee hereunder shall neither entitle such Grantee to participate, nor disqualify him from participating, in any other grant of options pursuant to this Plan or any other stock option plan of the Company.

6. GRANT OF OPTIONS AND ISSUANCE OF SHARES IN TRUST.

6.1 Grant of Options and Issuance of Shares in Trust.

(a) Subject to Section 7.1 hereof, the effective date of the grant of an Option (the "Date of Grant") shall be the date specified by the Committee in its determination relating to the award of such Option. The Committee shall promptly give the Grantee written notice of the grant of an Option (the "Notice of Grant").

(b) Any grant of Options under this Plan shall be made in consideration for the Grantee's waiver with regard to his/her salary at a rate to be determined by the Committee.

(c) Anything herein to the contrary notwithstanding, all Options granted under the Plan and/or Shares underlying such Options shall be held by a trustee designated by the Board and approved by the Israeli Commissioner of Income Tax (the "Trustee"), and the Trustee shall hold each such Option and the underlying Shares and the Shares issued upon exercise thereof in trust (the "Trust") for the benefit of the Grantee in respect of whom such Option was granted (the "Beneficial Grantee"). All certificates representing Shares issued to the Trustee under the Plan shall be deposited with the Trustee, and shall be held by the Trustee until such time that such Shares are released from the Trust as herein provided.

(d) Anything herein to the contrary notwithstanding, Options or Shares shall not be released from the Trust until the later of (i) two (2) years after the Date of Grant, and (ii) the vesting of such Shares pursuant to Section 7.3 hereof or the Notice of Grant (such later date being hereinafter referred to as the "Release Date").

(e) Subject to the terms hereof, at any time after the Release Date with respect to any Options or Shares, the following shall apply:

(i) Options granted, and/or Shares issued to the Trustees, shall continue to be held by the Trustee on behalf of the Beneficial Grantee. From and after the Release date, upon the written request of any Beneficial Grantee, the Trustee shall release from the Trust the Options granted and/or the Shares issued on behalf of such Beneficial Grantee, by executing and delivering to the Company such instrument(s) as the Company may require, giving due notice of such release to such Beneficial Grantee; provided, however, that the Trustee shall not so release any such Options and/or Shares to such Beneficial Grantee unless prior to or concurrently with such release, the Grantee provides the Trustee with evidence, satisfactory in form and substance to the Trustee, that all taxes, if any, required to be paid upon such release have in fact been paid.

(ii) Alternatively, from and after the Release Date, upon the written instructions of the Beneficial Grantee to sell any Shares issued upon exercise of Options, the Trustee shall use its best efforts to effect such sale and shall transfer such Shares to the purchaser thereof concurrently with the receipt, or after having made suitable arrangements to secure the payment of the proceeds, of the purchase price in such transaction. The Trustee shall withhold from such proceeds any and all taxes required to be paid in respect of such sale, shall remit the amount so withheld to the appropriate tax authorities and shall pay the balance thereof directly to the Beneficial Grantee, reporting to such Beneficial Grantee and to the Company the amount so withheld and paid to said tax authorities.

6.2 Dividends. All Shares issued upon the exercise of Options granted under the Plan shall entitle the Beneficial Grantee thereof to receive dividends with respect thereto. For so long as Shares issued to the Trustee on behalf of a Beneficial Grantee are held in the Trust, the dividends paid or distributed with respect thereto shall be remitted to the Trustee for the benefit of such Beneficial Grantee.

6.3 As long as the Shares purchased upon exercise of the Options are held by the Trustee, the Beneficial Grantee shall not be entitled to receive notices regarding general meetings of the Company nor to participate or to vote in such meetings.

6.4 As long as the Shares purchased upon exercise of the Options are held by the Trustee, the Trustee, or a proxy appointed by him, shall possess and be entitled to exercise the exclusive right to vote all the Shares standing in the name or held by the Trustee, at all regular and special meetings of the shareholders of the Company and may vote for, do or assent or consent to, and shall have all the powers, rights and privileges of a shareholder of the Company. The Trustee shall vote all Ordinary Shares held by the Trustee in proportion to the vote of all outstanding shares of the Company upon any vote of the shareholders of the Company.

7. GRANT OF OPTIONS.

7.1 The Committee in its discretion may award to Grantees Options to purchase Shares in the Company available under the Plan. Options may be granted at any time after the passage of thirty (30) days following the delivery by the Company to the appropriate income tax authorities of a notice pertaining to the appointment of the Trustee and the adoption of the Plan.

7.2 The Notice of Grant shall state, inter alia, the number of Shares covered thereby, dates and rates according to which the Options may be exercised (become vested), the exercise price, and such other terms and conditions as the Committee at its discretion may prescribe, provided that they are consistent with this Plan.

7.3 Without derogating from the rights and powers of the Committee under Section 7.2 hereof, unless otherwise specified in the Notice of Grant, each Option under the Plan shall be for a term of eight (8) years (the "Term"). The schedule pursuant to which such Options shall vest, and the Beneficial Grantee thereof shall be entitled to pay for and acquire the Shares, shall be determined by the Committee. Unless otherwise determined by the Committee, 24/48 (one half) of the number of Shares covered by each Option shall vest on the second anniversary of the Date of Grant, and 1/48 shall vest on the last day of each calendar month thereafter.

7.4 Each Option granted hereunder shall be evidenced by a Grantee Agreement, to be entered into by and between the Company and such Grantee, in the form attached hereto as Exhibit A or in such other form and substance as may be approved by the Committee from time to time, which shall incorporate the provisions of this Plan. In the event of any conflict between the terms and conditions of a Grantee Agreement and the terms hereof, the terms hereof shall prevail unless otherwise determined by the Committee.

8. EXERCISE PRICE.

The exercise price per Share covered by each Option shall be determined by the Committee in its sole and absolute discretion; provided, however, that such exercise price shall not be less than 85% of the fair market value of the Shares on the Date of Grant, as determined by the Committee, taking into account the relative rights of the Shares as compared to the rights attached to the other classes of shares of the Company. The Committee may, at any time prior to

exercise of certain Options, reduce the exercise price of such Options to the then current fair market value if the previous exercise price exceeds the then fair market value of the Ordinary Shares covered by such Options.

9. EXERCISE OF OPTIONS.

9.1 Options shall be exercisable pursuant to the terms under which they were awarded and subject to the terms and conditions of the Plan.

9.2 The exercise of an Option shall be made by a written notice of exercise (the "Notice of Exercise") delivered by the Beneficial Grantee (or, with respect to Options held in the Trust, by the Trustee upon receipt of written instructions from the Beneficial Grantee) to the Company at its principal executive office, specifying the number of Shares to be purchased and accompanied by the payment therefor, and containing such other terms and conditions as the Committee shall prescribe from time to time.

9.3 Anything herein to the contrary notwithstanding, but without derogating from the provisions of Section 10 hereof, if any Option has not been exercised and the Shares covered thereby not paid for within eight (8) years after the Date of Grant (or any shorter period set forth in this Plan or in the Notice of Grant), such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and, in the event that in connection therewith any Options are still held in the Trust as aforesaid, the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Company that some or all of such Options are again to be held in trust for one or more Grantees.

9.4 Each payment for Shares shall be in respect of a whole number of Shares, and shall be effected in cash or by a cashier's check payable to the order of the Company, or such other method of payment acceptable to the Company.

9.5 Anything in this Plan to the contrary notwithstanding, in the event the employment of a Grantee is terminated by the Company for "cause" (as defined hereafter), such Grantee shall not be entitled to exercise any Options subsequent to the time of delivery of the notice of discharge, and all such Options and the right to acquire Shares thereby shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and, in the event that in connection therewith any Options are still held in the Trust as aforesaid, the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Committee that some or all of such Options are again to be held in trust for one or more Grantees. For purposes herein, "cause" shall include: (i) the commitment of a serious breach of trust, including but not limited to embezzlement, theft or self-dealing; (ii) the prohibited disclosure to unauthorized persons or entities of confidential or proprietary information of or relating to the Company; (iii) the engaging by the Grantee in any prohibited business competitive to the business of the Company and/or its affiliates; (iv) the failure of the Grantee to perform any of his or her material duties and obligations as an employee of the Company as a result of gross negligence or willful misconduct.

10. TERMINATION OF EMPLOYMENT.

10.1 In the event that the employer-employee relations between the Company and a certain Grantee terminate for any reason (hereinafter, "Termination"), all Options or part of Options granted to such Grantee which have not become vested until the Termination shall terminate and expire (except in the case of termination by death or disability of the Grantee as provided in Sections 10.3 and 10.4); and such Options and the right to acquire Shares thereby shall terminate, all interests and right of the Grantee in and to the same shall ipso facto expire, and, in the event that in connection therewith any Options are still held in the Trust as aforesaid, the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Company that some or all of such Options are again to be held in trust for one or more Grantees.

10.2 As to Options which have become vested prior to the Termination, and subject to provisions of Section 9.5 above, the following shall apply: The Grantee (or his legal representative, estate, heirs or other person to whom the Grantee's rights are transferred by will or by laws of descent in case the Termination is due to such Grantee's death or incompetence), shall have a period of 90 days following Termination in which to exercise such vested Options or such longer period as may be applicable upon death or disability of the Grantee as provided in Sections 10.3 and 10.4 below. If any such Option has not been exercised and the Shares covered thereby not paid for within such ninety (90) day period or such longer period as may be applicable upon death or disability of the Grantee as provided in Sections 10.3 and 10.4 below, such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Company that some or all of such Options are again to be held in trust for one or more Grantees.

10.3 In the event that the employer-employee relations between the Company and a certain Grantee terminate as a result of his or her "permanent disability" as defined below, the Grantee shall be entitled, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Options as set forth in the Grantee Agreement), to exercise all Options such employee would have been entitled to exercise had such employee remained employed for two (2) years from the date of such termination. If the Grantee does not exercise such Option to the extent so entitled within the time specified herein, such Option and the right to acquire such Shares shall terminate, all interests and rights of the Grantee in and to the same shall ipso facto expire, and the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Company that some or all of such Options are again to be held in trust for one or more Grantees. "Permanent disability" shall be defined as an individual who is unable to engage in any substantial gainful activity by reason of any determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. An individual shall not be considered permanently disabled unless he or she furnishes proof of the existence thereof in such form and manner as the Company may require.

10.4 In the event of the death of a Grantee, the Grantee's estate or any person who acquired the right to exercise the Options by bequest or inheritance shall be entitled, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Options as set forth in the Grantee Agreement), to exercise all Options such employee would have been entitled to exercise through vesting had such employee remained employed for two (2) years from the date of such termination. If, after the Grantee's death, the Grantee's estate or a person who acquires the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, such Option and the right to acquire such Shares shall terminate, and all interests and rights of the Grantee in and to the same shall ipso facto expire, and the Trust with respect thereto shall ipso facto expire and the Trustee shall thereafter hold such Options in an unallocated pool until instructed by the Company that some or all of such Options are again to be held in trust for one or more Grantees.

11. ADJUSTMENT UPON CHANGES IN CAPITALIZATION.

11.1 Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Shares covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination, division or reclassification of the Shares or the payment of a stock dividend (bonus share) with respect to the Shares or any other increase or decrease in the number of issued Shares effected without receipt of any consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares or stock of any class, or securities convertible into shares or stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares section to an Option.

11.2 (a) In the event of a consolidation or merger of the Company with or into another corporation, each Option shall be assumed or shall be substituted by an equivalent option of such successor corporation or a parent or subsidiary of such successor corporation. For this purpose, the determination by the Committee of equivalent options shall be final, binding and conclusive. (b) In the event of a proposed dissolution, liquidation or re-organization of the Company other than a specified in (a) above, the Committee shall notify each Grantee at least thirty (30) days prior to such proposed action. To the extent it has not been previously exercised, each Option will expire and termination immediately prior to the consummation of such proposed action.

12. NON-TRANSFERABILITY.

12.1 No Option shall be assignable or transferable by the Grantee to whom granted, except by will or the laws of descent and distribution. An Option may be exercised only by the Grantee or his/her guardian or legal representative. The terms of such Option shall be

binding upon the legal representatives, guardians, beneficiaries, executors, administrators, heirs and successors of such Grantee.

12.2 No shares purchasable hereunder which were not fully paid for, shall be assignable or transferable to or by the Grantee. In addition, until the closing of an IPO of the Company's securities, all transfers of shares of the Company by any of the Grantees or the Trustee on their behalf shall only be made in accordance with the Articles of Association of the Company.

12.3 The Company shall not register any transfer of Shares not made in accordance with the Company's Articles of Association and any applicable law.

13. TERM AND AMENDMENT OF THE PLAN.

13.1 The Plan was authorized by the Board on April 30, 1997, and shall expire in May 2005 (except as to Options outstanding on that date), but such expiration shall not affect the instructions contained herein or in any applicable law with respect to the Options and Shares held in the Trust at such time of expiration.

13.2 Subject to applicable laws, the Board may, at any time and from time to time, terminate or amend the Plan in any respect. Except as allowed under the Plan or by law, the Company may not alter or impair the rights of a Grantee, without his consent, under any Option previously granted to him.

14. TAX CONSEQUENCES.

All tax consequences arising from the grant or exercise of any Option, from the payment for, or the subsequent disposition of, Shares covered thereby or from any other event or act (of the Company or the Grantee) hereunder, shall be borne solely by the Grantee. The Grantee shall indemnify the Company and the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including (without limitation) liabilities relating to the necessity to withhold, or to have withheld, any such tax from payment made to the Grantee.

15. MISCELLANEOUS.

15.1 Continuance of Employment. Neither the Plan nor the grant of an Option thereunder shall impose any obligation on the Company to continue the employment of any Grantee, and nothing in the Plan or in any Option granted pursuant thereto shall confer upon any Grantee any right to continue in the employ of the Company, or restrict the right of the Company to terminate such employment at any time.

15.2 Governing Law. The Plan and all instruments issued thereunder or in connection therewith, shall be governed by, and interpreted in accordance with, the laws of the State of Israel; and the courts of Israel (Haifa District) shall have exclusive jurisdiction over all claims related thereto.

15.3 Application of Funds. The proceeds received by the Company from the sale of Shares pursuant to Options granted under the Plan will be used for general corporate purposes of the Company.

15.4 Multiple Agreements. The terms of each Option may differ from other Options granted under the Plan at the same time, or at any other time. The Committee may also grant more than one Option to a given Grantee during the term of the Plan, either in addition to, or in substitution for, one or more Options previously granted to that Grantee. The grant of multiple Options may be evidenced by a single Notice of Grant or multiple Notices of Grant, as determined by the Committee.

15.5 Non-Exclusivity of the Plan. The adoption of the Plan by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangement or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

15.6 Hold Harmless. The Grantee and the Company shall hold the Trustee harmless against and from any act or omission in relation to his duties as Trustee as long as he acts, in his professional judgment, according to the law and the agreements he has signed in relation to the Trust. The Grantee and the Company shall also indemnify the Trustee for any third party claim made against him based on such a cause.

GALILEO TECHNOLOGY LTD.

1997 GTI STOCK OPTION PLAN

1. Purposes of the Plan. The 1997 GTI Stock Option Plan amends and restates the Company's GTI Stock Option Plan. The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiary and to promote the success of the Company and the Subsidiary's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option and subject to the applicable provisions of Section 422 of the Code and the regulations promulgated thereunder. Stock Purchase Rights may also be granted under the Plan. The Options and Stock Purchase Rights offered pursuant to the Plan are a matter of separate inducement and are not in lieu of salary or other compensation.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means a Committee appointed by the Board in accordance with Section 4 of the Plan.

(e) "Company" means Galileo Technology Ltd., an Israeli company.

(f) "Consultant" means any person who is engaged by the Company or the for such services, and any Director of the Company or the Subsidiary whether compensated for such services or not. If the Company registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include Directors who are not compensated for their services or are paid only a Director's fee.

(g) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship with the Company or the Subsidiary is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or the Subsidiary or (ii) transfers between locations of the Company or the Subsidiary or between the Subsidiary and the Company or any successor. A leave of absence shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company or the Subsidiary, as applicable. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract, including policies of the Company or the Subsidiary, as applicable. If reemployment upon expiration of a leave of absence approved by the Company or the Subsidiary is not so guaranteed, on the 181st day of such leave any Incentive Stock Option held by the Optionee shall

cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

(h) "Director" means a member of either of the boards of directors of the Company or the Subsidiary.

(i) "Employee" means any person, including Officers and Directors, employed by the Company or the Subsidiary. The payment of a Director's fee by the Company or the Subsidiary shall not be sufficient to constitute "employment."

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" means, as of any date, the value of the Ordinary Shares determined as follows:

(i) If the Ordinary Shares are listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination and reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Ordinary Shares are quoted on the NASDAQ System (but not on the Nasdaq National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Ordinary Shares on the last market trading day prior to the day of determination; or

(iii) In the absence of an established market for the Ordinary Shares, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(l) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(m) "GTI" means Galileo Technology, Inc.

(n) "Nonstatutory Stock Option" means an option not intended to qualify as an Incentive Stock Option.

(o) "Notice of Grant" means the notice of stock option grant to be given to each of the Optionees.

(p) "Officer" means a person who is an officer of the Company or the Subsidiary within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(q) "Option" means a stock option granted pursuant to the Plan.

(r) "Optioned Stock" means the Ordinary Shares subject to an Option or a Stock Purchase Right.

(s) "Optionee" means an Employee or Consultant who receives an Option or Stock Purchase Right.

(t) "Ordinary Shares" means the Ordinary Shares of stock of the Company.

(u) "Plan" means the 1997 GTI Stock Option Plan.

(v) "Restricted Stock" means each of the Ordinary Shares acquired pursuant to a grant of a Stock Purchase Right under Section 11 below.

(w) "Section 16(b)" means Section 16(b) of the Exchange Act.

(x) "Share" means each of the Ordinary Shares, as adjusted in accordance with Section 12 below.

(y) "Stock Purchase Right" means a right to purchase Ordinary Shares pursuant to Section 11 below.

(z) "Subsidiary" means Galileo Technology, Inc., the Company's wholly-owned U.S. subsidiary.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the aggregate number of Ordinary Shares that may be subject to option and sold under this Plan is 2,820,000 unless amended by the Board or the shareholders of the Company; provided, however, that the number of shares that may be subject to option and sold under this Plan and the Galileo Technology Ltd. 1997 Employees' Stock Option Plan (the "GTL Plan") shall be increased each year by an aggregate of four percent of the outstanding Ordinary Shares of the Company. Such increase shall be effected each year on January 1, and the allocation of the Ordinary Shares to the Plan and the GTL Plan will be as determined by the Board of Directors. The Shares may be authorized but unused, or reacquired Ordinary Shares. If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an option exchange pursuant to Section 4(c)(viii) or otherwise, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a Committee appointed by the Board.

(b) Plan Procedure After the Date, if any, upon which the Company becomes Subject to the Exchange Act.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, the plan may be administered by different bodies with respect to Directors, Officers and Employees who are neither Directors nor Officers.

(ii) Administration With Respect to Directors and Officers. With respect to grants of Options and Stock Purchase Rights to Employees who are also Officers or Directors, the Plan shall be administered by (A) the Board if the Board may administer the Plan in compliance with applicable Israeli securities laws, the rules under Rule 16b-3 promulgated under the Exchange Act or any successor thereto ("Rule 16b-3") relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made, or (B) a Committee designated by the Board to administer the Plan, which Committee shall be constituted to comply with the applicable laws of Israel, rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by applicable laws of Israel, the rules under Rule 16b-3 relating to the disinterested administration of employee benefit plans under which Section 16(b) exempt discretionary grants and awards of equity securities are to be made.

(iii) Administration With Respect to Other Employees and Consultants. With respect to grants of Options and Stock Purchase Rights to Employees or Consultants who are neither Directors nor Officers, the Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of the laws of Israel, of California corporate and securities laws, of the Code, and of any applicable stock exchange (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(iv) Compliance with Section 162(m). If, at any time, awards made under the Plan shall be subject to Section 162(m) of the Code, the Plan shall be administered by a committee comprised solely of "outside directors" (within the meaning of Prop. Treas. Reg. (S) 1.162-27(e)(3)) or such other persons as may be permitted from time to time under Section 162(m) of the Code and the Treasury Regulations promulgated thereunder.

(c) Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and

subject to the approval of any relevant authorities, including the approval, if required, of any stock exchange upon which the Ordinary Shares are listed, the Administrator shall have the authority in its discretion:

(i) to determine the Fair Market Value of the Ordinary Shares, in accordance with Section 2(1) of the Plan;

(ii) to select the Consultants and Employees to whom Options and Stock Purchase Rights may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options and Stock Purchase Rights or any combination thereof are granted hereunder;

(iv) to determine the number of Shares to be covered by each such award granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Ordinary Shares covered by such Option has declined since the date the Option was granted; and

(viii) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan.

(d) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options or Stock Purchase Rights.

5. Eligibility.

(a) Nonstatutory Stock Options and Stock Purchase Rights may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option or Stock Purchase Right may, if otherwise eligible, be granted additional Options or Stock Purchase Rights.

(b) Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and the Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(c) Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuation of his or her employment or consulting

relationship with the Company or the Subsidiary, as applicable, nor shall it interfere in any way with his or her right or the Company or the Subsidiary's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the shareholders of the Company, as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or the Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise for the Shares to be issued upon exercise of any Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option (A) granted to an Employee who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or of the Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant. (B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option(A) granted to a person who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or of the Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant. (B) granted to any other person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of (1) cash, (2) check, (3) promissory note (to the extent permitted by Applicable Laws), or (4) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company. Optionee shall also deliver a properly executed exercise notice together with such other documentation as the Administrator and a broker, if applicable, shall require to effect an exercise of the Option.

9. Exercise of Option.

(a) Procedure for Exercise: Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan, but in no case at a rate of less than 20% per year over five (5) years from the date the Option is granted. An Option may not be exercised for a fraction of a Share. An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) hereof. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote, receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 12 hereof. Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant (but not in the event of an Optionee's change of status from Employee to Consultant (in which case an Employee's Incentive Stock Option shall automatically convert to a Nonstatutory Stock Option on the date three (3) months and one day following such change of status) or from Consultant to Employee, such Optionee may, but only within such period of time as is determined by the Administrator, of at least thirty (30) days, with such determination in the case of an Incentive Stock Option not exceeding three (3) months after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(c) Disability of Optionee. In the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her disability, the Optionee may, but, only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the termination of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. However, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her "permanent disability" as such term is defined in Section 22(e)(3) of the Code, the Optionee shall be entitled, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), to exercise all Options such Employee or Consultant

would have been entitled to exercise had such Employee or Consultant remained employed for two (2) years from the date of such termination. If such disability is not a "permanent disability", in the case of an Incentive Stock Option such Incentive Stock Option shall automatically cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option on the day three months and one day following such termination. If the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee, the Optionee's estate or any person who acquired the right to exercise the Option by bequest or inheritance shall be entitled, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), to exercise all Options such Employee or Consultant would have received had such Employee or Consultant remained employed for two (2) years from the date of such termination. All remaining Shares covered by the unexercisable portion of the Option shall immediately revert to the Plan. If, after the Optionee's death, the Optionee's estate or a person who acquires the right to exercise the Option by bequest or inheritance does not exercise the Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Rule 16b-3. Options granted to person subject to Section 16(b) of the Exchange Act must comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

10. Non-Transferability of Options and Stock Purchase Rights. Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer, which shall in no event exceed thirty (30) days from the date upon which the Administrator makes the determination to grant the Stock Purchase Right. The offer shall be accepted by execution of a Restricted Stock purchase agreement in the form determined by the Administrator. Shares purchased pursuant to the grant of a Stock Purchase Right shall be referred to herein as "Restricted Stock."

(b) Other Provisions. The Restricted Stock purchase agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined

by the Administrator in its sole discretion. In addition, the provisions of Restricted Stock purchase agreements need not be the same with respect to each purchaser.

(c) Rights as a Shareholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a shareholder of the Company and shall be a shareholder of the Company when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 12 of the Plan.

12. Adjustments Upon Changes in Capitalization or Merger.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of Ordinary Shares covered by each outstanding Option or Stock Purchase Right, and the number of Ordinary Shares which have been authorized for issuance under the Plan but as to which no Options or Stock Purchase Rights have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option or Stock Purchase Right, as well as the price for each Ordinary Share covered by each such outstanding Option or Stock Purchase Right, shall be proportionately adjusted for any increase or decrease in the number of issued Ordinary Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Ordinary Shares, or any other increase or decrease as determined by the Administrator. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of Ordinary Shares subject to an Option or Stock Purchase Right.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option or Stock Purchase Right shall terminate immediately prior to the consummation of such proposed action.

(c) Merger. In the event of a merger of the Company with or into another corporation, each outstanding Option or Stock Purchase Right may be assumed or an equivalent option or right may be substituted by such successor corporation or a parent or subsidiary of such successor corporation. If, in such event, an Option or Stock Purchase Right is not assumed or substituted, the Option or Stock Purchase Right shall terminate as of the date of the closing of the merger. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger, the Option or Stock Purchase Right confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option or Stock Purchase Right immediately prior to the merger, the consideration (whether stock, cash, or other securities or property) received in the merger by holders of Ordinary Shares for each Share held on the effective date of the transaction (and if the holders are offered a choice of consideration, the type of consideration received in the merger is not solely common stock of the successor

corporation or its parent). The Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share of Optioned Stock subject to the Option or Stock Purchase Right, to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Ordinary Shares in the merger.

(d) Compliance with Incentive Stock Option Provisions.

Notwithstanding anything to the contrary herein, each adjustment made to an Incentive Stock Option pursuant to this Section 12 shall comply with the rules of Section 424(a) of the Code, and no adjustment shall be made that would cause any Incentive Stock Option to become a Nonstatutory Stock Option.

13. Time of Granting Options and Stock Purchase Rights. The date of grant of an option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such other date as is determined by the Administrator. Notice of the determination shall be given to each Employee or Consultant to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 under the Exchange Act or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of the NASD or an established stock exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options or Stock Purchase Rights already granted, and such Options and Stock Purchase Rights shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the laws of Israel, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of an Option or Stock Purchase Right, the Company may require the person exercising such Option or Stock Purchase Right to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any

present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

16. Reservation of Shares. During the term of this Plan, the Company shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by Company counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Agreements. Options and Stock Purchase Rights shall be evidenced by written agreements in such form as the Administrator shall approve from time to time.

18. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any stock exchange upon which the Ordinary Shares are listed.

19. Information to Optionees and Purchasers. The Company shall provide to each Optionee and to each individual who acquires Shares pursuant to the Plan, not less frequently than annually during the period such Option or purchaser has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key employees whose duties in connection with the Company assure their access to equivalent information.

RENAULT & HANDLEY
INDUSTRIAL & COMMERCIAL REAL ESTATE

THIS LEASE, executed in duplicate at Palo Alto, California, this 30th day of June, 2000, by and between

PARTIES

Zanker Development Co., a Joint Venture

and

Galileo Technology Ltd.

Hereinafter referred to respectively as "Lessor" and "Lessee", without regard to number or gender,

PREMISES

1. WITNESSETH: That Lessor hereby leases to Lessee, and Lessee hires from Lessor, those certain premises, hereinafter referred to as "the Premises," situated in the City of San Jose, County of Santa Clara, State of California, and more particularly described as follows:

An approximate 40,746 square foot freestanding industrial building commonly known as 2350 Zanker Road.

USE

2. The Premises shall be used and occupied by Lessee solely for the following purposes:

General office, administration, warehouse and distribution and related legal uses and for no other purpose without the prior written consent of Lessor.

TERM

3. The term shall be for Ten (10) years and three months, commencing on the 1st day of October 2000 and ending on the 31st day of December 2010.

RENTAL

4. Base Monthly Rent shall be payable to Lessor on the first day of each calendar month during the term, in advance and without defense, deduction or offset at the address set forth in paragraph 23 below, or at such other place or places as may be designated from time to time by the Lessor. If the Commencement Date occurs on a date other than the first day of the calendar month in which it occurs, the Base Monthly Rent due on the first day of the second and last calendar months of the term shall be prorated. Base Monthly Rent shall be due in the following amounts:

Eighty One Thousand Four Hundred Ninety Two and No/100ths Dollars (\$81,492.00) shall be due upon execution of this Lease representing rental due January 1, 2001. One Hundred Sixty Two Thousand Nine Hundred Eighty Four and No/100ths Dollars (\$162,984.00) shall be due on January 1, 2001 representing rental due February 1, 2001 and March 1, 2001. Eighty One Thousand Four Hundred Ninety Two and No/100ths Dollars (\$81,492.00) shall be due on April 1, 2001 and on the first day of each and every month to and including December 1, 2001. Eighty Five Thousand Five Hundred Fifty Six and 60/100ths Dollars (\$85,566.60) shall be due on January 1, 2002 and on the first day of each and every month to and including December 1, 2002. Eighty Nine Thousand Six Hundred Forty One and 20/100ths Dollars (\$89,641.20) shall be due on January 1, 2003 and on the first day of each and every month to and including December 1, 2003. Ninety Three Thousand Seven Hundred Fifteen and 80/100ths Dollars (\$93,715.80) shall be due on January 1, 2004 and on the first day of each and every month to and including December 1, 2004. Ninety Seven Thousand Seven Hundred Ninety and 40/100ths Dollars (\$97,790.40) shall be due on January 1, 2005 and on the first day of each and every month to and including December 1, 2005.

Commencing on January 1, 2006, Lessor and Lessee agree that the Base Monthly Rent shall be adjusted to reflect the then current fair market monthly rental ("FMV") for a manufacturing, administrative and warehouse building. Base Monthly Rent for the balance of the Term commencing on January 1, 2007 shall increase annually by a factor of 5%. FMV for the Premises shall be based on the improvements as shown on the attached Exhibit "A". In no event, however, shall the adjusted Base Monthly Rent be less than that paid during the prior year without the consent of the Lessor. In establishing the FMV for the Premises, the parties shall consider only direct leases for comparable space in San Jose occurring during the calendar year 2005. Considerations in establishing comparability of recently leased spaces shall include age and quality of the building and interior improvements, parking ratio and relative proximity to the Premises.

Lessor and Lessee shall negotiate FMV not less than four (4) months or

more than six (6) months prior to January 1, 2006. In the event Lessor and Lessee cannot agree upon FMV by September 15, 2005, then each party shall within five (5) days, select a licensed commercial real estate broker who is active in commercial and industrial rentals in the San Jose market and the two brokers so appointed shall meet within twenty-one (21) days of their appointment to make a determination of FMV, taking into account the considerations set forth above.
The

determination of the brokers as set forth herein shall be binding upon the parties. If the two brokers cannot reach agreement within five (5) days of their initial meeting, then the two shall immediately thereafter appoint a third broker (not affiliated with Renault & Handley) with the same qualifications and within twenty-one (21) days of the third broker's appointment, all shall meet to make a determination of FMV. If agreement cannot be reached, then the two closest opinions shall be averaged, and such figure shall become the adjusted Base Monthly Rent and be binding on both parties. Each party shall pay the fee of their respective broker and both parties shall share the cost of the third broker, if necessary.

In addition, Lessee shall pay to Lessor with the Base Monthly Rent, as additional rent, a monthly management fee equal to three percent (3%) of the Base Monthly Rent. All other costs and charges payable by Lessee in accordance with the terms of this Lease (including property taxes, insurance premiums and maintenance costs) shall be deemed to be additional rent.

SECURITY DEPOSIT

5. Lessee has deposited with Lessor \$118,163.40 as security for the full and faithful performance of each and every term, provision, covenant and condition of this Lease. In the event Lessee defaults with respect to any of the terms, provisions, covenants or conditions of this Lease, including, but not limited to the payment of rent, Lessor may use, apply or retain the whole or any part of such security for the payment of any rent in default or for any other sum which Lessor may spend or be required to spend by reason of Lessee's default. Should Lessee faithfully and fully comply with all of the terms, provisions, covenants and conditions of this Lease, the security or any balance thereof shall be returned to Lessee or, at the option of Lessor, to the last assignee of Lessee's interest in this Lease at the expiration of the term hereof. Lessee shall not be entitled to any interest on said security deposit.

POSSESSION

6. If Lessor, for any reason whatsoever, cannot deliver possession of the Premises to Lessee at the commencement of the said term, as hereinbefore specified, this Lease shall not be void or voidable, nor shall Lessor, or Lessor's agents, be liable to Lessee for any loss or damage resulting therefrom; but in that event the commencement and termination dates of the Lease and all other dates affected thereby shall be revised to conform to the date of Lessor's delivery of possession. Notwithstanding the foregoing, if the period of delay of delivery exceeds 60 days, Lessee, at his or its option, may declare this Lease null and void by notice to Lessor at any time prior to delivery of the Premises.

ACCEPTANCE OF PREMISES AND CONSENT TO SURRENDER

7. By entry hereunder, the Lessee accepts the Premises from Lessor in its "as is", "where is" condition. Lessor has made no representations or warranties respecting the Premises and Lessee has investigated and inspected the Premises and has satisfied itself that the Premises are suitable for the Lessee's intended use thereof and are in compliance with applicable laws and codes; provided, however, Lessor hereby warrants that it shall repair any material defects in the roof covering, HVAC, electrical and plumbing systems existing as of the commencement of the Lease, provided Lessee gives Lessor written notice specifying such defects in reasonable detail within thirty (30) days following commencement of this Lease. Lessor shall have no obligation to contribute toward any improvements to the Premises whatsoever. The Lessee agrees on the last day of the term hereof, or on sooner termination of this Lease, to surrender to Lessor the Premises, which shall, except as otherwise provided in paragraph 9 below, include all alterations, additions, and improvements which may have been made in, to, or on the Premises by Lessor or Lessee, in the same good condition as at Lessee's entry into the Premises excepting for such wear and tear as would be normal for the period of the Lessee's occupancy. The Lessee, on or before the end of the term or sooner termination of this Lease, shall remove all Lessee's personal property and trade fixtures from the premises and all property not so removed shall be deemed to be abandoned by the Lessee. If the Premises are not surrendered at the end of the term or sooner termination of this Lease, the Lessee shall indemnify the Lessor against loss or liability resulting from delay by the Lessee in so surrendering the Premises including, without limitation, any claims made by any succeeding tenant founded on such delay.

USES PROHIBITED

8. Lessee shall not commit, or suffer to be committed, any waste upon the Premises, or any nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant in or around the buildings in which the Premises may be located, or allow any sale by auction upon the Premises, or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, or place any loads upon the floor, walls, or roof which endanger the structure, or place any harmful liquids in the drainage system of the building. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the Premises outside of the building proper. No materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature shall be stored upon or permitted to remain on any portion of the Premises outside of the buildings proper.

ALTERATIONS AND ADDITIONS

9. Lessee shall make no alterations, additions or improvements to the Premises or any part thereof (collectively "Alterations") without first obtaining the prior written consent of the Lessor. All Alterations shall be in accordance with plans and specifications approved by Lessor and shall be carried out by a reputable licensed contractor and in compliance with all applicable laws, codes, rules and regulations. The Lessor may impose as a condition to the aforesaid consent such additional requirements as Lessor may deem necessary in Lessor's sole discretion, including without limitation requirements respecting the manner in which the work is done, Lessor's right of approval of the contractor by whom the work is to be performed, and the times during which it is to be accomplished. Upon approval by Lessor, Lessor shall designate any or all of the alterations to be removed upon the expiration of the Lease. All Alterations not specified to be removed shall at the expiration of earlier termination of the lease become the property of the Lessor and remain upon and be surrendered with the Premises. All movable furniture, business and trade fixtures, and machinery and equipment shall remain the property of the Lessee and may be removed by the Lessee at any time during the Lease term when Lessee is not in default hereunder. Items which are not to be deemed as movable furniture, business and trade fixtures, or machinery and equipment shall include heating, lighting, electrical systems, air conditioning, partitioning, carpeting, or any other installation which has become an integral part of the Premises. The Lessee will give the Lessor five (5) business days notice prior to the commencement of any Alterations work and will at all times permit notices of non-responsibility to be posted and to remain posted until the completion of Alterations.

MAINTENANCE OF PREMISES

10. Lessee shall, at Lessee's sole cost, keep and maintain the Premises and appurtenances and every part thereof, including but not limited to, glazing, sidewalks, plumbing, and electrical systems, any store front, exterior paint and all components of the interior of the Premises in good order, condition, and repair. Lessor shall, at Lessor's sole cost

and expense, maintain the structural integrity of the exterior walls, and structural portions of the roof, foundations and floors, except that Lessee shall pay, as additional rent, the cost of any repairs or replacements necessitated by the negligence or wrongful act of the Lessee or Lessee's agents or employees. Lessor shall, at Lessee's sole cost and expense, maintain, repair and (if necessary in the judgment of Lessor's experts) replace the roof covering, HVAC system, landscaping and parking lot surface ("Lessor's Maintenance Services") during the term of this Lease, as may be extended. Lessee shall reimburse Lessor as Additional Rent the cost incurred by Lessor in performing Lessor's Maintenance Services, without mark-up, within thirty (30) days after receipt of invoice from Lessor; provided, however, that (except where replacement of the parking lot surface, landscaping, roof or HVAC components are necessitated by the acts of the Lessee or Lessee's agents or employees, in which event Lessee shall pay the costs thereof in a lump sum on demand), costs of replacement (as opposed to repair) of the foregoing shall be amortized over the useful life thereof, and Lessee shall pay Lessor as Additional Rent a monthly payment equal to the monthly amortization, together with interest on the unamortized amount at an annual rate of twelve percent (12%). Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford the Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition or repair.

FIRE AND EXTENDED COVERAGE INSURANCE AND SUBROGATION

11. Lessee shall not use, or permit the Premises, or any part thereof, to be used, for any purposes other than that for which the Premises are hereby leased and no use shall be made or permitted to be made on the Premises, nor acts done, which will cause a cancellation of any insurance policy covering said Premises, or any part thereof, nor shall Lessee sell or permit to be kept, used or sold, in or about the Premises, any article which may be prohibited by the standard form of fire insurance policies. Lessee shall, at its sole cost and expense, comply with any and all requirements, pertaining to the Premises, of any insurance organization or company, necessary for the maintenance of reasonable fire and public liability insurance, covering said building and appurtenances.

11.1 Lessee shall, at its expense, obtain and keep in force during the term of this Lease a policy of commercial general liability insurance (including cross liability) insuring Lessee, Lessor, Lessor's Officers, Lessor's property manager and Lessor's lender, against any liability arising out of the condition, use, occupancy or maintenance of the Premises. Evidence of coverage must be in the form of a certificate of insurance accompanied by the appropriate additional insured endorsements. Such insurance policy shall have a combined single limit for both bodily injury and property damage in an amount not less than Two Million and no/100ths Dollars (\$2,000,000), which aggregate amount shall be specific to the Premises. The limits of said insurance shall not limit the liability of Lessee hereunder.

11.2 Lessee shall at its expense, keep in force during the term of this Lease, a policy of fire and property damage insurance in a "special" form with a sprinkler leakage endorsement, insuring Lessee's inventory, fixtures, equipment and personal property within the Premises for the full replacement value thereof. Upon execution of this Lease and annually thereafter upon renewal of such policies, Lessee shall provide Lessor with certificates of insurance, together with appropriate endorsements, evidencing coverages the Lessee is required to carry pursuant to 11.1 and 11.2. The policies shall provide for thirty (30) days advance written notice of cancellation to Lessor and Lessor's lender.

11.3 Lessor shall maintain a policy of commercial general liability insurance and a policy or policies of fire and property damage insurance in a "special" form, with sprinkler leakage and, at the option of Lessor, earthquake endorsements, covering loss or damage to the building, including Lessee's leasehold improvements installed with the written consent of Lessor, for the full replacement cost thereof.

11.4 Lessee shall pay to Lessor as additional rent, during the term hereof, upon receipt of an invoice therefore, one hundred percent (100%) of the premiums and deductibles (provided, the deductible amount shall be amortized over the useful life of the improvement for which such insurance deductible is applicable and Lessee shall only be obligated to reimburse Lessor for the amortized portion of the deductible amount that occurs during the term of this Lease) for any insurance obtained by Lessor pursuant to 11.3 above. Lessor may obtain such insurance for the Premises separately, or together with other property which Lessor elects to insure together under blanket policies of insurance. In such case Lessee shall be liable for only such portion of the premiums for such blanket policies as are allocable to the Premises. It is understood and agreed that Lessee's obligation under this paragraph shall be prorated to reflect the Commencement Date and Expiration Date of the Lease.

11.5 Lessee and Lessor each hereby waive any and all rights of recovery against the other, or against the officers, directors, employees, partners, agents and representatives of the other, for loss of or damage to the property of the waiving party or the property of others under its control, to the extent such loss or damage is insured against under any insurance policy carried or required to be carried by Lessor or Lessee hereunder. Each party shall notify their respective insurance carriers of this waiver.

ABANDONMENT

12. Lessee shall not abandon the Premises at any time during the term; and if Lessee shall abandon or surrender the Premises, or be dispossessed by process of law, or otherwise, any personal property belonging to Lessee and left on the Premises shall be deemed to be abandoned, at the option of Lessor, except such property as may be mortgaged to Lessor.

FREE FROM LIENS

13. Lessee shall keep the Premises and the property in which the Premises are situated, free from any liens arising out of any work performed, materials furnished, or obligations incurred by Lessee.

COMPLIANCE WITH GOVERNMENTAL REGULATIONS

14. Lessee shall, at its sole cost and expense, comply with all statutes, codes, ordinances, rules, regulations and other requirements of all Municipal, State and Federal authorities (collectively, "Laws") now in force, or which may hereafter be in force, pertaining to the Premises, and shall faithfully observe in the use of the Premises all Municipal ordinances and State and Federal statutes now in force or which may hereafter be in force. The judgment of any court of competent jurisdiction, or the admission of Lessee in any action or proceeding against Lessee, whether Lessor be a party thereto or not, that Lessee has violated, or that the Premises are not in compliance with, any Laws in the use of the Premises, shall be conclusive of that fact as between Lessor and Lessee. Lessee's obligations under this paragraph 14 shall include the obligation to make, at Lessee's sole cost, any alterations or improvements to the Premises which are required by applicable Laws, provided that (a) as to such alterations or improvements which are not required by reason of Lessee's particular use of the Premises or by reason of other alterations or improvements

being undertaken by Lessee, Lessee shall only be required to pay an allocable portion of the costs of such required alterations or improvements based on the ratio of the remaining lease term to the useful life of such alterations or improvements, and (b) Lessee shall not be required to pay any portion of the cost of alterations or improvements which are legally required to be made as of the date of this Lease and as to which Lessor receives notice of such requirement prior to the date thirty (30) days after the date Lessor delivers possession of the Premises to Lessee.

INDEMNIFICATION OF LESSOR

15. Neither Lessor nor Lessor's agents, nor any shareholder, constituent partner or other owner of Lessor or any agent of Lessor, nor any contractor, officer, director or employee of any thereof shall be liable to Lessee and Lessee waives all claims against Lessor and such other persons for any injury to or death of any person or for loss of use of or damage to or destruction of property in or about the Premises by or from any cause whatsoever, unless caused solely by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessee agrees to indemnify and hold Lessor, Lessor's agents, the shareholders, constituent partners and/or other owners of Lessor or any agent of Lessor, and all contractors, officers, directors and employees of any thereof (collectively, "Indemnitees"), and each of them, harmless from and to protect and defend each Indemnatee against any and all claims, demands, suits, liability, damage or loss and against all costs and expenses, including reasonable attorneys' fees incurred in connection therewith, (a) arising out of any injury or death of any person or damage to or destruction of property occurring in, on or about the Premises, from any cause whatsoever, unless caused solely by the gross negligence or willful misconduct of such Indemnatee, or (b) occurring in, on or about the Premises, when such claim, injury or damage is caused or allegedly caused in whole or in part by the act, neglect, default, or omission of any duty by Lessee, its former or current agents, contractors, employees, invitees, or subtenants, or (c) arising from any failure of Lessee to observe or perform any of its obligations hereunder. The provisions of this paragraph shall survive the termination of this Lease with respect to any claims or liability occurring prior to such termination.

ADVERTISEMENTS AND SIGNS

16. Lessee will not place or permit to be placed, in, upon or about the Premises any unusual or extraordinary signs, or any signs not approved by the city or other governing authority. The Lessee will not place, or permit to be placed, upon the Premises, any signs, advertisements or notices without the written consent of the Lessor first had and obtained. Any sign so placed on the Premises shall be so placed upon the understanding and agreement that Lessee will remove same at the termination of the tenancy herein created and repair any damage or injury to the Premises caused thereby, and if not so removed by Lessee then Lessor may have same so removed at Lessee's expense.

UTILITIES

17. Lessee shall pay for all water, gas, heat, light, power, telephone service and all other service supplied to the Premises. If the Premises are not served by a separate water meter, Lessee shall pay to Lessor its share of the water bill for the entire property covered by said bill and of which the Premises are a part, as determined by Lessor based on square footage or other equitable method.

ATTORNEY'S FEES

18. In case suit should be brought for the possession of the Premises, for the recovery of any sum due hereunder, or because of the breach of any other covenant herein, the losing party shall pay to the prevailing party a reasonable attorney's fee, which shall be deemed to have accrued on the commencement of such action and shall be enforceable whether or not such action is prosecuted to judgment.

DEFAULT AND REMEDIES

19. The occurrence of any one or more of the following events (each an "Event of Default") shall constitute a breach of this Lease by Lessee:

(a) Lessee fails to pay any Monthly Base Rent or additional rent under this Lease as and when it becomes due and payable and such failure continues for more than ten (10) days; or

(b) Lessee fails to perform or breaches any other covenant of this Lease to be performed or observed by Lessee as and when performance or observance is due and such failure or breach continues for more than ten (10) days after Lessor gives written notice thereof to Lessee; provided, however, that if such failure or breach cannot reasonably be cured within such period of ten (10) days, an Event of Default shall not exist as long as Lessee commences with due diligence and dispatch the curing of such failure or breach within such period of ten (10) days and, having so commenced, thereafter prosecutes with diligence and dispatch and completes the curing of such failure or breach within a reasonable time; or

(c) Lessee files, or consents by answer or otherwise to the filing

against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction; makes an assignment for the benefit of its creditors; or consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of Lessee or of any substantial part of Lessee's property; or

(d) A court or government authority enters an order, and such order is not vacated within thirty (30) days, appointing a custodian, receiver, trustee or other officer with similar powers with respect to Lessee or with respect to any substantial part of Lessee's property; or constituting an order for relief or approving a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction; or ordering the dissolution, winding-up or liquidation of Lessee; or

(e) Lessee abandons the Premises.

19.1 If an Event of Default occurs, Lessor shall have the right at any time to give a written termination notice to Lessee and, on the date specified in such notice, Lessee's right to possession shall terminate and this Lease shall terminate. Upon such termination, Lessor shall have the right to recover from Lessee:

(i) The worth at the time of award of all unpaid rent which had been earned at the time of termination;

(ii) The worth at the time of award of the amount by which all unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Lessee proves could

have been reasonably avoided;

(iii) The worth at the time of award of the amount by which all unpaid rent for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Lessee proves could be reasonably avoided; and

(iv) All other amounts necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform all of Lessee's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

The "worth at the time of award" of the amounts referred to in clauses (i) and (ii) above shall be computed by allowing interest at the maximum annual interest rate allowed by law for business loans (not primarily for personal, family or household purposes) not exempt from the usury law at the time of termination or, if there is no such maximum annual interest rate, at the rate of eighteen percent (18%) per annum. The "worth at the time of award" of the amount referred to in clause (iii) above shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). For the purpose of determining unpaid rent under clauses (i), (ii) and (iii) above, the rent reserved in this Lease shall be deemed to be the total rent payable by Lessee under this Lease, including Monthly Base Rent, additional rent and all other sums payable by Lessee under this Lease.

19.2 Even though Lessee has breached this Lease, this Lease shall continue in effect for so long as Lessor does not terminate Lessee's right to possession, and Lessor shall have all of its rights and remedies, including the right, pursuant to California Civil Code section 1951.4, to recover all rent as it becomes due under this Lease. Acts of maintenance or preservation or efforts to relet the Premises or the appointment of a receiver upon initiative of Lessor to protect Lessor's interest under this Lease shall not constitute a termination of Lessee's right to possession unless written notice of termination is given by Lessor to Lessee.

19.3 The remedies provided for in this Lease are in addition to all other remedies available to Lessor at law or in equity by statute or otherwise.

LATE CHARGES AND INTEREST

20. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, Lessee shall pay to Lessor a late charge equal to seven and one half percent (7.5%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

If any rent payable under the Lease remains delinquent for a period in excess of ten (10) calendar days, then, in addition to any late charge payable, Lessee shall pay to Lessor interest on any rent that is not so paid from the date due until paid at the then maximum rate of interest not prohibited or made usurious by Law.

SURRENDER OF LEASE

21. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subleases or subtenancies, or may, at the option of Lessor, operate as an assignment to Lessor of any or all such subleases or subtenancies.

TAXES

22. The Lessee shall be liable for all taxes levied against personal property and trade or business fixtures. The Lessee also agrees to pay, as additional rental, during the term of this Lease and any extensions thereof, all real estate taxes plus the yearly installments of any special assessments which are of record or which may become of record during the term of this lease. If the Premises are a portion of a tax parcel or parcels and this Lease does not cover an entire tax parcel or parcels, the taxes and assessment installments allocated to the Premises shall be pro-rated on a square footage or other equitable basis, as calculated by the Lessor. It is understood and agreed that the Lessee's obligation under this paragraph will be pro-rated to reflect the commencement and termination dates of this Lease.

NOTICES

23. All notices to be given to Lessee may be given in writing personally, sent by next day courier, or by depositing the same in the United States mail,

postage prepaid, and addressed to Lessee at the said Premises, whether or not Lessee has departed from, abandoned or vacated the Premises, and any other address of Lessee set forth below. All notices to be given to Lessor may be given in writing personally, sent by next day courier or by depositing the same in the United States mail, postage prepaid, and addressed to Lessor at the following address or such other address as Lessor may, from time to time designate:

c/o Renault & Handley
2500 El Camino Real
Palo Alto, CA 94306

If not delivered personally, notices shall be deemed delivered as of the third business day after being mailed, or if sent by courier, the next business day after being sent.

ENTRY BY LESSOR

24. Lessee shall permit Lessor and his agents to enter into and upon the Premises at all reasonable times for the purpose of inspecting the same or for the purpose of maintaining the building in which the Premises are situated, or for the purpose of making repairs, alterations or additions to any other portion of said building, including the erection and maintenance of such scaffolding, canopies, fences and props as may be required without any rebate of rent and without any liability to Lessee for any loss of occupation or quiet enjoyment of the Premises thereby

occasioned; and shall permit Lessor and his agents, at any time within ninety days prior to the expiration of this Lease, to place upon the Premises any usual or ordinary "For Sale" or "For Lease" signs and exhibit the Premises to prospective tenants at reasonable hours.

DESTRUCTION OF PREMISES

25. In the event of a partial destruction of the Premises during the term of this Lease from any cause covered by insurance carried, or required to be carried, by Lessor under this Lease, Lessor shall forthwith repair the same, provided such repairs can be made within one hundred eighty (180) days under the laws and regulations of State, Federal, County or Municipal authorities, but such partial destruction shall in no way annul or void this Lease, except that Lessee shall be entitled to a proportionate reduction of rent while such repairs are being made, such proportionate reduction to be based upon the extent to which the making of such repairs shall interfere with the business carried on by Lessee in the Premises. If the cause for such repairs is not so covered by insurance or cannot be made in one hundred eighty (180) days, Lessor may, at his option, make same within a reasonable time, this Lease continuing in full force and effect and the rent to be proportionately reduced as aforesaid in this paragraph provided. In the event that Lessor does not so elect to make such repairs the cause of which is not so covered by insurance or cannot be made in one hundred eighty (180) days, or such repairs cannot be made under such laws and regulations, this Lease may be terminated at the option of either party. In respect to any partial destruction which Lessor is obligated to repair or may elect to repair under the terms of this paragraph, the provision of Section 1932, Subdivision 2, and of Section 1933, Subdivision 4, of the Civil Code of the State of California are waived by Lessee. In the event that the building in which the Premises may be situated be destroyed to the extent of not less than 33 1/3% the replacement cost thereof, Lessor may elect to terminate this Lease, whether the Premises be injured or not. A total destruction of the building in which the Premises may be situated shall terminate this Lease. In the event of any dispute between Lessor and Lessee relative to the provisions of this paragraph, they shall each select an arbitrator, the two arbitrators so selected shall select a third arbitrator and the three arbitrators so selected shall hear and determine the controversy and their decision thereon shall be final and binding upon both Lessor and Lessee, who shall bear the cost of such arbitration equally between them.

ASSIGNMENT AND SUBLETTING

26. The Lessee shall not assign, transfer, or hypothecate the leasehold estate under this Lease, or any interest therein, and shall not sublet the Premises, or any part thereof, or any right or privilege appurtenant thereto, or suffer any other person or entity to occupy or use the Premises, or any portion thereof, without, in each case, the prior written consent of the Lessor. Lessor shall not unreasonably withhold, delay or condition its consent to a subletting or assignment. In the event Lessee is allowed to assign, transfer or sublet the whole or any part of the Premises, with the prior written consent of Lessor, then no assignee, transferee or sublessee shall assign or transfer this Lease, either in whole or in part, or sublet the whole or any part of the Premises, without also having obtained the prior written consent of the Lessor. In the event of any approved assignment or subletting during the period from December 1, 2000 to December 1, 2003, Lessee shall pay to the Lessor, as additional rental, zero percent (0%) of all assignment proceeds and rents received by the Lessee from its assignee or sublessee which are in excess of the amount payable by the Lessee to the Lessor hereunder, after deducting the amount of any market rate real estate brokerage commissions paid by Lessee in connection with the assignment or subletting. In the event of any approved assignment or subletting during the period from December 1, 2003 to December 1, 2010 Lessee shall pay to the Lessor, as additional rental, fifty percent (50%) of all assignment proceeds and rents received by the Lessee from its assignee or sublessee which are in excess of the amount payable by the Lessee to the Lessor hereunder, after deducting the amount of any market rate real estate brokerage commissions paid by Lessee in connection with the assignment or subletting. A consent of Lessor to one assignment, transfer, hypothecation, subletting, occupation or use by any other person shall not release Lessee from any of Lessee's obligations hereunder or be deemed to be a consent to any subsequent similar or dissimilar assignment, transfer, hypothecation, subletting, occupation or use by any other person. Any such assignment, transfer, hypothecation, subletting, occupation or use without such consent shall be void and shall constitute a breach of this Lease by Lessee and shall, at the option of Lessor exercised by written notice to Lessee, terminate this Lease. The leasehold estate under this Lease shall not, nor shall any interest therein, be assignable for any purpose by operation of law without the written consent of Lessor. As a condition to its consent, Lessor may require Lessee to pay all expenses in connection with the assignment, and Lessor may require Lessee's assignee or transferee (or other assignees or transferees) to assume in writing all of the obligations under this Lease.

Any dissolution, merger, consolidation, recapitalization or other reorganization of Lessee, or the sale or other transfer in the aggregate over the term of the Lease of a controlling percentage of the capital stock of Lessee (excluding transfers over a national securities exchange), or the sale or transfer of all or a substantial portion of the assets of Lessee, shall be deemed a voluntary assignment of Lessee's interest in this Lease; provided that, a merger, consolidation, recapitalization, reorganization or sale of assets shall not require Lessor's consent hereunder unless Lessee's tangible net worth (determined in accordance with generally accepted accounting principles) immediately after such transaction is less than Lessee's tangible net worth immediately prior to such transaction. The phrase "controlling percentage" means

the ownership of and the right to vote stock possessing more than fifty percent of the total combined voting power of all classes of Lessee's capital stock issued, outstanding and entitled to vote for the election of directors. If Lessee is a partnership, a withdrawal or change, voluntary, involuntary or by operation of Law, of any general partner, or the dissolution of the partnership, shall be deemed a voluntary assignment of Lessee's interest in this Lease. In the event that, through a merger, stock sale or other transaction, Lessee becomes the subsidiary of any other entity (a "parent"), Lessor shall have the right to require that the parent guaranty all of Lessee's obligations under the Lease pursuant to a form of guaranty reasonably satisfactory to Lessor.

CONDEMNATION

27. If any part of the premises shall be taken for any public or quasi-public use, under any statute or by right of eminent domain or private purchase in lieu thereof, and a part thereof remains which is susceptible of occupation hereunder, this Lease shall, as to the part so taken, terminate as of the date title shall vest in the condemnor or purchaser, and the rent payable hereunder shall be adjusted so that the Lessee shall be required to pay for the remainder of the term only such portion of such rent as the value of the part remaining after such taking bears to the value of the entire Premises prior to such taking; but in such event Lessor shall have the option to terminate this Lease as of the date when title to the part so taken vests in the condemnor or purchaser. If all of the Premises, or such part thereof were taken so that there does not remain a portion susceptible for occupation hereunder, this Lease shall thereupon terminate. If a part or all of the Premises were taken, all compensation awarded upon such taking shall go to the Lessor and the Lessee shall have no claim thereto except as provided by law.

EFFECT OF CONVEYANCE

28. The term "Lessor" as used in this Lease, means only the owner for the time being of the land and building containing the Premises, so that, in the event of any sale of said land or building, the Lessor shall be and hereby is entirely freed and relieved of all covenants and obligations of the Lessor hereunder, and it shall be deemed and construed, without further agreement between the parties and the purchaser at any such sale, that the purchaser of the building has assumed and agreed to carry out any and all covenants and obligations of the Lessor hereunder. If any security be given by the Lessee to secure the faithful performance of all or any of the covenants of this Lease on the part of the Lessee, the Lessor may transfer and deliver the security, as such, to the purchaser at any such sale, and thereupon the Lessor shall be discharged from any further liability in reference thereto.

SUBORDINATION

29. Lessee agrees that this Lease shall be subject and subordinate to any mortgage, deed of trust or other instrument of security which has been or shall be placed on the land and building or land or building of which the Premises form a part, and this subordination is hereby made effective without any further act of Lessee. The Lessee shall, at any time hereinafter, on demand, execute any instruments, releases, or other documents that may be required by any mortgagee, mortgagor, or trustor or beneficiary under any deed of trust for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, deed of trust or other instrument of security, and the failure of the Lessee to execute any such instruments, releases or documents, shall constitute a default hereunder. Notwithstanding Lessee's obligations, and the subordination of the Lease, under this paragraph 29, no mortgagee, trustee or beneficiary under any deed of trust or other instrument of security which may be placed on the Premises shall have the right to terminate the Lease or disturb Lessee's occupancy thereunder so long as no Event of Default has occurred and is continuing under this Lease.

WAIVER

30. The waiver by Lessor of any breach of any term, covenant or condition, herein contained shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition therein contained. The subsequent acceptance of rent hereunder by Lessor shall not be deemed to be a waiver of any preceding breach by Lessee of any term, covenant or condition of this Lease, other than the failure of Lessee to pay the particular rental so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

HOLDING OVER

31. Any holding over after the expiration or other termination of the term of this Lease with the written consent of Lessor, shall be construed to be a tenancy from month to month, at a rental to be negotiated by Lessor and Lessee prior to the expiration of said term, and shall otherwise be on the terms and conditions herein specified, so far as applicable. Any holding over after the expiration or other termination of the term of this Lease without the written consent of Lessor shall be construed to be a tenancy at sufferance on all the terms set forth herein, except that the monthly rental shall be an amount equal to one hundred fifty percent (150%) of the base monthly rent payable by Lessee immediately prior to such holding over, or the fair market rent for the Premises as of such date, whichever is greater.

SUCCESSORS AND ASSIGNS

32. The covenants and conditions herein contained shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto; and all of the parties hereto shall be jointly and severally liable hereunder.

TIME

33. Time is of the essence of this Lease.

MARGINAL CAPTIONS; COMPLETE AGREEMENT; AMENDMENT

34. The marginal headings or titles to the paragraphs of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part thereof. This instrument contains all of the agreements and conditions made between the parties hereto and may not be modified orally or in any other manner than by an agreement in writing signed by all of the parties hereto or their respective successors in interest.

ENVIRONMENTAL OBLIGATIONS

35. Lessee's obligations under this Paragraph 35 shall survive the expiration or termination of this Lease.

35.1 As used herein, the term "Hazardous Materials" shall mean any toxic

or hazardous substance, material or waste or any pollutant or infectious or radioactive material, including but not limited to those substances, materials or wastes regulated now or in the future under any of the following statutes or regulations and any and all of those substances included within the definitions of "hazardous substances," "hazardous materials," "hazardous waste," "hazardous chemical substance or mixture," "imminently hazardous chemical substance or mixture," "toxic substances," "hazardous air pollutant," "toxic pollutant," or "solid waste" in the (a) Comprehensive Environmental Response, Compensation and Liability Act of 1990 ("CERCLA" or "Superfund"), as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), 42 U.S.C. Section 9601 et seq., (b) Resource Conservation and Recovery Act of 1976 ("RCRA"), 42 U.S.C. Section 6901 et seq., (c) Federal Water Pollution Control Act ("FSPCA"), 33 U.S.C. Section 1251 et seq., (d) Clean Air Act ("CAA"), 42 U.S.C. Section 7401 et seq., (e) Toxic Substances Control Act ("TSCA"), 14 U.S.C. Section 2601 et seq., (f) Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., (g) Carpenter-Presley-Tanner Hazardous Substance Account Act ("California Superfund"), Cal. Health & Safety Code Section 25300 et seq., (h) California Hazardous Waste Control Act, Cal. Health & Safety code Section 25100 et seq., (i) Porter-Cologne Water Quality Control Act ("Porter-Cologne Act"), Cal. Water Code Section 13000 et seq., (j) Hazardous Waste Disposal Land Use Law, Cal. Health & Safety codes Section 25220 et seq., (k) Safe Drinking Water and Toxic Enforcement Act of 1986 ("Proposition 65"), Cal. Health & Safety code Section 25249.5 et seq., (l) Hazardous Substances Underground Storage Tank Law, Cal. Health & Safety code Section 25280 et seq., (m) Air Resources Law, Cal. Health & Safety Code Section 39000 et seq., and (n) regulations promulgated pursuant to said laws or any replacement thereof, or as similar terms are defined in the federal, state and local laws, statutes, regulations, orders or rules. The term "Hazardous Materials" shall also mean any and all other biohazardous wastes and substances, materials and wastes which are, or in the future become, regulated under applicable Laws for the protection of health or the environment, or which are classified as hazardous or toxic substances, materials or wastes, pollutants or contaminants, as defined, listed or regulated by any federal, state or local law, regulation or order or by common law decision. The term "Hazardous Materials" shall include, without limitation, (i) trichloroethylene, tetrachloroethylene, perchloroethylene and other chlorinated solvents, (ii) any petroleum products or fractions thereof, (iii) asbestos, (iv) polychlorinated biphenyls, (v) flammable explosives, (vi) urea formaldehyde, (vii) radioactive materials and waste, and (viii) materials and wastes that are harmful to or may threaten human health, ecology or the environment.

35.2 Notwithstanding anything to the contrary in this Lease, Lessee, at its sole cost, shall comply with all Laws relating to the storage, use and disposal of Hazardous Materials; provided, however, that Lessee shall not be responsible for contamination of the Premises by Hazardous Materials existing as of the date the Premises are

delivered to Lessee unless caused by Lessee. Lessee shall not store, use or dispose of any Hazardous Materials except for those Hazardous Materials ("Permitted Materials") which are (a) listed in a Hazardous Materials management plan ("HMMP") which Lessee shall submit to appropriate governmental authorities as and when required under applicable Laws, and (b) are either normal quantities of ordinary office supplies or are approved in writing by Lessor. Lessee may use, store and dispose of provided Permitted Materials provided that (i) such Permitted Materials are used, stored, transported, and disposed of in strict compliance with applicable Laws, and (ii) such Permitted Materials shall be limited to the materials listed on and may be used only in the quantities specified in the HMMP. In no event shall Lessee cause or permit to be discharged into the plumbing or sewage system of the Premises or onto the land underlying or adjacent to the Premises any Hazardous Materials. If the presence of Hazardous Materials on the Premises caused or permitted by Lessee results in contamination or deterioration of water or soil, then Lessee shall promptly take any and all action necessary to clean up such contamination, but the foregoing shall in no event be deemed to constitute permission by Lessor to allow the presence of such Hazardous Materials.

35.3 Lessee shall immediately notify Lessor in writing of:

- (a) Any enforcement, cleanup, removal, or other governmental or regulatory action instituted, completed or threatened against Lessee related to any Hazardous Materials;
- (b) Any claim made or threatened by any person against Lessee or the Premises relating to damage, contribution, cost recovery compensation, loss or injury resulting from or claimed to result from any Hazardous Materials; and,
- (c) Any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in, discharged at, or removed from the Premises, including any complaints, notices, warnings or asserted violations in connection therewith.

Lessee shall also supply to Lessor as promptly as possible, and in any event within five (5) business days after Lessee first receives or sends the same, with copies of all claims, reports, complaints, notices, warnings or asserted violations related in any way to the existence of Hazardous Materials at, in, under or about the Premises or Lessee's use thereof. Lessee shall, upon Lessor's request, promptly deliver to Lessor copies of any documents or information relating to the use, storage or disposal of Hazardous Material on or from the Premises.

35.4 Upon termination or expiration of the Lease, Lessee at its sole expense shall cause all Hazardous Materials placed in or about the Premises, by Lessee, its agents, contractors, or invitees, and all installations (whether interior or exterior) made by or on behalf of Lessee relating to the storage, use, disposal or transportation of Hazardous Materials to be removed from the property and transported for use, storage or disposal in accordance and compliance with all Laws and other requirements respecting Hazardous Materials used or permitted to be used by Lessee. Lessee shall apply for and shall obtain from all appropriate regulatory authorities (including any applicable fire department or regional water quality control board) all permits, approvals and clearances necessary for the closure of the Premises and shall take all other actions as may be required to complete the closure of the Premises. In addition, prior to vacating the Premises, Lessee shall undertake and submit to Lessor an environmental site assessment from an environmental consulting company reasonably acceptable to Lessor which site assessment shall evidence Lessee's compliance with this Paragraph 35.

35.5 At any time prior to expiration of the Lease term, subject to reasonable prior notice (not less than forty-eight (48) hours) and Lessee's reasonable security requirements and provided such activities do not unreasonably interfere with the conduct of Lessee's business at the Leased Premises, Lessor shall have the right to enter in and upon the Premises in order to conduct appropriate tests of water and soil to determine whether levels of any Hazardous Materials in excess of legally permissible levels has occurred as a result of Lessee's use thereof. Lessor shall furnish copies of all such test results and reports to Lessee and, at Lessee's option and cost, shall permit split sampling for testing and analysis by Lessee. Such testing shall be at Lessee's expense if Lessor has a reasonable basis for suspecting and confirms the presence of Hazardous Materials in the soil or surface or ground water in, on, under, or about the Premises, which has been caused by or resulted from the activities of Lessee, its agents, contractors, or invitees.

35.6 Lessor may voluntarily cooperate in a reasonable manner with the efforts of all governmental agencies in reducing actual or potential environmental damage. Lessee shall not be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of such compliance or cooperation. Lessee agrees at all times to cooperate fully with the requirements and recommendations of governmental agencies regulating, or otherwise involved in, the protection of the environment.

35.7 Lessee shall indemnify, defend by counsel reasonably acceptable to Lessor, protect and hold Lessor and each of Lessor's partners, employees, agents, attorneys, successors, and assignees, free and harmless from and against any and all claims, damages, liabilities, penalties, forfeitures, losses or expenses (including reasonable attorney's fees) or death of or injury to any person or damage to any property whatsoever arising from or caused in whole or in part, directly or indirectly by (A) the presence in, or under or about the Premises or discharge in or from the Premises of any Hazardous Materials caused by Lessee, its agents, employees, invitees, contractors, assignees, or Lessee's

use, analysis, storage, transportation, disposal, release, threatened release, discharge or generation of Hazardous Materials to, in, on, under, about or from the leased Premises, or (B) Lessee's failure to comply with any Hazardous Materials Law. Lessee's obligations hereunder shall include, without limitation, whether foreseeable or unforeseeable, all costs, of any required or necessary repair, cleanup or detoxification or decontamination of the Premises, and the preparation and implementation of any closure, remedial action or other required plans in connection therewith, and shall survive the expiration or earlier termination of the term of this Lease. For purposes of indemnity provision hereof, any actions or omissions of Lessee or by employees, agents, assignees, contractors or subcontractors of Lessee or others acting for or on behalf of Lessee (whether or not they are negligent, intentional, willful or unlawful) shall be strictly attributable to Lessee.

LESSOR'S RIGHT TO PERFORM

36. If Lessee shall fail to perform any obligation or covenant pursuant to this Lease within a reasonable period of time (not to exceed 15 days) following notice from Lessor to do so, then Lessor may, at its election and without waiving any other remedy it may otherwise have under this Lease or at law, perform such obligation or covenant and Lessee shall pay to Lessor, as Additional Rent, the costs incurred by Lessor in performing such obligation or covenant.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY WHO WILL REVIEW THE DOCUMENT AND ASSIST YOU TO DETERMINE WHETHER YOUR LEGAL RIGHTS ARE ADEQUATELY PROTECTED. RENAULT & HANDLEY IS NOT AUTHORIZED TO GIVE LEGAL AND TAX ADVICE. NO REPRESENTATION OR RECOMMENDATION IS MADE BY RENAULT & HANDLEY OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS DOCUMENT OR ANY TRANSACTION RELATING THERETO. THESE ARE QUESTIONS FOR YOUR ATTORNEY WITH WHOM YOU SHOULD CONSULT BEFORE SIGNING THIS DOCUMENT.

IN WITNESS WHEREOF, Lessor and Lessee have executed these presents, the day and year first above written.

LESSOR	LESSEE
Zanker Development Co., a Joint Venture	Galileo Technology Ltd.
- - - - -	By: - - - - -
- - - - -	Its: - - - - -
	By: - - - - -
	Its: - - - - -

SUBSIDIARIES OF MARVELL

Subsidiary - - - - -	Jurisdiction of Organization - - - - -
Galileo Technology Europe Ltd.	United Kingdom
Galileo Technology, Inc.	California
Galileo Technology Ltd.	Israel
Marvell Asia Pte. Ltd.	Singapore
Marvell Europe B.V.	Netherlands
Marvell International Ltd.	Bermuda
Marvell Japan K.K.	Japan
Marvell Semiconductor, Inc.	California

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference, in the registration statements on Form S-8 (Nos. 333-56322, 333-55974, 333-54188, 333-40154 and 333-40152) of Marvell Technology Group Ltd., of our report dated February 22, 2001, relating to the financial statements appearing in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
April 26, 2001