

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 1, 2003

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number: 0-30877

Marvell Technology Group Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	77-0481679
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4th Floor, Windsor Place, 22 Queen Street, P.O. Box HM 1179, Hamilton, HM EX, Bermuda
(Address, including Zip Code, of Principal Executive Offices)

(441) 296-6395
(Registrant’s telephone number, including area code)

N/A
(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). ☒ Yes ☐ No

Shares Outstanding of the Registrant’s Common Stock

Class	Outstanding at November 30, 2003
Common stock, \$0.002 par value	130,097,788

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities and Use of Proceeds

Item 3. Defaults Upon Senior Securities

Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information

Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

EXHIBIT INDEX

EXHIBIT 10.21

EXHIBIT 10.22

EXHIBIT 10.23

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32.1

EXHIBIT 32.2

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	
Unaudited Condensed Consolidated Balance Sheets at October 31, 2003 and January 31, 2003	3
Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended October 31, 2003 and 2002	4
Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2003 and 2002	5
Notes to Unaudited Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures about Market Risk	36
Item 4. Controls and Procedures	36
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 2. Changes in Securities and Use of Proceeds	37
Item 3. Defaults Upon Senior Securities	37
Item 4. Submission of Matters to a Vote of Securities Holders	37
Item 5. Other Information	38
Item 6. Exhibits and Reports on Form 8-K	38
Signatures	39
Exhibit Index	40

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

MARVELL TECHNOLOGY GROUP LTD. UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands, except par value)

	October 31, 2003	January 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 245,063	\$ 125,316
Short-term investments	155,245	139,912
Accounts receivable, net of allowances of \$2,731 and \$2,039	119,855	86,175
Inventories	76,959	39,712
Prepaid expenses and other current assets	9,403	11,801
Deferred income taxes	8,178	8,178
Total current assets	614,703	411,094
Property and equipment, net	81,298	64,207
Goodwill	1,437,565	1,338,768
Acquired intangible assets	178,826	231,875
Other noncurrent assets	38,789	49,313
Total assets	\$2,351,181	\$2,095,257
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 88,459	\$ 47,672
Accrued liabilities	12,111	14,417
Accrued employee compensation	25,852	11,464
Income taxes payable	10,685	2,247
Deferred income	18,617	12,481
Current portion of capital lease obligations	9,063	5,019
Total current liabilities	164,787	93,300
Capital lease obligations	14,636	13,755
Long-term income taxes payable	22,835	22,835
Other long-term liabilities	17,684	15,229
Total liabilities	219,942	145,119
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock, \$0.002 par value; 242,000 shares authorized; 129,790 and 121,260 shares issued and outstanding	260	243
Additional paid-in capital	2,832,463	2,674,095
Deferred stock-based compensation	(7,632)	(5,899)
Accumulated other comprehensive income	702	1,988
Accumulated deficit	(694,554)	(720,289)
Total shareholders' equity	2,131,239	1,950,138
Total liabilities and shareholders' equity	\$2,351,181	\$2,095,257

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Net revenue	\$215,331	\$135,944	\$576,468	\$354,438
Operating costs and expenses:				
Cost of goods sold (1)	100,837	62,925	265,894	162,738
Research and development (1)	55,147	38,817	154,038	103,025
Selling and marketing (1)	15,738	12,298	45,984	35,631
General and administrative (1)	5,420	3,582	13,351	10,747
Amortization of stock-based compensation	1,528	2,187	3,206	6,661
Amortization of acquired intangible assets and other	21,641	21,323	60,649	63,969
Facilities consolidation charge	—	1,763	—	19,562
Total operating costs and expenses	200,311	142,895	543,122	402,333
Operating income (loss)	15,020	(6,951)	33,346	(47,895)
Interest and other income, net	1,726	1,670	4,606	5,715
Income (loss) before income taxes	16,746	(5,281)	37,952	(42,180)
Provision for income taxes	4,790	2,399	12,217	5,760
Net income (loss)	\$ 11,956	\$ (7,680)	\$ 25,735	\$ (47,940)
Net income (loss) per share:				
Basic	\$ 0.09	\$ (0.06)	\$ 0.21	\$ (0.40)
Diluted	\$ 0.08	\$ (0.06)	\$ 0.19	\$ (0.40)
Weighted average shares:				
Basic	127,456	119,577	124,153	118,851
Diluted	142,417	119,577	136,265	118,851
(1) Excludes amortization of stock-based compensation as follows:				
Cost of goods sold	\$ 44	\$ 125	\$ 133	\$ 288
Research and development	790	1,357	1,518	4,272
Selling and marketing	297	514	546	1,373
General and administrative	397	191	1,009	728
	\$ 1,528	\$ 2,187	\$ 3,206	\$ 6,661

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended October 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ 25,735	\$ (47,940)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	25,150	14,551
Amortization of stock-based compensation	3,206	6,661
Amortization of acquired intangible assets and other	60,649	63,969
Facilities consolidation charge	—	5,999
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(33,646)	(28,602)
Inventories	(37,247)	(23,229)
Prepaid expenses and other assets	1,740	(2,192)
Accounts payable	39,185	15,232
Accrued liabilities and other	(580)	(763)
Accrued employee compensation	12,850	1,944
Accrued facility consolidation charge	(2,195)	11,307
Income taxes payable	8,450	4,343
Deferred income	6,136	3,536
Net cash provided by operating activities	109,433	24,816
Cash flows from investing activities:		
Purchases of short-term investments	(95,417)	(42,016)
Sales and maturities of short-term investments	78,786	41,454
Purchases of investments and loan advanced	(10,220)	(10,000)
Cash received from acquisitions, net of acquisition costs	1,220	1,098
Purchases of property and equipment	(28,542)	(23,903)
Purchases of technology licenses	(2,917)	—
Net cash used in investing activities	(57,090)	(33,367)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of repurchases	71,598	14,970
Principal payments on capital lease obligations	(4,194)	(1,299)
Net cash provided by financing activities	67,404	13,671
Net increase in cash and cash equivalents	119,747	5,120
Cash and cash equivalents at beginning of period	125,316	114,483
Cash and cash equivalents at end of period	\$245,063	\$119,603

See accompanying notes to unaudited condensed consolidated financial statements.

MARVELL TECHNOLOGY GROUP LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company and its Significant Accounting Policies

The Company

Marvell Technology Group Ltd. (the “Company”), a Bermuda company, was incorporated on January 11, 1995. The Company is a leading global semiconductor provider of complete broadband communications and storage solutions. The Company’s diverse product portfolio includes switching, transceiver, wireless, PC connectivity, gateway, communications controller, and storage solutions that power the entire communications infrastructure, including enterprise, metro, home, and storage networking. On January 21, 2001, the Company acquired Galileo Technology Ltd. (“Galileo”), an Israeli corporation. In January 2003, Galileo’s name was changed to Marvell Semiconductor Israel Ltd. (“MSIL”). MSIL develops high-performance communications internetworking and switching products for the broadband communications market. On June 19, 2002, the Company acquired SysKonnct GmbH (“SysKonnct”), a German corporation. SysKonnct develops and markets client-server products. On June 27, 2003 the Company acquired RADLAN Computer Communications Ltd. (“RADLAN”), an Israeli corporation. RADLAN is a leading provider of embedded networking software.

Basis of presentation

The Company’s fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal year 2004 will be comprised of 52 weeks. For presentation purposes only, the financial statements and notes refer to January 31 as the Company’s year-end and April 30, July 31 and October 31 as the Company’s quarter-ends.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company’s financial position as of October 31, 2003, the results of its operations for the three and nine months ended October 31, 2003 and 2002, and its cash flows for the nine months ended October 31, 2003 and 2002. These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company’s audited financial statements and related notes included in the Company’s 2003 Annual Report on Form 10-K. The results of operations for the three and nine months ended October 31, 2003 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

Revenue recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collection is reasonably assured. Under these criteria, product revenue is generally recognized upon shipment of product to customers, net of accruals for estimated sales returns and allowances. However, a portion of the Company’s sales are made through distributors under agreements allowing for price protection and rights of return on product unsold by the distributors. Product revenue on sales made through distributors with rights of return is deferred until the distributors sell the product to end customers. Additionally, collection is not deemed to be “reasonably assured” if customers receive extended payment terms. As a result, revenue on sales to customers with payment terms substantially greater than the Company’s normal payment terms is deferred and is recognized as revenue as the payments become due. Deferred revenue less the related cost of the inventories is reported as deferred income.

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

The Company also enters into development agreements with some of its customers. Development revenue is recognized under the percentage-of-completion method, with the associated costs included in research and development expense. The Company estimates the percentage-of-completion of its development contracts based on an analysis of actual progress toward completion.

[Table of Contents](#)

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

Available-for-sale investments

The amortized cost and fair value of available-for-sale investments are presented in the following tables (in thousands):

As of October 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	\$150,600	\$1,081	\$(375)	\$151,306
U.S. Federal, State, county and municipal debt securities	64,513	126	(130)	64,509
	215,113	1,207	(505)	215,815
Less amounts classified as cash equivalents	(60,570)	—	—	(60,570)
Short-term investments	\$154,543	\$1,207	\$(505)	\$155,245

The contractual maturities of available-for-sale debt securities classified as short-term investments at October 31, 2003 are presented in the following table (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 40,023	\$ 40,494
Due between one and four years	114,520	114,751
	\$154,543	\$155,245

As of January 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	\$105,404	\$1,744	\$(76)	\$107,072
U.S. Federal, State, county and municipal debt securities	44,812	297	—	45,109
Equity securities	800	36	—	836
	151,016	2,077	(76)	153,017
Less amounts classified as cash equivalents	(13,105)	—	—	(13,105)
Short-term investments	\$137,911	\$2,077	\$(76)	\$139,912

Inventories

Inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value. The components of inventory are presented in the following table (in thousands):

	October 31, 2003	January 31, 2003
Work-in-process	\$47,436	\$21,176
Finished goods	29,523	18,536
	\$76,959	\$39,712

[Table of Contents](#)

Goodwill and purchased intangible assets

The carrying amount of the goodwill and intangible assets are as follows (in thousands):

	As of October 31, 2003			As of January 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	\$ 394,354	\$(215,797)	\$ 178,557	\$ 388,955	\$(157,080)	\$ 231,875
Trade name	100	(17)	83	—	—	—
Customer contracts and related relationships	200	(14)	186	—	—	—
Total identified intangible assets	394,654	(215,828)	178,826	388,955	(157,080)	231,875
Goodwill	1,785,471	(347,906)	1,437,565	1,686,674	(347,906)	1,338,768
Total intangible assets	\$2,180,125	\$(563,734)	\$1,616,391	\$2,075,629	\$(504,986)	\$1,570,643

The changes in the carrying amount of the goodwill for the nine-month period ended October 31, 2003 are as follows (in thousands):

	October 31, 2003
Balances as of January 31, 2003	\$1,338,768
Acquisition	98,797
Balances as of October 31, 2003	\$1,437,565

Identified intangible assets consist of purchased technology, trade name, and customer contracts and related relationships. Purchased technology and customer contracts and related relationships are amortized on a straight-line basis over their estimated useful lives of five years. Trade name is amortized on a straight-line basis over its estimated useful life of two years. The aggregate amortization expense of identified intangible assets and other was \$21.6 million and \$21.3 million in the third quarter of fiscal years 2004 and 2003, respectively. The aggregate amortization expense of identified intangible assets was \$60.6 million and \$64.0 million for the nine months ended October 31, 2003 and 2002, respectively. The estimated total future annual amortization expense of acquired intangible assets is \$19.7 million for the remaining three months of fiscal year 2004, \$79.0 million for fiscal year 2005, \$77.4 million for fiscal year 2006, \$1.1 million for fiscal years 2007 and 2008, respectively, and \$0.5 million for fiscal year 2009.

Balance sheet components (in thousands)

	October 31, 2003	January 31, 2003
Other noncurrent assets:		
Equity investments	\$ 9,974	\$19,178
Other	28,815	30,135
	\$38,789	\$49,313
Other long-term liabilities:		
Long-term facilities consolidation charge	\$ 5,655	\$ 7,687
Other	12,029	7,542
	\$17,684	\$15,229

Warranty accrual

The Company's products are generally subject to warranty and it provides as a component of cost of goods sold for the estimated future costs of repair, replacement or customer accommodation upon shipment of the product in the accompanying statements of operations. The warranty accrual is estimated based on

historical claims compared to historical revenues and assumes that it will have to replace products subject to a claim. For new products, the Company uses a historical percentage for the appropriate class of product. Changes in the Company’s warranty accrual during the following periods are as follows (in thousands):

	Nine Months Ended October 31, 2003	Year Ended January 31, 2003
Warranty accrual (included in accrued liabilities):		
Beginning balance	\$ 526	\$ 474
Charges to cost of goods sold	960	593
Payments and other charges	(757)	(541)
Ending balance	\$ 729	\$ 526

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. The computations of basic and diluted net income (loss) per share are presented in the following table (in thousands, except per share amounts):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Numerator:				
Net income (loss)	\$ 11,956	\$ (7,680)	\$ 25,735	\$ (47,940)
Denominator:				
Weighted average shares of common stock outstanding	127,557	120,081	124,321	119,611
Less: unvested common shares subject to repurchase	(101)	(504)	(168)	(760)
Weighted average shares — basic	127,456	119,577	124,153	118,851
Effect of dilutive securities-				
Unvested common shares subject to repurchase	101	—	168	—
Warrants	293	—	130	—
Contingently issuable shares	1,329	—	670	—
Common stock options	13,238	—	11,144	—
Weighted average shares — diluted	142,417	119,577	136,265	118,851
Basic net income (loss) per share	\$ 0.09	\$ (0.06)	\$ 0.21	\$ (0.40)
Diluted net income (loss) per share	\$ 0.08	\$ (0.06)	\$ 0.19	\$ (0.40)

Options to purchase 476,636 common shares at a weighted average exercise price of \$54.28 have been excluded from the computation of diluted net income per share for the three months ended October 31, 2003 and options to purchase 2,494,245 common shares at a weighted average exercise price of \$38.84 have been excluded from the computation of diluted net income per share for the nine months ended October 31, 2003, as their exercise prices were greater than the average market price of the common shares for the period. In addition, 511,628 contingent shares relating to the RADLAN acquisition have been excluded from the computation of diluted net income per share for the three and nine months ended October 31, 2003 because the contingencies have not been met.

Options to purchase 26,466,971 shares at a weighted average exercise price of \$16.54 per share have been excluded from the computation of diluted net loss per share for the three and nine months ended October 31, 2002, as their effect would have been anti-dilutive due to the net loss. Additionally, 504,235 common shares subject to repurchase by the Company have been excluded from the computation of diluted net loss per share for the three months ended October 31, 2002, and 760,564 common shares subject to repurchase have been excluded from the computation of diluted net loss per share for the nine months ended October 31, 2002, as their effect would have been anti-dilutive due to the net loss.

Comprehensive income (loss)

The components of comprehensive income (loss), net of tax, are presented in the following table (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Net income (loss)	\$ 11,956	\$(7,680)	\$25,735	\$(47,940)
Other comprehensive income (loss):				
Unrealized gains (loss) on available-for-sale investments, net of tax	(220)	300	(1,286)	1,068
Total comprehensive income (loss)	<u>\$ 11,736</u>	<u>\$(7,380)</u>	<u>\$24,449</u>	<u>\$(46,872)</u>

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

Stock-based compensation

The Company's employee stock based compensation is accounted for in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation. Expense associated with stock-based compensation is amortized on an accelerated basis over the vesting periods of the individual awards consistent with the method described in Financial Accounting Standards Board Interpretation No. 28 ("FIN 28"). Application of FIN 28 to awards that vest progressively over five years 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 ("EITF 96-18"), Accounting for Equity Instruments that are Offered to Other Than Employees for Acquiring of in Conjunction with Selling Goods or Services. 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 valuation 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.

In accordance with the requirements of the disclosure-only alternative of SFAS 123, set forth below are pro forma statements of operations data of the Company giving effect to the valuation of stock-based awards to employees using the Black-Scholes option pricing model instead of the guidelines provided by APB 25.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Net income (loss):				
As reported	\$ 11,956	\$ (7,680)	\$ 25,735	\$ (47,940)
Adjustments:				
Stock-based employee compensation expense included in reported net loss, net of tax effects	1,528	2,187	3,205	6,661
Stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(21,596)	(21,671)	(58,655)	(60,683)
Pro forma	<u>\$ (8,112)</u>	<u>\$(27,164)</u>	<u>\$(29,715)</u>	<u>\$(101,962)</u>
Basic net income (loss) per share:				
As reported	\$ 0.09	\$ (0.06)	\$ 0.21	\$ (0.40)
Pro forma	\$ (0.06)	\$ (0.23)	\$ (0.24)	\$ (0.86)
Diluted net income (loss) per share:				
As reported	\$ 0.08	\$ (0.06)	\$ 0.19	\$ (0.40)
Pro forma	\$ (0.06)	\$ (0.23)	\$ (0.24)	\$ (0.86)

Reclassifications

Certain amounts in the 2003 unaudited condensed consolidated financial statements have been reclassified to conform to the current period presentation.

2. Acquisitions

On June 19, 2002, the Company acquired 100% of the shares of SysKconnect through a share purchase agreement. SysKconnect develops and markets client-server products. The acquisition has been accounted for using the purchase method of accounting, and the operating results of SysKconnect have been included in the Company's consolidated financial statements from the date of acquisition. The total purchase price of the acquisition was approximately \$9.5 million. The purchase price consisted of the issuance of restricted shares and options granted to SysKconnect shareholders to purchase a total of 300,000 shares of the Company's common stock (fair value of \$7.3 million), settlement of a loan receivable of \$1.9 million, and acquisition related expenses of approximately \$0.3 million.

The aggregate purchase price was allocated as follows (in thousands):

Net tangible assets	\$4,061
Deferred compensation	5,449
	—
Aggregate purchase price	\$9,510

The amount allocated to deferred stock-based compensation relates to the intrinsic value of the unvested restricted stock and stock options issued. The restricted stock and stock options 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 FIN28.

On June 27, 2003, the Company completed the acquisition of RADLAN Computer Communications Ltd. (RADLAN), a leading provider of embedded networking software. RADLAN is now a wholly owned subsidiary of the Company. As a result of the acquisition, RADLAN will provide embedded networking software for network infrastructure equipment to the Company and the Company will be able to provide complete hardware and software solutions to its customers while improving its ability to address the enterprise, access, wireless and storage area networking markets. These factors contributed to a purchase price that was in excess of the fair value of the RADLAN net tangible and intangible assets acquired and, as a result, the Company recorded goodwill in connection with this transaction.

The initial total estimated purchase price was approximately \$64.7 million and consisted of 1.3 million shares issued upon closing (valued at \$24.0 million), \$22.5 million of cash payable upon a future date defined in the merger agreement, 543,000 warrants to purchase shares of the Company's common stock at an exercise price of \$18.41 per share (valued at \$7.5 million), 157,000 vested options assumed (valued at \$2.9 million), the Company's existing investment in preferred stock of RADLAN of \$6.6 million after taking a charge of \$1.9 million to retroactively recognize pre-acquisition losses due to the Company's prior investment in Radlan, and direct transaction costs of approximately \$1.2 million. The value of the common stock and stock options was determined based on the average market price of the Company's common stock over a 5-day period around February 6, 2003 (the announcement date), or \$18.26 per share. The value of the warrants was determined using the Black-Scholes options pricing model with inputs of 100% for volatility, 5-year expected life, risk-free interest rate of 3% and a market value of \$18.26 as described above.

On the date that the \$22.5 million of cash became payable, 1.2 million shares of the Company's common stock were worth more than \$22.5 million and therefore in accordance with the share purchase agreement, instead of paying \$22.5 million in cash, 1.2 million shares of common stock was issued. Accordingly, the Company recorded a \$24.9 million adjustment to increase goodwill in the quarter ended October 31, 2003. The \$24.9 million adjustment was calculated based on the 1.2 million shares issued times the \$40.79 closing price of the Company's stock on October 6, 2003, less the \$22.5 million that was previously accrued upon the close of the transaction on June 27, 2003.

In addition, the Company will issue up to an additional 1.0 million shares of common stock to RADLAN shareholders upon resolution of certain contingencies and achievement of certain milestones over the next two years. Half of these additional shares will be issued if during the first year after closing a software license agreement with an original equipment manufacturer customer is signed and the development of certain software is completed. The issuance of the other half of the additional shares is dependent upon the Company's revenues from certain products for the year ended January 31, 2005, or fiscal 2005, compared to the year ended January 31, 2004, or fiscal 2004. The shares, if issued, will represent additional purchase price and will be accounted for as additional goodwill.

The Company has allocated the purchase price to the assets acquired and liabilities assumed based on the estimated fair values as follows (in thousands):

Amortizable intangible assets:	
Purchased technology	\$ 5,400
Trade name	100
Customer contracts and relationships	200
	<hr/>
Total amortizable intangible assets	5,700
Goodwill	98,797
Current assets	2,325
Previously licensed technology	(2,500)
Property, plant and equipment	1,995
Other non current assets	1,526
Current liabilities	(16,095)
Other long-term liabilities	(2,136)
	<hr/>
Total purchase price	\$ 89,612

Amortizable intangible assets consist of purchased technology, trade name, and customer related intangibles with useful lives of two to five years. Approximately \$98.8 million has been allocated to goodwill, which represents the excess purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment, at least annually.

The results of operations of RADLAN have been included in the Company's condensed consolidated statement of operations since the completion of the acquisition on June 27, 2003. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisition of RADLAN occurred at the beginning of the periods presented (in thousands, except for per share amounts):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Net revenues	\$215,331	\$137,857	\$576,856	\$357,225
Net income (loss)	\$ 13,856	\$ (9,637)	\$ 15,601	\$ (54,246)
Basic net income (loss) per share	\$ 0.11	\$ (0.08)	\$ 0.12	\$ (0.45)
Diluted net (loss) per share	\$ 0.10	\$ (0.08)	\$ 0.11	\$ (0.45)

Upon closing of the acquisition of RADLAN, the Company effectively granted 165,000 shares of restricted common stock to the employees of RADLAN. The restricted stock was valued on the date of issuance at \$5.5 million and vests over a period of five years. Accordingly, the Company recorded deferred stock-based compensation of \$5.5 million that will be amortized on an accelerated basis over the vesting period consistent with the method described in FIN28.

3. Facilities Consolidation Charge

During fiscal 2003, the Company recorded a total of \$19.6 million of charges associated with costs of consolidation of its facilities. These charges included \$12.6 million in lease abandonment charges relating to the consolidation of its three facilities in California into one location. The lease abandonment charge includes the remaining lease commitments of these facilities reduced by the estimated sublease income throughout the duration of the lease term. The Company incurred charges of \$1.0 million during the quarter ended April 30, 2002, as a result of duplicate lease and other costs associated with the dual occupation of its current and abandoned facilities. The facilities consolidation charge also includes \$6.0 million associated with the write-down of certain property and leasehold improvements related to the abandoned facilities, which reduced the carrying amount of the impaired assets. During the quarter ended July 31, 2003, the Company subleased the abandoned facilities. Actual sublease income approximated the estimated sublease income. As of October 31, 2003, cash payments of \$5.0 million, net of sublease income, had been made in connection with

[Table of Contents](#)

this charge. Approximately \$8.1 million is accrued for the facilities consolidation charge as of October 31, 2003, of which \$2.4 million is the current portion included in accrued liabilities while the long-term portion totaling \$5.7 million is payable through 2010, and is included in other long-term liabilities.

A summary of the facilities consolidation charge during the nine months ended October 31, 2003 is as follows (in thousands):

	Balance at January 31, 2003	Net Cash Payments	Non-Cash Charges	Remaining Liability at October 31, 2003
Accrued losses on abandoned leased facilities: Non-cancelable lease commitments	\$10,331	\$(2,195)	\$—	\$8,136

4. Net Revenue

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Storage products	\$117,830	\$ 72,680	\$311,979	\$204,645
Communications products	97,501	63,264	264,489	149,793
	\$215,331	\$135,944	\$576,468	\$354,438

5. Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities (VIEs) created or acquired after January 31, 2003. However, the FASB has deferred the effective date for VIEs created before February 1, 2003 to the first interim or annual period ending after December 15, 2003. Early adoption of the provisions of FIN 46 prior to the deferred effective date was permitted. The Company is currently evaluating the impact of the adoption of FIN 46 on its financial position or results of operations. It is reasonably possible that the Company is a primary beneficiary of or holds a significant variable interest in a variable interest entity. The Company has a 46% equity interest in a company that conducts research and development primarily on the Company's behalf. The Company's maximum exposure to loss as a result of its investment with the potential variable interest entity is its investment of \$2.7 million and loans of \$220,000, as the Company is not obligated to provide any additional financing.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first fiscal period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company believes that the adoption of this standard will not have a material impact on its consolidated financial statements.

6. Commitments and Contingencies

Purchase Commitments

The Company's manufacturing relationships with its foundries allow for the cancellation of all outstanding purchase orders, but require repayment of all expenses incurred through the date of cancellation. As of October 31, 2003, foundries had incurred approximately \$53.0 million of manufacturing expenses on the Company's outstanding purchase orders.

Contingencies

On July 31, 2001, a putative class action suit was filed against two investment banks that participated in the underwriting of the Company's initial public offering, or IPO, on June 29, 2000. That lawsuit, which did not name the Company or any of its officers or directors as defendants, was filed in the United States District Court for the Southern District of New York. Plaintiffs allege that the underwriters received "excessive" and undisclosed commissions and entered into unlawful "tie-in" agreements with certain of their clients in violation of Section 10(b) of the Securities Exchange Act of 1934. Thereafter, on September 5, 2001, a second putative class action was filed in the Southern District of New York relating to the Company's IPO. In this second action, plaintiffs named three underwriters as defendants and also named as defendants the Company and two of its officers, one of whom is also a director. Relying on many of the same allegations contained in the initial complaint in which the Company was not named as a defendant, plaintiffs allege that the defendants violated various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. In both actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys' and experts' fees. These two actions relating to the Company's IPO have been consolidated with hundreds of other lawsuits filed by plaintiffs against approximately 55 underwriters and approximately 300 issuers across the United States. A Consolidated Amended Class Action Complaint against the Company and its two officers was filed on April 19, 2002. Subsequently, defendants in the consolidated proceedings moved to dismiss the actions. In February 2003, the trial Court issued its ruling on the motions, granting the motions in part, and denying them in part. Thus, the cases may proceed against the underwriters and the Company as to alleged violations of section 11 of the Securities Act of 1933 and section 10(b) of the Securities Exchange Act of 1934. Claims against the individual officers have been voluntarily dismissed without prejudice by agreement with plaintiffs. On June 26, 2003, the plaintiffs announced that a settlement among plaintiffs, the issuer defendants and their directors and officers, and their insurers has been structured as part of which the insurers for all issuer defendants would guarantee up to \$1 billion to investors who are class members, depending upon plaintiffs' success against non-settling parties. The Company's board of directors has approved the proposed settlement, which will result in the plaintiffs' dismissing the case against the Company and granting releases that extend to all of its officers and directors. The proposed settlement is subject to definitive documentation and court approval. The Company believes that the claims asserted are without merit and intends to defend these claims vigorously. Based on currently available information, the Company does not believe that the ultimate disposition of the lawsuit will have a material adverse impact on its business, results of operations or financial condition.

On September 12, 2001, Jasmine Networks, Inc. ("Jasmine") filed a lawsuit in the Santa Clara County Superior Court asserting claims against Company personnel and the Company for improperly obtaining and using information and technologies during the course of the negotiations with Company personnel regarding the potential acquisition of certain Jasmine assets by the Company. The lawsuit claims that Company officers improperly obtained and used such information and technologies after the Company signed a non-disclosure agreement with Jasmine. The Company believes the claims asserted against its officers and it are without merit and intends to defend all claims vigorously. Based on currently available information, the Company does not believe that the ultimate disposition of this lawsuit will have a material adverse impact on its business, results of operations or financial condition.

The Company is also party to other 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, the Company does not believe that these matters will result in the payment of monetary damages, net of any applicable insurance proceeds, that, in the aggregate, would be material in relation to the Company's consolidated financial position or results of operations. There can be no assurance that these matters will be resolved without costly litigation, in a manner that is not adverse to the Company's financial position, results of operations or cash flows, or without requiring royalty payments in the future which may adversely impact gross margins.

7. Subsequent Event

On November 17, 2003, the Company completed the purchase of six buildings on 33.8 acres of land in Santa Clara, California for a total cost of \$63.9 million. It is currently intended that the site will be the future location of the Company's U.S. headquarters.

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

This Form 10-Q 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 include, but are not limited to, statements regarding our expectations as to growth in revenue from storage products and communications products and reasons for such expectations, sources of revenue, our expectations as to research and development, sales and marketing and general and administrative expense, potential fluctuations in our gross margin, the impact, if any, of legal proceedings, customer concentration and expected revenue concentration from Asia, working capital needs, accounts receivable, inventory, the rate of new orders, adequacy of capital resources, funding of capital requirements, factors impacting our capital requirements, liquidity, expected impact of our contractual obligations, the impact of the adoption of accounting pronouncements, future acquisitions, strategic alliances or joint ventures, sources of competition, future design features and uses of our current and future products, strategic relationships with customers, the need for new and upgraded operational and financial systems, procedures and controls, reasons for decreases in gross profits, and payment of income tax in foreign jurisdictions. Forward-looking statements involve a number of risks and uncertainties, including those identified in the section of this Form 10-Q titled "Additional Factors That May Affect Future Results," which could cause actual results to differ from those discussed in the forward-looking statements. Forward-looking statements in this Form 10-Q 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-Q. You are urged to review carefully our various disclosures in this Form 10-Q and our other reports filed with the SEC, including our 2003 Annual Report on Form 10-K, that attempt to advise you of the risks and factors that may affect our business.

Overview

We are a leading global semiconductor provider of complete broadband communications and storage solutions. Our diverse product portfolio includes switching, transceiver, wireless PC connectivity, gateways, communications controller, and storage solutions that power the entire communications infrastructure, including enterprise, metro, home, and storage networking. We were founded in 1995. We are a fabless integrated circuit company, which means that we rely on independent, third-party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in manufacturing products. In January 2001, we acquired Galileo Technology Ltd. (now Marvell Semiconductor Israel Ltd, or MSIL) in a stock-for-stock transaction for aggregate consideration of approximately \$2.5 billion. MSIL develops high-performance internetworking and switching products for the broadband communications market. The acquisition was accounted for using the purchase method of accounting, and the operating results of MSIL have been included in our consolidated financial statements from the date of acquisition. In June 2003, we acquired RADLAN Computer Communications Ltd., or RADLAN, in a transaction for aggregate consideration of approximately \$64.7 million consisting of a combination of cash, warrants, common stock and options. RADLAN is a leading provider of embedded networking software. The acquisition was accounted for using the purchase method of accounting, and the operating results of RADLAN have been included in our consolidated financial statements from the date of acquisition.

In the communications market, we offer transceiver products, switching products, internetworking products and wireless local area network products. Our primary customers for our communications products are manufacturers of high speed networking equipment.

In the storage market, our products include read channel devices, System-on-Chips, or SOC's and preamplifiers. Our customers for our storage products are manufacturers of hard disk drives for the enterprise, desktop and mobile computer markets and the emerging consumer applications market. The storage market is highly competitive and is dominated by a small number of large companies. 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. For the nine months ended October 31, 2003, approximately 34% of our net revenue was derived from sales to two significant customers, each of whom individually accounted for 10% or more of our net revenue during this period. Also for the nine months ended October 31, 2003, one distributor accounted for 10% of our net revenue during this period. We expect to continue to experience significant customer concentration in future periods. In addition, a significant portion of our sales is made to customers located outside of the United States, primarily in Asia. Sales to customers in Asia represented approximately 89% of our net revenue for the nine months ended October 31, 2003. Because many manufacturers and manufacturing subcontractors of communications and storage devices are located in Asia,

[Table of Contents](#)

we expect that a significant portion of our revenue will continue to be represented by sales to customers in that region. Substantially 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 our research and development, selling and marketing, and general and administrative expenditures as we seek to expand our operations. We anticipate that the rate of new orders may vary significantly from quarter to quarter. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and future quarters may be adversely affected.

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal year 2004 will be comprised of 52 weeks. For presentation purposes, our financial statements and notes and this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” refer to January 31 as our year-end and April 30, July 31 and October 31 as our quarter-ends.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods. For a description of our critical accounting policies and estimates, please refer to the “Critical Accounting Estimates” section of our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2003, as filed with the Securities Exchange Commission. There have been no material changes in any of our accounting policies since January 31, 2003.

Results of Operations

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2003	2002	2003	2002
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of goods sold*	46.8	46.3	46.1	45.9
Research and development*	25.6	28.6	26.7	29.1
Selling and marketing*	7.3	9.0	8.0	10.1
General and administrative*	2.5	2.6	2.3	3.0
Amortization of stock-based compensation	0.7	1.6	0.6	1.9
Amortization of acquired intangible assets	10.1	15.7	10.5	18.0
Facilities consolidation charge	—	1.3	—	5.5
Total operating costs and expenses	93.0	105.1	94.2	113.5
Operating income (loss)	7.0	(5.1)	5.8	(13.5)
Interest and other income, net	0.8	1.2	0.8	1.6
Income (loss) before income taxes	7.8	(3.9)	6.6	(11.9)
Provision (benefit) for income taxes	2.2	(1.7)	2.1	(1.6)
Net income (loss)	5.6%	(5.6)%	4.5%	(13.5)%

* Excludes stock-based compensation

Three and Nine Months Ended October 31, 2003 and 2002

Net Revenue. Net revenue consists primarily of product revenue from sales of our semiconductor devices, and to a much lesser extent, development revenue derived from development contracts with our customers. Net revenue was \$215.3 million for the three months ended October 31, 2003 compared to \$135.9 million for the three months ended October 31, 2002. Net revenue was \$576.5 million for the nine months ended October 31, 2003 compared to \$354.4 million for the nine months ended October 31, 2002. The increases in net revenue reflect a significant increase in volume shipments of our storage and Gigabit Ethernet products during the three months and nine months ended October 31, 2003, primarily due to increased acceptance of our SOC storage products, particularly in the mobile computer market, continued adoption of Gigabit Ethernet products as a replacement for Fast Ethernet products, and initial volume shipments of our wireless LAN products. Revenue from storage products totaled \$117.8 million in the third quarter of fiscal 2004 compared to \$72.7 million in the third quarter of fiscal 2003 and totaled \$312.0 million in the first nine months of fiscal 2004 compared to \$204.6 million in the first nine months of fiscal year 2003. Revenue from communications products was \$97.5 million in the third quarter of fiscal 2004 compared to \$63.3 million in the third quarter of fiscal 2003 and totaled \$264.5 million in the first nine months of fiscal 2004 compared to \$149.8 million in the first nine months of fiscal 2003. Revenue derived from development contracts decreased in absolute dollars during the third quarter of fiscal 2004 and for the nine months ended October 31, 2003 compared to the third quarter of fiscal 2003 and nine months ended October 31, 2002, and represented less than 10% of net revenue for each period. We expect that revenue from storage products in the fourth quarter of fiscal 2004 will increase from the level of revenue from storage products we reported in the fourth quarter of fiscal 2003 due primarily to increases in shipments of our storage SOCs, which have been widely adopted by the mobile computer sector and which we expect will continue to be adopted by the desktop computer sector. In addition, we expect growth in revenue from communications products in the fourth quarter of fiscal 2004 compared to the fourth quarter of fiscal 2003 primarily due to increases in shipments of our Gigabit Ethernet products, which we expect will continue to be adopted as the replacement for Fast Ethernet products as well as new revenue opportunities for our wireless LAN products.

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 relating to manufacturing support, logistics and quality assurance personnel. Gross margin, which is calculated as net revenue less cost of goods sold, as a percentage of net revenue, decreased to 53.2% in the three months ended October 31, 2003 from 53.7% in the three months ended October 31, 2002. Gross margin decreased to 53.9% for the nine months ended October 31, 2003 from 54.1% for the nine months ended October 31, 2002. The decrease in gross margin in the third quarter of fiscal 2004 and first nine months of fiscal 2004 compared to the third quarter of fiscal 2003 and for the first nine months of fiscal 2003 was primarily due to a product mix change which included lower margins on wireless products and production ramps of large volume desktop computer products and storage SOCs. The costs associated with contracted development work are included in research and development expense. Our gross margins are primarily driven by product mix. Our margins may fluctuate in future periods due to, among other things, changes in the mix of products sold, increased pricing pressures from our customers and competitors, and changes in the amount of development revenue recognized.

Research and Development. Research and development expense consists primarily of compensation and associated costs relating to development personnel, prototype costs, depreciation and amortization expense, and allocated occupancy costs for these operations. Research and development expense was \$55.1 million, or 25.6% of net revenue, for the three months ended October 31, 2003 compared to \$38.8 million, or 28.6% of net revenue, for the three months ended October 31, 2002. Research and development expense was \$154.0 million, or 26.7% of net revenue, for the nine months ended October 31, 2003 compared to \$103.0 million, or 29.1% of net revenue, for the nine months ended October 31, 2002. The increase in research and development expense in absolute dollars in the third quarter of fiscal 2004 compared to the third quarter of fiscal 2003 was primarily due to the hiring of additional development personnel, including personnel related to our acquisitions of SysKonnnect and RADLAN, which resulted in an increase in salary and related costs of \$9.0 million, increased costs of \$2.3 million for prototype and related product tape-out costs for new product initiatives, increased depreciation and amortization expense of \$1.6 million arising from purchases of property, equipment and technology licenses, increased costs of \$0.4 million for evaluation boards and engineering supplies and other allocated expenses of \$1.9 million related to our expanding operations. The increase in absolute dollars in the first nine months of fiscal 2004 as compared to the first nine months of fiscal 2003 was primarily due to the hiring of additional development personnel, including personnel related to our acquisitions of SysKonnnect and RADLAN, which resulted in an increase in salary and related costs of \$23.9 million, increased costs of \$11.4 million for prototype and related product tape-out costs for new product initiatives, increased depreciation and amortization expense of \$6.0 million arising from purchases of property, equipment and technology licenses, increased costs of \$2.2 million for evaluation boards and engineering supplies and other allocated expenses of \$5.1 million 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, migrate to lower process geometries, expand into new markets and technologies, and hire additional personnel.

Selling and Marketing. Selling and marketing expense consists primarily of compensation and associated costs relating to sales and marketing personnel, sales commissions, promotional and other marketing expenses, and allocated occupancy costs for these operations. Selling and marketing expense was \$15.7 million, or 7.3% of net revenue, for the three months ended October 31, 2003 compared to \$12.3 million, or 9.0% of net revenue, for the three months ended October 31, 2002. Selling and marketing expense was \$46.0 million, or 8.0% of net revenue, for the nine months ended October 31, 2003 compared to \$35.6 million, or 10.1% of net revenue, for the nine months ended October 31, 2002. The increase in selling and marketing expense in absolute dollars in the third quarter of fiscal 2003 compared to the third quarter of fiscal 2002 was primarily due to the hiring of additional sales and marketing personnel, including personnel related to our acquisitions of SysKconnect and RADLAN, which resulted in an increase in salary and related costs of \$1.9 million and increased other costs of \$1.1 million related to expanding our sales and marketing related activities as we broaden our customer and product base. The increase in selling and marketing expense in absolute dollars in the nine months ended October 31, 2003 compared to the nine months ended October 31, 2002 was primarily due to the hiring of additional sales and marketing personnel, including personnel related to our acquisitions of SysKconnect and RADLAN, which resulted in an increase in salary and related costs of \$6.1 million, increased other costs of \$2.3 million related to expanding our sales and marketing related activities as we broaden our customer and product base and increased facility and allocated costs of \$0.8 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 sales and marketing personnel and expand our sales and marketing efforts in emerging product markets such as wireless and consumer applications.

General and Administrative. General and administrative expense consists primarily of compensation and associated costs relating to general and administrative personnel, fees for professional services and allocated occupancy costs for these operations. General and administrative expense was \$5.4 million, or 2.5% of net revenue, for the three months ended October 31, 2003 compared to \$3.6 million, or 2.6% of net revenue, for the three months ended October 31, 2002. General and administrative expense was \$13.4 million, or 2.3% of net revenue, for the nine months ended October 31, 2003 compared to \$10.7 million, or 3.0% of net revenue for the nine months ended October 31, 2002. The increase in absolute dollars in general administrative expense in the third quarter of fiscal 2004 compared to the third quarter of fiscal 2003 was primarily related to increased legal and professional fees of \$1.0 million due to our expanding operations and attorney fees associated with our on-going legal proceedings. Also contributing to the increase in absolute dollars in general and administrative expense in the third quarter of fiscal 2004 as compared to the third quarter of fiscal 2003 is the hiring of additional general and administrative personnel, including personnel related to our acquisitions of SysKconnect and RADLAN, which resulted in increased salary and related expenses of \$0.3 million. The increase in absolute dollars in general and administrative expense in the first nine months of fiscal 2004 as compared to the first nine months of fiscal 2003 was primarily related to the hiring of additional general and administrative personnel, including personnel related to our acquisitions of SysKconnect and RADLAN, which resulted in increased salary and related expenses of \$1.7 million. We expect that general and administrative expense will increase in absolute dollars in future periods due to additional personnel to support expansion of our operations as well as increased legal and professional fees.

Amortization of Stock-Based Compensation. We have recorded deferred stock-based compensation in connection with the grant of stock options to our employees and directors prior to our initial public offering of common stock, in connection with the assumption of stock options as a result of our acquisition of MSIL, in connection with the grant of stock options as a result of our acquisition of SysKconnect and in connection with the effective grant of restricted stock to RADLAN employees upon the close of the acquisition. Deferred stock-based compensation is being amortized using an accelerated method over the remaining option vesting period. Amortization of stock-based compensation was \$1.5 million, or 0.7% of net revenue, for the three months ended October 31, 2003 compared to \$2.2 million, or 1.6% of net revenue, for the three months ended October 31, 2002. Amortization of stock-based compensation was \$3.2 million, or 0.6% of net revenue, for the nine months ended October 31, 2003 compared to \$6.7 million, or 1.9% of net revenue for the nine months ended October 31, 2002. The decrease in amortization expense in both absolute dollars and percentage of net revenue in the third quarter and first nine months of fiscal 2004 compared to the third quarter and first nine months of fiscal 2003 primarily resulted from a reduced balance of deferred stock-based compensation being amortized in the third quarter and first nine months of fiscal 2004 compared to the third quarter and first nine months of fiscal 2003.

Amortization of Acquired Intangible Assets and Other. In connection with the acquisition of MSIL in the fourth quarter of fiscal 2001, we recorded \$1.7 billion of goodwill and \$434.7 million of acquired intangible assets. Acquired intangible assets were being amortized over its estimated economic life of five to seven years. In January 2003, we decided to no longer use the Galileo trade name in selling and marketing activities going forward. As a result, we wrote-off the remaining \$22.4 million net book value of the trade name in the fourth quarter of fiscal 2003. In connection with the acquisition of RADLAN, we recorded \$98.8 million of goodwill, \$5.7 million of acquired intangible assets and a charge of \$1.9 million related to the recognition of pre-acquisition losses due to our prior investments in RADLAN. The acquired intangibles from the RADLAN acquisition will be amortized over its estimated economic lives of two to five years. Acquired intangible asset amortization expense was \$21.6 million, or 10.1% of net revenue, for the three months ended October 31, 2003, essentially unchanged from the \$21.3 million, or 15.7% of net revenue, for the three months ended October 31, 2002. Acquired intangible asset amortization was \$60.6 million, or 10.5% of net revenue, for the nine months ended October 31, 2003 compared to \$64.0 million, or 18.0% of net revenue, for the nine months ended October 31, 2002. The decrease in acquired intangible asset amortization expense in both absolute dollars and as a percentage of net revenue for the nine months ended October 31, 2003 compared to the nine months ended October 31, 2002 was primarily due to the write-off of the Galileo trade name in the fourth quarter of fiscal 2003 which resulted in lower amortization for the third quarter of fiscal 2004 and nine months ended October 31, 2003 compared to third quarter of fiscal 2003 and nine months ended October 31, 2002.

Facilities Consolidation Charge. During fiscal 2003, we recorded a \$19.6 million charge associated with costs of consolidation of our facilities. This charge included \$12.6 million in lease abandonment charges relating to the consolidation of our three facilities in the California into one location. This charge included the remaining lease commitments of these facilities reduced by the estimated sublease income for the duration of the lease term. Prior to the consolidation of these facilities, we were leasing three separate facilities in California within ten miles of each other. We had expanded into two additional facilities because our headcount growth exceeded the capacity of our main California facility and we assumed an additional lease through the acquisition of MSIL. The main factors that led to the consolidation of these three facilities were that the lease on our main California facility expired in February 2002, a decline in market lease rates in Silicon Valley from the prior years and a focus on improving employee productivity by minimizing travel between facilities. During fiscal 2003, we consolidated our operations in California into one 213,000 square foot building that is leased until March 16, 2006.

The facilities consolidation charge also included \$6.0 million consisting of the write-down of certain property and leasehold improvements associated with the abandoned facilities. The full carrying value of the property and leasehold improvements were written down as the assets were abandoned along with the leased facilities. We also incurred charges of \$1.0 million through April 30, 2002 as the result of duplicate lease and other costs associated with the dual occupation of its current and abandoned facilities.

We believe the consolidation of our California facilities will improve employee productivity by decreasing time and costs that were spent traveling between facilities and increasing the frequency of employee meetings between departments that were previously geographically dispersed.

During the quarter ended July 31, 2003, we obtained subleases for the abandoned facilities. Actual sublease income approximated the estimated sublease income. At October 31, 2003, cash payments of \$5.0 million, net of sublease income had been made in connection with this charge, and \$8.1 million had been accrued and is payable through 2010.

Interest and Other Income, Net. Interest and other income, net consists primarily of interest earned on cash, cash equivalents and short-term investment balances, offset by interest paid on capital lease obligations. Interest and other income, net was \$1.7 million for the three months ended October 31, 2003 and 2002, respectively. Interest and other income, net was \$4.6 million for the nine months ended October 31, 2003 compared to \$5.7 million for the nine months ended October 31, 2002. The decrease in interest and other income, net for the nine months of fiscal 2004 compared to the first nine months of fiscal 2003 is primarily due to a loss of \$0.7 million on an equity method investment and an overall decline in interest rates on comparable invested cash balances in the first nine months of fiscal 2004.

Provision for Income Taxes. Our effective tax rate was 28.6% and 32.2% for the three and nine months ended October 31, 2003, respectively, compared to (45.4)% and (13.7)% for the three and nine months ended October 31, 2002, respectively. Our effective rates for the third quarters and first nine months of fiscal 2004 and 2003 were affected by stock-based compensation expense as well as non-deductible expenses relating to our acquisitions of MSIL in the fourth quarter of fiscal 2001 and RADLAN in the second quarter of fiscal 2004, which were both recorded using purchase accounting.

[Table of Contents](#)

On August 26, 2003, the Internal Revenue Service (IRS) began an income tax audit of Marvell Semiconductor, Inc. (MSI), a subsidiary of Marvell Technology Group, Ltd., for fiscal years ended January 31, 2001, 2002 and 2003. We believe the ultimate resolution of IRS audit will not have a material impact on our consolidated financial statements.

Liquidity and Capital Resources

Our principal source of liquidity as of October 31, 2003 consisted of \$400.3 million of cash, cash equivalents and short-term investments. We raised net proceeds of \$94.0 million through our initial public offering in June 2000. In addition, we received \$70.0 million of cash and cash equivalents and \$39.9 million of short-term investments, before acquisition costs, as a result of our acquisition of MSIL in January 2001.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was \$109.4 million for the nine months ended October 31, 2003 compared to \$24.8 million for the nine months ended October 31, 2002. The cash inflow from operations in the first nine months of fiscal 2004 was primarily a result of our generation of income during the period (excluding the impact of non-cash charges) and changes in working capital. Non-cash charges in the first nine months of fiscal 2004 included \$60.6 million related to amortization of acquired intangible assets, \$25.2 million of depreciation and amortization expense, and \$3.2 million of amortization of stock-based compensation. Significant working capital changes contributing to positive cash inflow in the first nine months of fiscal 2004 included an increase of \$39.2 million in accounts payable resulting primarily from amounts due to our suppliers related to increased inventory purchases during the first nine months of fiscal 2004, an increase of \$12.9 million in accrued employee compensation primarily as the result of increased withholding taxes from the exercise of stock options by employees, and an increase of \$8.5 million in income tax payable resulting from higher taxable income in the first nine months of fiscal 2004 as compared to the first nine months of fiscal 2003. Significant working capital changes offsetting positive cash flow in the first nine months of fiscal 2004 included a \$37.2 million increase in inventory primarily as a result of increased volumes of sales and associated purchases of inventory required to meet demand. Accounts receivable increased by \$33.6 million primarily due to higher net revenue in the first nine months of fiscal 2004 as compared to the first nine months of fiscal 2003.

Net cash provided by operating activities was \$24.8 million for the nine months ended October 31, 2002. The cash inflow from operations in the first nine months of fiscal 2003 was primarily a result of generation of income during the period (excluding the impact of non-cash charges) and changes in working capital. Non-cash charges in the first nine months of fiscal 2003 included \$64.0 million related to amortization of acquired intangible assets, \$14.6 million of depreciation and amortization expense, \$6.7 million of amortization of stock-based compensation, and \$6.0 million for a facilities consolidation charge. Significant working capital changes contributing to positive cash inflow in the first nine months of fiscal 2003 included an increase of \$11.3 million relating to an accrued facilities consolidation charge recorded as a result of the consolidation of our facilities, an increase of \$15.2 million in accounts payable resulting primarily from increased inventory purchases, and an increase in deferred income of \$3.5 million due to an increase in inventory levels at our distributors. Partially offsetting these positive cash flows in the first nine months of fiscal 2003 was an increase of \$28.6 million in accounts receivable primarily due to increases in our total net revenue in the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002. In addition, inventory increased \$23.2 million due to the increased volume of sales and related purchases of inventory in the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002.

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 with net thirty to sixty day payment terms. If our sales levels continue to increase as they have in all fiscal years, it is likely that our levels of accounts receivable will also increase. Our levels of accounts receivable would also increase if customers delayed their payments or if we offered extended payment terms to our customers. Additionally, in order to maintain an adequate supply of product for our customers, we must carry a certain level of inventory. Our inventory level may vary based primarily upon orders received from our customers and our forecast of demand for these products, as well as the initial production ramp for significant design wins. Other considerations in determining inventory levels may include the product life cycle stage of our products and competitive situations in the marketplace. Such considerations are balanced against risk of obsolescence or potentially excess inventory levels.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$57.1 million for the nine months ended October 31, 2003 and \$33.4 million for the nine months ended October 31, 2002. The net cash used in investing activities in the first nine months of fiscal 2004 was due to purchases of property and equipment of \$28.5 million, purchases of short-term investments of \$95.4 million, and loan advances of \$10.2 million, partially offset by the proceeds from the sales and maturities of short-term investments of \$78.8 million. The net cash used in investing activities in the first nine months of fiscal 2003 was due to purchases of property and equipment of \$23.9 million, purchases of short-term investments of \$42.0 million, partially offset by the proceeds from the sales and maturities of short-term investments of \$41.5 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was \$67.4 million for the nine months ended October 31, 2003 and \$13.7 million for the nine months ended October 31, 2002. In the first nine months of fiscal 2004 and 2003, net cash provided by financing activities was attributable to proceeds from the issuance of common stock under our stock option plans, partially offset by principal payments on capital lease obligations.

Our relationships with the foundries we utilize allow us to cancel all outstanding purchase orders, provided we pay the foundries for all expenses they have incurred in connection with our purchase orders through the date of cancellation. As of October 31, 2003, our foundries had incurred approximately \$53.0 million of manufacturing expenses on our outstanding purchase orders.

In October 2001, we entered into a lease agreement with Yahoo! Inc. to lease a building in California consisting of approximately 213,000 square feet. The lease commenced on January 1, 2002 and continues through March 16, 2006. Total rent payments over the term of the lease will be approximately \$19.4 million. In February 2002, we consolidated our three existing facilities in California into this new building. The lease on one of our former facilities expired in February 2002, but we have ongoing, non-cancelable leases for the two other facilities. During fiscal 2003, we recorded a \$19.6 million charge associated with costs of consolidation of our facilities. This charge included \$12.6 million in lease abandonment charges relating to the consolidation of our three facilities in the California into one location. This charge included the remaining lease commitments of these facilities reduced by the estimated sublease income for the duration of the lease term. Prior to the consolidation of these facilities, we were leasing three separate facilities in California within ten miles of each other. We had expanded into two additional facilities because our headcount growth exceeded the capacity of our main California facility and we assumed an additional lease through the acquisition of MSIL. The main factors that led to the consolidation of these three facilities were that the lease on our main California facility expired in February 2002, a decline in market lease rates in Silicon Valley from the prior years and a focus on improving employee productivity by minimizing travel between facilities. During fiscal 2003, we consolidated our operations in California into one 213,000 square foot building that is leased until March 16, 2006. During the quarter ended July 31, 2003, we obtained subleases for the abandoned facilities. Actual sublease income approximated the estimated sublease income, but is less than our actual lease commitments, resulting in negative cash flow over the remaining term of the subleases of approximately \$7.6 million. At October 31, 2003, cash payments of \$5.0 million, net of sublease income had been made in connection with this charge. Approximately \$8.1 million is accrued for the facilities consolidation charge as of October 31, 2003 of which \$2.4 million is the current portion while the long-term portion totaling \$5.7 million is payable through 2010.

On June 27, 2003, we completed the acquisition of RADLAN Computer Communications Ltd. Upon the closing, we issued a total of 1.3 million shares of common stock (valued at \$24.0 million) and assumed 157,000 of vested options (valued at \$2.9 million). In addition, we issued warrants to purchase 543,000 shares of our common stock at an exercise price of \$18.41 per share (valued at \$7.5 million). On October 6, 2003, we issued an additional 1.2 million shares valued at \$47.4 million to RADLAN shareholders. Additionally, 1.0 million shares of our common stock is reserved for future issuance over a two-year period to RADLAN shareholders upon the resolution of certain contingencies involving the achievement of certain milestones as defined in the share purchase agreement.

On November 17, 2003, we completed the purchase of six buildings on 33.8 acres of land in Santa Clara, California for a total cost of \$63.9 million in cash. It is currently intended that the site will be the future location of our U.S. headquarters. As a result of the purchase of the buildings, we expect to make significant commitments and incur costs to improve the buildings over the next twelve to eighteen months. In addition, we expect an increase in future operating expenses due to the new buildings, thereby increasing the amount of occupancy costs that will be allocated to research and development, sales and marketing and general and administrative expenses.

[Table of Contents](#)

We currently intend to fund our short and long-term capital requirements, as well as our liquidity needs, with existing cash, cash equivalent and short-term investment balances as well as cash generated by operations. We believe that our existing cash, cash equivalent and short-term investment balances will be sufficient to meet our working capital needs, capital requirements, investment requirements and commitments for at least the next twelve months. However, our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects, costs of performing improvements to facilities and increases in operating expenses, which are all subject to uncertainty. To the extent that our existing cash, cash equivalent 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 debt or equity financing. We may enter into acquisitions or strategic arrangements in the future, which could also require us to seek additional debt or equity financing, which in turn may be dilutive to our current shareholders. Additional funds may not be available on terms favorable to us or at all.

The following table summarizes our contractual obligations as of October 31, 2003 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Period						Total
	2004	2005	2006	2007	2008	There-after	
	(remaining three months)						
Contractual obligations:							
Operating leases	\$ 2,370	\$10,416	\$ 9,504	\$3,737	\$2,885	\$5,328	\$ 34,240
Capital lease obligations	2,503	9,662	8,946	2,538	—	—	23,649
Purchase commitments to foundries	53,048	—	—	—	—	—	53,048
Total contractual cash obligations	\$57,921	\$20,078	\$18,450	\$6,275	\$2,885	\$5,328	\$110,937

Recent Accounting Pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46”), “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.” FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities, or VIEs, created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. However, the FASB has deferred the effective date for VIEs created before February 1, 2003 to the first interim or annual period ending after December 15, 2003. Early adoption of the provisions of FIN 46 prior to the deferred effective date was permitted. We are currently evaluating the impact of the adoption of FIN 46 on our financial position or results of operations. It is reasonably possible that we are the primary beneficiary of or hold a significant variable interest in a variable interest entity. We have a 46% equity interest in a company that conducts research and development primarily on our behalf. Our maximum exposure to loss as a result of our investment with the potential variable interest entity is our investment of \$2.7 million and loans of \$220,000, as we are not obligated to provide any additional financing.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first fiscal period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. We believe that the adoption of this standard will not have a material 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.

A significant portion of our business is dependent upon the hard disk drive industry, which is highly cyclical and experiences rapid technological change.

Sales to customers in the hard disk drive industry represented approximately 54% of our net revenue in the first nine months of fiscal 2004 and represented 56% and 57% of our net revenue in fiscal 2003 and 2002, respectively. 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 using our products do not retain or increase market share, our sales may decrease.

Our Marvell Semiconductor Israel Ltd. And RADLAN Computer Communications Ltd. subsidiaries are incorporated under the laws of, and their principal offices are located in, the State of Israel and therefore their business operations may be harmed by adverse political, economic and military conditions affecting Israel.

Each of Marvell Semiconductor Israel Ltd., or MSIL, and RADLAN Computer Communications Ltd., or RADLAN, are incorporated under the laws of and has its principal offices in the State of Israel. In addition, MSIL and RADLAN maintain their research and development operations in Israel. Thus, MSIL and RADLAN are directly influenced by the political, economic and military conditions affecting Israel. Major hostilities involving or within Israel could disrupt MSIL and RADLAN's research and development and other business operations. For example, continued hostilities between Israel and the Palestinian authority in recent months have caused substantial political unrest, which could lead to a potential economic downturn in Israel. Additionally, the on-going situation in Iraq could lead to more economic instability and uncertainty in the State of Israel and the Middle East. 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 negatively impact the business operations and financial results of each of MSIL and RADLAN.

We depend on a small number of large customers for a significant portion of our sales. The loss of, or a significant reduction or cancellation in sales to, any key customer would significantly reduce our revenues.

In the first nine months of fiscal 2004, approximately 34% of our net revenue was derived from sales to two customers, each of whom individually accounted for approximately 10% or more of our net revenue during this period. Of these customers, Intel accounted for approximately 19% and Samsung accounted for approximately 15%. Additionally, Wintech, a distributor, accounted for approximately 10% of net revenue during the first nine months of fiscal 2004. Sales to our largest customers have fluctuated significantly from period to period primarily due to the timing and number of design wins with each customer, as well as the continued diversification of our customer base as we expand into new markets, and will likely continue to fluctuate dramatically in the future. The loss of any of our largest customers, a significant reduction in sales we make to them, or any problems we encounter collecting amounts from them would likely seriously harm our financial condition and results of operations. Our operating results in the foreseeable future will continue to depend on sales to a relatively small number of customers, as well as the ability of these customers to sell products that incorporate our products. In the future, these customers may decide not to purchase our products at all, to purchase fewer products than they did in the past, or to alter their purchasing patterns in some other way, particularly because:

- 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;
- our customers may develop their own solutions;
- our customers purchase integrated circuits from our competitors; and
- our customers may 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 market and to introduce enhancements to our products for the storage market. 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 wireless LAN or other products for this market that could prevent or delay their successful introduction. 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.

In addition, our longstanding relationships with some of our larger customers may also deter other potential customers who compete with these customers from buying our products. To attract new customers or retain existing customers, we may offer certain customers favorable prices on our products. If these prices are lower than the prices paid by our existing customers, we would have to offer the same lower prices to certain of our customers who have contractual "most favored nation" pricing arrangements. In that event, our average selling prices and gross margins would decline. The loss of a key customer, a reduction in sales to any key customer or our inability to attract new significant customers could materially and adversely affect our business, financial condition and results of operations.

The continuing worldwide economic slowdown, acts of war, terrorism, international conflicts and related uncertainties may adversely impact our revenues and profitability.

Slower economic activity, concerns about inflation, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the telecommunications and related industries, the situation in Iraq and recent international conflicts, and terrorist and military activity have resulted in a continuing downturn in worldwide economic conditions. We cannot predict the timing, strength and duration of any economic recovery in the semiconductor industry and in particular, the broadband communications markets. In addition, the events of September 11, 2001, the continuing international conflicts and terrorist acts and the possibility of an extended presence in Iraq can be expected to place further pressure on economic conditions in the United States and worldwide. Also, a resurgence or perceived resurgence of severe acute respiratory syndrome, or SARS or a similar outbreak, could have a further adverse effect upon an already weakened world economy. These conditions make it extremely difficult

[Table of Contents](#)

for our customers, our vendors and for us to accurately forecast and plan future business activities. If these conditions continue or worsen, our business, financial condition and results of operations will likely suffer.

Past acquisitions and any future acquisitions or 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 affect on our business, results of operations or financial condition include, among other things:

- the difficulty of assimilating the operations and personnel of an 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 an 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.

Our recent acquisition of RADLAN and any future acquisitions could harm our operating results and share price.

On June 27, 2003, we acquired RADLAN Computer Communications Ltd., a leading provider of embedded networking software.

Any acquisitions could materially harm our operating results as a result of possible concurrent issuances of dilutive equity securities. In addition, the purchase price of any acquired businesses may exceed the current fair values of the net tangible assets of the acquired businesses. As a result, we would be required to record material amounts of goodwill and other intangible assets, which could result in significant impairment charges and amortization expense in future periods. These charges, in addition to the results of operations of such acquired businesses, could have a material adverse effect on our business, financial condition and results of operations. We cannot forecast the number, timing or size of future acquisitions, or the effect that any such acquisitions might have on our operating or financial results.

Under generally accepted accounting principles, we are required to review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. In addition, we are required to review our goodwill and indefinite-lived intangible assets on an annual basis. Over the last year, there has been a slowdown in worldwide economies, including the United States, which has affected our business. End customers for our products have slowed their purchases of next-generation technology and have delayed or rescheduled existing orders for products that incorporate our technology. If the economic downtrend continues, or if other presently unforeseen events or changes in circumstances arise which indicate that the carrying value of our goodwill or other intangible assets may not be recoverable, we will be required to perform impairment reviews of these assets, which have carrying values of approximately \$1.6 billion as of October 31, 2003. An impairment review could result in a write-down of all or a portion of these assets to their fair values. We will perform an annual impairment review during the fourth quarter of each fiscal year or more frequently if we believe indicators of impairment exist. In light of the large carrying value associated with our goodwill and intangible assets, any write-down of these assets may result in a significant charge to our statement of operations in the period any impairment is determined and could cause our stock price to decline.

We are subject to the risks of owning real property.

On November 17, 2003, we completed the purchase of six buildings on 33.8 acres of land in Santa Clara, California for a total cost of \$63.9 million. It is currently intended that the site will be the future location of our U.S. headquarters. The real property includes land and buildings, primarily related to our operations. We have little experience in managing real property. Ownership of this property subjects us to risks, including:

- the possibility of environmental contamination and the costs associated with fixing any environmental problems;
- adverse changes in the value of these properties, due to interest rate changes, changes in the neighborhood in which the property is located, or other factors;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;
- the potential disruption of our business and operations arising from or connected with a relocation due to moving to the facility;
- increased cash commitments for improvements to the buildings or the property or both;
- increased operating expenses for the buildings or the property or both; and
- possible disputes with tenants or other third parties related to the buildings or the property or both.

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 revenue 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 we do. 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 we do. 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.

In the wireless LAN market, we face competition from a number of additional competitors who have a longer history of serving that market. Many of these competitors have more-established reputations in that market and longer-standing relationships with the customers to whom we sell our products, which could prevent us from competing successfully. Competition could increase pressure on us to lower our prices and lower our margins, which, in turn, would harm our operating results.

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.

The rapidly changing nature of the markets in which we sell our products, limits our ability to accurately forecast quarterly and annual sales. Additionally, because many of our expenses are fixed in the short term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any 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, sales and operating results.

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 sixteen 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.

Our future success depends in significant part on strategic relationships with customers. If we cannot maintain these relationships or if these customers develop their own solutions or adopt a competitor's solutions instead of buying our products, our operating results would be adversely affected.

In the past, we have relied in significant part on our strategic relationships with customers that are technology leaders in our target markets. We intend to pursue and continue to form these strategic relationships in the future but we cannot assure you that we will be able to do so. These relationships often require us to develop new products that may involve significant technological challenges. Our partners frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may have to devote a substantial amount of our limited resources to our strategic relationships, which could detract from or delay our completion of other important development projects. Delays in the development could impair our relationships with our strategic partners and negatively impact sales of the products under development. Moreover, it is possible that our customers may develop their own solutions or adopt a competitor's solution for products that they currently buy from us. If that happens, our business, financial condition and results of operations could be materially harmed.

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 or assembly facilities and have very limited in-house testing facilities. Therefore, we must rely on third-party vendors to manufacture, assemble and test the products we design. We currently rely on TSMC to produce a significant amount of our integrated circuit products. We also currently rely on TSMC and other third-party assembly and test subcontractors to assemble, package and test our products. The resurgence of SARS and any similar future outbreaks in Asia could affect the production capabilities of our manufacturers by resulting in quarantines or closures. In the event of such a quarantine or closure, if we were unable to quickly identify alternate manufacturing facilities, our revenues, cost of revenues and results of operations would be negatively impacted. 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. Therefore, they 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 have 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 subcontractor 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 subcontractors 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. 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.

The complexity of our products could result in unforeseen delays or expenses in undetected defects or bugs, which could adversely affect the market acceptance of new products, damage our reputation with current or prospective customers, and materially and adversely affect our operating costs.

Highly complex products such as the products that we offer frequently contain defects and bugs when they are first introduced or as new versions are released. We have in the past experienced, and may in the future experience, these defects and bugs. Historically, we have been able to design workarounds to fix these defects and bugs with minimal to no disruption to our business or our customers' business. Going forward, if any of our products contain defects or bugs, or have reliability, quality, or compatibility problems, we may not be able to successfully design workarounds. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers, attract new customers, and our financial results. In addition, these defects or bugs could interrupt or delay sales to our customers. To alleviate these problems, we may have to invest significant capital and other resources. Although our products are tested by our suppliers, our customers and ourselves, it is possible that our new products will contain defects or bugs. If any of these problems are not found until after we have commenced commercial production of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product or products, and we could lose credibility with our current and prospective customers. As a result, our financial results could be materially harmed.

We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

In order to remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes. We are dependent on our relationships with our foundries to transition to smaller geometry processes successfully and cannot assure you that our foundries will be able to effectively manage the transition. If our foundries or we experience significant delays in this transition or fail to efficiently implement this transition, our business, financial condition and results of operations could be materially and adversely affected. As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, or at all.

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 Dr. Sehat Sutardja, our co-founder, President and Chief Executive Officer; Weili Dai, our co-founder and Executive Vice President; and Dr. Pantas Sutardja, our co-founder and Vice President and Chief Technology Officer. We do not have employment contracts with these or any other key personnel, and their knowledge of our 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 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 November 30, 2003, our executive officers and directors beneficially owned or controlled, directly or indirectly, approximately 30% of the outstanding shares of our common stock. Additionally, Dr. Sehat Sutardja and Weili Dai are husband and wife and Dr. Sehat Sutardja and Dr. Pantas Sutardja are brothers. All three are directors and together they held approximately 25% of our outstanding common stock as of November 30, 2003. As a result, if the directors and officers as a group or any of Dr. Sehat Sutardja, Weili Dai, and Dr. Pantas Sutardja act together, they will significantly influence, and will likely control, the election of our directors and the 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.

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 any 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 operating results could be harmed.

In May 2003, we completed the implementation of a new Enterprise Resource Planning, or ERP, system. We are currently in the process of implementing and integrating certain modules of the ERP system for subsidiaries that we recently acquired. In addition, we

also plan to implement new modules of the ERP system in the future. An ERP system implementation is a very complex, costly and time-consuming process. Any unforeseen delays or difficulties after we begin transacting on the new system or in performing financial closes on, or upgrades to the new systems, may divert the attention of management and other employees and disrupt our ongoing business and could have a material adverse impact on our financial condition and results of operations.

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 in Asia, which further exposes us to foreign risks. Sales to customers located in Asia represented approximately 89% of our net revenue in the first nine months of fiscal 2004, and represented 87% and 83% of our net revenue in fiscal 2003 and 2002, 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 risks associated with international operations, 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 wars, terrorism, other hostilities and political unrest, boycotts, curtailment of trade and other business restrictions; and
- inadequate local infrastructure.

Additionally, our operations may be impacted in the following ways by a resurgence of SARS, including, but not limited to, disruptions of our third party manufacturers that are primarily located in Asia, reduced sales in our international retail channels and increased supply chain costs. If future outbreaks of SARS or similar diseases rise or spreads to other areas, our international sales and operations could be harmed.

Substantially 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.

Our third-party foundries and subcontractors are concentrated in Taiwan and elsewhere in the Pan-Pacific region, 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 manufactured by Taiwan Semiconductor Manufacturing Company, or TSMC, which is located in Taiwan. Currently our only alternative manufacturing sources are located in Taiwan, China and Singapore. 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 significant due to the proximity of major earthquake fault lines to the facilities of our foundries

and assembly and test 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. In March 2002 and June 2003, major earthquakes occurred in Taiwan. Although our foundries and subcontractors did not suffer any significant damage as a result of this most recent earthquake, the occurrence of additional earthquakes or other natural disasters 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 manufacturers' representatives and the failure of these distributors and manufacturers' representatives 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 some of our distributors and manufacturers' representatives have been established within the last two years, and we are unable to predict the extent to which our 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 may decline.

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 revenues and gross profits.

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 our gross profits on our storage products are likely to decrease over the next fiscal year below levels we have historically experienced due to (i) pricing pressures from our customers, (ii) an increase in sales of SOC's, which typically have lower margins than standalone read channel devices, and (iii) an increase in sales of products into consumer application markets, which are highly competitive and cost sensitive. In addition, if our sales of storage products into the desktop computer market were to increase as a percentage of total storage revenues, our margins would also likely decrease because gross margins on sales into this market are generally lower than for sales into the enterprise and mobile computer markets, where we currently generate the substantial majority of our storage product revenues.

Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities, and our costs may even increase, which could also reduce our margins. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to do so again in the future.

We have a lengthy and expensive storage product sales cycle that does not assure product sales, and that if unsuccessful, may harm our operating results.

The sales cycle for our storage 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 typically followed by a twelve to eighteen 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 our competitors or us.

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 may 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.

When demand for foundry capacity is high, we may take various actions to try to secure sufficient capacity, which may be costly and harm our operating results.

Availability of foundry capacity has in the recent past been reduced due to strong demand. In order to secure sufficient foundry capacity when demand is high, we may enter into various arrangements with suppliers that could be costly and harm our operating results, 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 contractual 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.

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, including our physical layer devices and switched Ethernet products. However, the Gigabit Ethernet technology is relatively new compared to the more established 10 and 100 Megabit per second Fast Ethernet technologies. If the Gigabit Ethernet technology does not achieve widespread market acceptance, our revenue and operating results may be harmed. We have also made a significant investment in the development of wireless LAN products based on the IEEE 802.11b and 802.11g standards. Wireless LAN technologies are relatively new and many competing standards, such as IEEE 802.11a and Bluetooth™, exist. If the 802.11b and 802.11g standards do not achieve widespread market acceptance, our revenue and operating results may be harmed.

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. We have been issued several United States patents and have 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. From time to time we receive, and may continue to receive in the future, notices that claim we have infringed upon, misappropriated or misused the proprietary rights of other parties. These claims could result in litigation, which, in turn, could subject us to significant liability for damages. These lawsuits, regardless of their success, are time-consuming and expensive to resolve and 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 substantial damages to the party claiming infringement that could adversely impact our liquidity or operating results;
- 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 regarding how the United States federal income tax laws apply to our business. If our position is disputed, our operating results could be harmed.

In the United States, we pay income tax on the income of our U.S. subsidiaries and may be subject to the U.S. income tax and on any income that is considered to be effectively connected with the conduct of a trade or business in the United States. The determination of whether the income of a foreign corporation is effectively connected with the conduct of a trade or business in the United States requires significant management judgment, as it involves a consideration of all the facts and circumstances and the application of legal standards that are uncertain. Our position is that our foreign business operations do not generate any income that is effectively connected with a United States trade or business. If our position is disputed, the amount we have accrued in 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 rate at which we paid those taxes.

On August 26, 2003, the Internal Revenue Service (IRS) began an income tax audit of Marvell Semiconductor, Inc. (MSI), a subsidiary of Marvell Technology Group, Ltd., for fiscal years ended January 31, 2001, 2002 and 2003. We believe the ultimate resolution of IRS audit will not have a material impact on our consolidated financial statements.

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 Singapore statutory 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 subsidiaries in Israel, which provides a tax holiday on undistributed income derived from operations within certain "development regions" in Israel. In order to maintain our qualification, we must continue to meet specified conditions, including the making of investments in fixed assets in Israel. As our tax holidays expire, we expect that we will start paying income tax on our operations within these development regions.

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.

Class action litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our management's attention and resources.

On September 5, 2001, a putative class action was filed in the Southern District of New York relating to our initial public offering, or IPO. In this action, the plaintiffs named several defendants including Marvell and two of our officers, one of whom is also a director. This complaint relating to our IPO has been consolidated with hundreds of other lawsuits by plaintiffs against approximately 55 underwriters and approximately 300 issuers across the United States. Plaintiffs allege that defendants violated various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. In these actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys' and experts' fees. A Consolidated Amended Class Action Complaint against Marvell and two of our officers was filed on April 19, 2002. Subsequently, defendants in the consolidated proceedings moved to dismiss the actions. In February 2003, the trial Court issued its ruling on the motions, granting the motions in part, and denying them in part. Thus, the cases may proceed against the underwriters and us as to alleged violations of section 11 of the Securities Act of 1933 and section 10(b) of the Securities Exchange Act of 1934. Claims against the individual officers have been voluntarily dismissed with prejudice by agreement with plaintiffs. These claims and any resulting litigation could result in substantial costs and could divert the attention and resources of our management.

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. Any 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.

A substantial number of our shares remain available for sale pursuant to Rule 144. 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 November 30, 2003, we had 130,097,788 shares outstanding and none of these shares are subject to any lock-up agreements. The market price of our stock could drop significantly if holders of a substantial number of our shares sell them or are perceived by the market as intending to sell them. In addition, the sale of our 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 a vote of two-thirds of the outstanding shares to approve any change of corporate control.

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 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk. The primary objective of our investment activities is to preserve principal while at the same time maximize the income we receive from our investments without significantly increasing risk. Some of the securities that we have invested in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline, while variable rate securities may produce less income than expected if interest rates fall. To minimize this risk, we maintain our portfolio of cash equivalents and short-term investments in a variety of fixed and variable rate securities including money market funds; corporate debt securities; Federal, State, county and municipal debt securities; and foreign government securities. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. The following table presents the amounts of our cash equivalents and short-term investments that are subject to market risk by range of expected maturity and weighted-average interest rates as of October 31, 2003 (in thousands). This table does not include money market funds because those funds are not subject to market risk.

	Expected Fiscal Year Maturity Date					Fair Value
	2004	2005	2006	2007	2008	
Variable Rate	\$26,517	\$ —	\$ —	\$ —	\$ —	\$ 26,517
Average Interest Rate	1.15%	—	—	—	—	1.15%
Fixed Rate	\$50,813	\$30,362	\$42,779	\$59,601	\$5,041	\$188,596
Average Interest Rate	1.64%	3.22%	2.59%	2.49%	3.65%	2.33%

Investment Risk. We invest in equity instruments of privately-held companies for business and strategic purposes. These investments, which totaled \$10.0 million at October 31, 2003, are included in other non-current assets in the accompanying balance sheets and all but one of the investments are accounted for using the cost method as our ownership is less than 20% and we do not have the ability to exercise significant influence over the operations on these companies. Since we own approximately 46% of one privately-held company, we are accounting for the investment using the equity method. We record our percentage of the net income (loss) to interest and other income (net). To date, we have recorded a loss on our equity investment of approximately \$0.7 million to interest and other income (net). We monitor these investments for impairment and make appropriate reductions in carrying value when an impairment is deemed to be other than temporary.

Foreign Currency Exchange Risk. Substantially all of our sales and the majority of our expenses to date have been denominated in United States 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 4. Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.** We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were effective to ensure that material information relating to us, including our consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

(b) **Changes in internal controls.** There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described in Item 4(a) above that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On July 31, 2001, a putative class action suit was filed against two investment banks that participated in the underwriting of our initial public offering, or IPO, on June 29, 2000. That lawsuit, which did not name Marvell or any of our officers or directors as defendants, was filed in the United States District Court for the Southern District of New York. Plaintiffs allege that the underwriters received “excessive” and undisclosed commissions and entered into unlawful “tie-in” agreements with certain of their clients in violation of Section 10(b) of the Securities Exchange Act of 1934. Thereafter, on September 5, 2001, a second putative class action was filed in the Southern District of New York relating to our IPO. In this second action, plaintiffs named three underwriters as defendants and also named as defendants Marvell and two of our officers, one of whom is also a director. Relying on many of the same allegations contained in the initial complaint in which Marvell was not named as a defendant, plaintiffs allege that the defendants violated various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. In both actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys’ and experts’ fees. These two actions relating to our IPO have been consolidated with hundreds of other lawsuits filed by plaintiffs against approximately 40 underwriters and approximately 300 issuers across the United States. Defendants in the consolidated proceedings moved to dismiss the actions. In February 2003, the trial court issued its ruling on the motions, granting the motions in part, and denying them in part. Thus, the cases may proceed against the underwriters and us as to alleged violations of section 11 of the Securities Act of 1933 and section 10(b) of the Securities Exchange Act of 1934. Claims against the individual officers have been voluntarily dismissed with prejudice by agreement with plaintiffs. On June 26, 2003, the plaintiffs announced that a settlement among plaintiffs, the issuer defendants and their directors and officers, and their insurers has been structured as part of which the insurers for all issuer defendants would guarantee up to \$1 billion to investors who are class members, depending upon plaintiffs’ success against non-settling parties. Our board of directors has approved the proposed settlement, which will result in the plaintiffs’ dismissing the case against us and granting releases that extend to all of our officers and directors. The proposed settlement is subject to definitive documentation and court approval. Based on currently available information, we do not believe that the ultimate disposition of the lawsuit will have a material adverse impact on our business, results of operations or financial condition. However, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling, if the settlement proposal is not concluded, could include monetary damages. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our business, results of operations or financial condition for the period in which the ruling occurs, or future periods. These claims and any resulting litigation could result in substantial costs and could divert the attention and resources of our management.

We are also party to other 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 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. There can be no assurance that these matters will be resolved without costly litigation, in a manner that is not adverse to our financial position, results of operations or cash flows or without requiring royalty payments in the future which may adversely impact gross margins.

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report:

10.21	Purchase and Sale Agreement for 5400 Bayfront Plaza; Santa Clara, California, dated August 18, 2003
10.22	First Amendment to Purchase and Sale Agreement dated October 15, 2003
10.23	Second Amendment to Purchase and Sale Agreement dated October 22, 2003
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Dr. Sehat Sutardja Ph.D., Chief Executive Officer
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of George A. Hervey, Chief Financial Officer
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Dr. Sehat Sutardja Ph.D., Chief Executive Officer
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of George A. Hervey, Chief Financial Officer

* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

(b) Reports on Form 8-K:

On August 21, 2003, we filed a current report on Form 8-K furnishing under Item 7 and Item 12 our press release dated August 21, 2003 announcing our financial results for the second quarter of fiscal 2004.

On August 28, 2003, we filed a current report on Form 8-K under Item 5 announcing certain information relating to our financial results for the second quarter of fiscal 2004.

SIGNATURES

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

December 15, 2003

Date

MARVELL TECHNOLOGY GROUP LTD.

By: /s/ GEORGE A. HERVEY

George A. Hervey
Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
10.21	Purchase and Sale Agreement for 5400 Bayfront Plaza; Santa Clara, California, dated August 18, 2003
10.22	First Amendment to Purchase and Sale Agreement dated October 15, 2003
10.23	Second Amendment to Purchase and Sale Agreement dated October 22, 2003
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Dr. Sehat Sutardja Ph.D., Chief Executive Officer
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of George A. Hervey, Chief Financial Officer
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Dr. Sehat Sutardja Ph.D., Chief Executive Officer
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of George A. Hervey, Chief Financial Officer

* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

PURCHASE AND SALE AGREEMENT

5400 BAYFRONT PLAZA

SANTA CLARA, CALIFORNIA

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (this "Agreement") is made as of the 18th day of August, 2003 (the "Effective Date"), by and between 3COM CORPORATION, a Delaware corporation ("3Com" or "Seller"), and MARVELL SEMICONDUCTOR, INC., a California corporation ("Buyer").

RECITALS:

A. Seller is the owner of the following real property and improvements thereon in the City and County of Santa Clara, California:

(1) All that certain real property commonly known as 5400-5460 Bayfront Plaza, City and County of Santa Clara, California, as described in EXHIBIT "A" attached hereto, consisting of approximately 33.8 acres of land (without representation or warranty as to square footage), together with all easements, rights and privileges appurtenant thereto (the "Land");

(2) Six (6) existing buildings (collectively the "Buildings"; each a "Building") located on the Land, with a total approximate square footage of 876,359 (without representation or warranty as to square footage), two (2) existing parking structures, and all fixtures, machinery, building systems, utilities and improvements appurtenant thereto (the Buildings and such other improvements and appurtenances being hereinafter collectively referred to as the "Improvements", and the Land and the Improvements being hereinafter collectively referred to as the "Real Property");

(3) All of Seller's right, title and interest in and to certain personal property located within or appurtenant to the Improvements, including cubicle workstations, file cabinets, tables, chairs, artwork, IT equipment, network infrastructure and cabling, telephone switch, satellite equipment, generators, A/V equipment, maintenance equipment, fitness equipment and cafeteria and kitchen equipment, all of which is more particularly described on "Exhibit A" to the Bill of Sale attached hereto as EXHIBIT "C" (collectively, the "Personal Property"), excluding, however, any fixtures, furnishing or equipment leased by Seller (as the lessee) or any of the personal property listed on SCHEDULE A(3), attached hereto (the "Excluded Personal Property"); and

(4) All of Seller's right, title and interest in and to (i) all Assigned Contracts (as defined in Section 4.1 below); (ii) all assignable existing warranties and guaranties issued to or held by Seller in connection with the Land or the Improvements; (iii) the Magma Lease (defined below); and (iv) all permits, licenses and governmental approvals applicable to or benefiting the Real Property, to the extent assignable by Seller to Buyer, but not including any claims for reduction in property taxes for periods prior to Closing (the property described in this Recital A(4) being sometimes herein referred to collectively as the "Intangibles").

B. Seller is prepared to sell, transfer and convey the Real Property, the Personal Property and the Intangibles (collectively, the "Property") to Buyer, and Buyer is prepared to purchase and accept the Property from Seller, all for the purchase price and on the other terms and conditions hereinafter set forth.

AGREEMENT:

In consideration of the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Sale and Purchase. Seller hereby agrees to sell and convey the Property to Buyer and Buyer hereby agrees to purchase and accept the Property from Seller, in each case for the Purchase Price and subject to the other terms and conditions set forth in this Agreement.

2. Purchase Price. The purchase price for the Property (the "Purchase Price") shall be Sixty Five Million Four Hundred Thirty Three Thousand Four Hundred Eighty Two and no/100 Dollars (\$65,433,482.00). The Purchase Price shall be paid to Seller by Buyer as follows:

2.1 Deposit. Within two (2) Working Days (a "Working Day" shall be deemed to be any day that is not a Saturday or Sunday or an official state or federal holiday in California) after the Effective Date, Buyer shall deposit with First American Title Guaranty Company, located at 1737 North First Street, Suite 100, San Jose, California, 95112 (telephone (408) 451-7800; fax (408) 451-7836; Attention: Rob Tidd) (the "Escrow Agent"), to be held in an interest-bearing escrow account under escrow account No. 4305-521802sc (the "Escrow") and disbursed in accordance with this Agreement, a cash deposit in the amount of One Million and no/100 Dollars (\$1,000,000.00) (which amount, together with all interest earned thereon while in the Escrow, shall be hereinafter collectively referred to as the "Initial Deposit"). If Buyer fails to remit the Initial Deposit into Escrow within such two (2) Working Day Period, Seller shall be entitled to terminate this Agreement by providing written notice of such termination to Buyer. If Buyer elects to proceed with the transaction in accordance with Section 5.2.1, below, then on or before the expiration of the Feasibility Period (as defined below), Buyer shall deposit an additional Two Million and no/100 Dollars (\$2,000,000.00) into Escrow (which amount, together with all interest earned thereon while in the Escrow, shall be hereinafter collectively referred to as the "Additional Deposit", and collectively with the Initial Deposit, the "Deposit").

2.2 Disposition of Deposit. The Initial Deposit shall be fully refunded out of Escrow to Buyer, without requirement of the consent or release by Seller, and thereafter neither party shall have any further liability hereunder except as may otherwise be expressly provided hereunder if Buyer elects to unilaterally terminate this Agreement during the Feasibility Period, as set forth in Section 5.2 below. If Buyer deposits the Additional Deposit prior to the expiration of the Feasibility Period, then the Deposit shall be deemed non-refundable to Buyer except as expressly provided herein. The Deposit shall be applied to the Purchase Price at the Closing.

2.3 Interest. The Deposit shall be deposited to Escrow in the form of cash, certified check, bank cashier's check, wire transfer or other form of readily available federally insured funds. The Deposit shall be held by the Escrow Agent in a federally-insured

interest-bearing account or in such other liquid investment as reasonably may be requested by Buyer and approved by Seller in its reasonable discretion. All interest earned on the Deposit shall be deemed to be part of the Deposit and shall accrue to the benefit of Buyer except to the extent the Deposit becomes payable to Seller pursuant to Section 11.1. In such event, Seller shall be entitled to all interest earned on the Deposit.

2.4 Remainder of Purchase Price. At Closing, Buyer shall deliver to the Escrow Agent cash in an amount equal to the Purchase Price, less the Deposit, together with Buyer's share of closing costs and due and payable by Buyer in accordance with this Agreement, and subject to adjustments, prorations and apportionments as set forth herein. The Purchase Price shall be paid at the Closing by wire transfer of immediately available federal funds, transferred through the Escrow to the order or account of Seller or such other person as Seller may designate in writing.

3. Seller's Representations and Warranties; Definition of Seller's Knowledge; Survival.

3.1 Seller's Representations and Warranties. Seller represents to Buyer as follows, which representations and warranties shall be deemed remade by Seller to Buyer on the Closing Date, and which shall survive the Closing for the period and to the extent described in Section 3.3 below:

3.1.1 Compliance with Laws. To the best of Seller's knowledge, the Improvements were constructed in compliance with applicable federal, state and local laws and regulations ("Laws").

3.1.2 Documents. To the best of Seller's knowledge, all Property Documents (defined below) delivered or made available to Buyer by Seller are true copies.

3.1.3 Possessory Rights. There are no leases or other possessory rights of third parties in the Real Property except for (i) the Office Lease dated June 19, 2003, between Seller and Magma Design Automation, Inc. (the "Magma Lease"), and (ii) the Pedestrian Bridge Lease Agreement dated September 18, 1998 between Seller and the Santa Clara Valley Water District (the "Bridge Lease").

3.1.4 Litigation. To the best of Seller's knowledge, there is no current litigation, claim, investigation or eminent domain proceeding that may affect the Property or the transaction contemplated by this Agreement.

3.1.5 Authority. Subject to Section 7.2.5, below, Seller has the power and authority to enter into and to perform all of Seller's obligations pursuant to this Agreement, and to purchase the Property on the terms and conditions set forth herein. No consent of any third party is required in order for Seller to perform any of its obligations hereunder.

3.1.6 No Conflict. This Agreement and Seller's sale of the Property hereunder do not violate any material terms or provisions of any contract to which Seller is a party

3.1.7 Hazardous Materials. To the best of Seller's knowledge, no Hazardous Materials (as defined below) have been placed on, under or about the Property by Seller in violation of any applicable Environmental Laws (as defined in Section 6.6(b), below).

3.1.8 Personal Property. Subject to the rights of the "Tenant" under the Magma Lease, Seller is the owner of the Personal Property, the Personal Property is not subject to any liens, leases, claims, interests or encumbrances, and Seller has the right to transfer the Personal Property to Buyer.

3.1.9 Signage. To the best of Seller's knowledge, no parties have any right to use the existing monument signage on the rooftop of Building 5.

3.2 Definition of Seller's Knowledge. As used in this Section 3, the phrase "to the best of Seller's knowledge" refers only to the current actual knowledge of the Designated Individuals (as hereinafter defined) of Seller, and shall not be construed, by imputation or otherwise, to refer to the knowledge of Seller or any affiliate of Seller, or to any officer, agent, consultant, representative or employee of Seller or any affiliate thereof or, except to the limited extent described in this Section 3.2, to impose upon such Designated Individuals any duty to investigate the matter to which such actual knowledge, or the absence thereof, pertains. Seller makes no representation that the Designated Individuals have read all or any of the Property Documents (as defined in Section 4.2). As used herein, the term "Designated Individuals" shall refer to Roger van Overbeek, Director, Real Estate and Site Services, and Steve Joesten, Site Services Manager, and Seller represents and warrants to Buyer that the Designated Individuals are the individuals currently employed by 3Com with the most extensive personal knowledge of the Property. Except as described above, Seller makes no representation or warranty as to the scope of any inquiry made by the Designated Individuals to verify the matters referred to in Section 3.1 hereof.

3.3 Survival. The representations and warranties of Seller set forth in this Section 3 shall be deemed to have been made as of, and only as of, (a) the Effective Date and (b) the Closing. Such representations and warranties shall survive for a period of three hundred sixty five (365) days after the Closing. No claim for a breach of any representation or warranty of Seller shall be actionable or payable if the breach in question results from or is based on a condition, state of facts or other matter which was known to or discovered by Buyer prior to Closing. Seller shall have no liability to Buyer for a breach of any representation or warranty (i) unless the valid claims for all such breaches collectively aggregate more than \$25,000, in which event the full amount of such valid claims shall be actionable, up to the amount specified in Section 11.2 hereof, and (ii) unless written notice containing a description of the specific nature of such breach shall have been given by Buyer to Seller prior to the expiration of the applicable period specified in the first sentence of this Section 3.3 and an action shall have been

commenced by Buyer against Seller within thirty (30) days after expiration of such applicable period.

3.4 Updating Representations and Warranties. In the event that any representation or warranty of Seller needs to be modified due to changes since the Effective Date, Seller shall deliver to Buyer a certificate, dated as of the date of Closing and executed on behalf of Seller by a duly authorized officer thereof, identifying any representation or warranty which is not, or no longer is, true and correct and explaining the state of facts giving rise to the change. In no event shall Seller be liable to Buyer for, or be deemed to be in default hereunder by reason of, any breach of representation or warranty which results from any change that (i) occurs between the Effective Date and the date of the Closing and (ii) is either not prohibited under the terms of this Agreement or is beyond the reasonable control of Seller to prevent; provided, however, that the occurrence of any change to a representation and warranty by Seller under this Article 3 shall, if materially adverse to Buyer, constitute the non-fulfillment of the condition set forth in Section 7.1.1 hereof. If, despite changes or other matters described in such certificate, the Closing occurs, Seller's representations and warranties set forth in this Agreement shall be deemed to have been modified by all statements made in such certificate. In no event shall this Section 3.4 relieve Seller of liability, if any, for making a representation or warranty that was known by Seller to be false at the time it was made.

4. Seller's Covenants and Agreements.

4.1 Contracts. Within three (3) Working Days after the Effective Date, to the extent in Seller's possession Seller shall make available for inspection by Buyer or deliver to Buyer copies of all service, equipment, supply, maintenance or concession agreements entered into between Seller and such service providers with respect to the Property (collectively, the "Contracts"), provided that Seller shall not be required to provide Buyer with or assign to Buyer any agreements between Seller and Washington Group ("Washington Group"), which provides property management services to Seller at the Property and at other properties owned or operated by Seller. Buyer shall give written notice to Seller prior to the expiration of the Feasibility Period designating those Contracts, if any, which Buyer elects to continue after the Closing, and such designated Contracts, if assignable by Seller in accordance with their terms (collectively, the "Assigned Contracts"), shall be assigned to Buyer at the Closing, and Buyer shall assume all obligations with respect thereto arising from and after the Closing. Notwithstanding the preceding sentence, Seller shall have no obligation to assign such Contracts to Buyer if the Assigned Contracts are assignable only with the approval of the other party or parties to the Assigned Contracts and if Seller is unable to obtain such approval, or if any expense must be incurred or any other consideration paid as a condition to such assignment, unless Buyer agrees to reimburse Seller for such expense or payment. Seller shall terminate all Contracts that are not assigned to and assumed by Buyer as of the Closing or, if Seller is unable to or otherwise fails to terminate such Contracts, Seller shall be solely responsible for performance of Seller's obligations thereunder and shall indemnify Buyer against all claims with respect thereto.

4.2 Records. Seller shall make available for inspection by Buyer or deliver to Buyer as provided below, to the extent in Seller's possession, the following documents (collectively, the "Property Documents"):

(a) within ten (10) days after the execution and delivery of this Agreement, Seller shall deliver (if not already delivered) to Buyer:

(1) The original or copies of the building plans in CAD or print format for the Buildings.

(2) The ALTA survey of the Property dated November 2002 by Kier and Wright (the "Survey").

(3) The following soils and environmental reports in Seller's possession:

- Phase I Environmental Site Assessment - Levine Fricke, October 9, 2001
- Phase I Environmental Site Assessment - Levine Fricke, June 17, 1994
- Report of Quarterly Ground-Water Monitoring - Levine Fricke, January 21, 1993
- Status Report on Soils Remediation at Former Edelweiss Dairy and Future 3Com Corporate Campus, June 13, 1989
- Health and Safety Plan - Levine Fricke, Potential Chemical and Physical Hazards Excavation and Treatment of Shallow Soils, 3Com Corporate Campus, May 16, 1989
- Various correspondence and case closure summary and data relating to UST removal dated November - December 1994.

(4) Any structural reports on the Buildings in Seller's possession.

(5) A copy of any conditions, covenants and restrictions recorded against the Property as contained in the Preliminary Title Report.

(6) Copies of all licenses, permits, and certificates of occupancy issued for the Buildings in Seller's possession.

(7) Copies of the real property tax bills for fiscal years 2000 through 2003.

(8) Copies of the agreement and scope of work between 3Com Corporation and the Washington Group relating to the maintenance and operation of the Property. Seller will authorize Buyer to contact the Washington group and obtain copies of documents relating to the maintenance and operation of the Property.

(9) A copy of the Magma Lease and the Bridge lease for the bridge spanning the San Tomas Aquinas Creek, a copy of the Magma letter of credit when it

becomes available to Seller and a copy of any other agreements affecting the Property after the close of Escrow.

(b) In addition, Seller shall promptly deliver or make available such additional documents as Buyer may reasonably request concerning the Property or the Buildings that are in Seller's possession.

(c) A general inventory of all equipment, furniture and personal property that Seller will transfer to Buyer at closing. The inventory will be provided within three (3) Working Days of the Effective Date.

The Property Documents that are not delivered to Buyer shall be available for inspection and photocopying by Buyer or its authorized agents, employees, consultants and representatives ("Buyer's Agents"), at Buyer's expense, at Seller's offices in Santa Clara, California, or at the Real Property, as the case may be, during reasonable business hours on no less than 24 hours advance notice. All Property Documents described in this Section 4.2 are provided for the convenience of Buyer, and Seller makes no representation or warranty as to the accuracy or completeness of any of such Property Documents or as to the possible existence of any additional records or reports which may be material to Buyer's decision to purchase the Property. Buyer acknowledges and agrees that Buyer will make its own independent investigation of the Property and of the accuracy and completeness of all documents provided by Seller. Buyer conclusively shall be presumed to have knowledge of all matters referred to in or disclosed by the Property Documents. Notwithstanding the foregoing, in no event shall Seller be required to deliver to Buyer any Property Documents that Seller has previously agreed not to disclose pursuant to a written non-disclosure agreement. Upon termination of this Agreement for any reason, Buyer shall return to Seller all copies of all Property Documents in Buyer's possession and shall provide copies to Seller of all reports and studies obtained or developed by Buyer with respect to the Property, at no cost to Seller, within five (5) Working Days after such termination, and in the event Buyer fails to return the Property Documents to Seller as required hereunder, Buyer shall pay Seller Ten Thousand Dollars (\$10,000.00) to reimburse Seller for the cost of replacing the Property Documents, which foregoing obligations of Buyer shall survive the termination of this Agreement.

4.3 No Change. During the pendency of this Agreement, Seller shall operate and maintain the Property in substantially its current condition and repair as of the Effective Date, in accordance with its current management standards and subject to normal wear and tear; provided that such covenant shall not obligate Seller to repair any damage that results from a fire or other casualty event prior to the Closing, in accordance with Section 10.2 hereof. From and after the Effective Date Seller agrees not to remove any Personal Property from the Property.

4.4 New Agreements. During the pendency of this Agreement, Seller shall not execute any agreement affecting the ownership or operation of the Property, or any portion thereof, if such lease, license or other agreement will be binding on Buyer or the Property after Closing, without Buyer's prior written approval, not to be unreasonably withheld (which approval shall be deemed denied if not approved in writing within five (5) Working Days

following Seller's written request for approval), such approval not to be unreasonably withheld. Notwithstanding the foregoing, in no event shall Seller be entitled to enter into any lease for Buildings 1 through 4, and Seller shall not enter into any amendment of the Magma Lease without Buyer's prior written approval, not to be unreasonably withheld, and in connection with such approval Buyer's legal counsel shall have the opportunity to review and comment on any such lease or amendment. In the event Buyer approves any leases for Building 5 which are executed after the Effective Date, and in the event the Closing occurs, Buyer shall pay for all costs associated with such leases, including without limitation any and all leasing commissions, rental concessions and tenant improvement expenses and/or allowances, to the extent such costs have been approved in writing by Buyer prior to the Closing. Notwithstanding anything else in this Agreement, Seller shall pay for all (a) leasing commissions due or payable in connection with the Magma Lease, subject to the provisions of Section 9.1.6, below, and (b) leasing commissions, tenant improvement costs and attorneys fees due or payable in connection with any other lease entered into prior to the Closing unless such costs have been approved in writing by Buyer prior to the Closing.

4.5 Seller Obligations.

4.5.1 Seller agrees that, during the period commencing on the Effective Date and until this Agreement is either terminated or the parties proceed to Closing, Seller will remove its listing for the sale of the Property and all advertisements related thereto and shall not show the Property to or negotiate with other potential buyers of the Property, or otherwise solicit offers or discuss the terms of a proposed sale of the Property with other potential buyers; provided, however, that Seller shall not be deemed to have breached this Section 4.5.1 if any advertisements placed prior to the Effective Date continue in circulation thereafter, and/or if Seller receives any unsolicited offers for the purchase of the Property, provided such offers are not accepted, even on a back-up basis.

4.5.2 Until the Closing has occurred, Seller shall keep in confidence and shall not disclose or permit or suffer the disclosure of any information relating to this transaction, the identity of Buyer and the terms and conditions of this Agreement to any person, firm or entity, except that such information may be disclosed (i) to the Seller's partners, directors, officers, existing and financing sources, assignees, lawyers, consultants, and representatives as needed to enable Seller to complete its obligations or exercise its rights hereunder, or (ii) to Seller's Agents.

4.5.3 Commencing on the Effective Date, subject to Buyer's rights under Section 4.4, above, Seller shall continue to actively seek tenants for Building 5.

4.5.4 The Bridge Lease governs that portion of a pedestrian bridge (the "Bridge") which spans the San Tomas Aquinas Creek adjacent to the Property, which Bridge also extends over the Eastern border of and onto a portion of the Property. If the Santa Clara Valley Water District or any other governmental agency requires removal of the Bridge across the San Tomas Aquinas Creek, then Seller shall remove, at its sole cost and expense, that portion of the Bridge which is on Santa Clara Valley Water District property and subject to the Bridge Lease;

provided, however, that Seller's obligation shall not include any repair work for that portion of the Bridge remaining on the Property (including without limitation repair, shoring or reinforcement, installation of railings, and/or removal of those portions of the Bridge located on the Property), the performance and expense for which shall be Buyer's responsibility. Buyer agrees to reasonably cooperate with Seller's performance of its obligations under this Paragraph 4.5.4, including Seller's right to access over and onto the Property to perform such work. Seller's obligations under this Section 4.5.4 shall survive the Closing.

5. Title Review and Feasibility Period.

5.1 Title Report and Survey. Promptly after the execution and delivery of this Agreement, Seller shall provide Buyer with (a) a current title report for the Real Property, (the "Title Report") prepared by First America Title Guaranty Company (the "Title Company"), (b) copies of documents referenced in the exceptions set forth in the Title Report, and (c) the Survey. Promptly after the Effective Date, Seller shall instruct the Title Company to deliver the Title Report, copies of the documents referenced in the exceptions thereto, and shall deliver the Survey to Buyer, Buyer's attorney (as identified in Section 14 below), and Seller. In addition to any and all exceptions approved by Seller pursuant to Section 5.1.1 below, the Title Report shall be subject to and Buyer hereby approves as "Permitted Exceptions" the following: (i) exceptions for general taxes not yet due and payable, and (ii) matters affecting title attributable to the acts of Buyer and its agents, contractors and employees.

5.1.1 Buyer shall have thirty (30) days after receipt of the Title Report (such period herein called the "Title Objection Period") to notify Seller and the Title Company in writing of Buyer's approval or disapproval of any exceptions or other matters shown therein other than the Permitted Exceptions listed in Section 5.1, above ("Notice of Title Objection") and to request any endorsements to the Title Report that Buyer desires. If Buyer does not give Seller written notice of disapproval of any such matters or exceptions within the prescribed time, the Title Report, the Survey and the supporting documents shall be deemed approved (and all exceptions therein shall be deemed "Permitted Exceptions") and this condition shall be deemed satisfied. Within seven (7) days after receipt of Buyer's notice of disapproval of any such matters or exceptions timely delivered to Seller, Seller shall notify Buyer in writing whether Seller is willing to remove any such item which Buyer has disapproved ("Seller's Cure Item"). If Seller does not give Buyer written notice within the prescribed period of time, Seller shall be deemed to have elected not to remove any such item which Buyer has disapproved and such items shall not be deemed Seller's Cure Items. If there are exceptions which Buyer has disapproved and which Seller is not willing to remove at Seller's expense, Buyer shall have until the end of the Feasibility Period to notify Seller in writing of Buyer's election to either (i) waive its disapproval and approve such exceptions, or (ii) terminate this Agreement and receive a return of the Deposit in accordance with Section 2.1. If Buyer does not expressly elect to waive its disapproval in a timely manner, then this Agreement shall terminate and the Deposit shall be returned to Buyer.

5.1.2 Survey. Seller's sole obligation with respect to a survey of the Property shall be to deliver the Survey to Buyer as provided herein. Buyer shall be responsible, at its sole cost, for obtaining any updates to the Survey and/or any new survey(s) of the Property.

5.1.3 Pre-Closing "Gap" Title Defects. Buyer may, at or prior to Closing, deliver written notice to Seller (the "Gap Notice") of any exceptions to title (a) raised by the Title Company between the expiration of the Feasibility Period and the Closing and (b) not disclosed by the Title Company or otherwise known to Buyer prior to the expiration of the Feasibility Period; provided that Buyer must notify Seller of such objection to title within two (2) Working Days of being made aware of the existence of such exception. If Buyer sends a Gap Notice to Seller, Buyer and Seller shall have the same rights and obligations with respect to such notice as apply to a Notice of Title Objection under Section 5.1.1 above.

5.2 Feasibility Period.

5.2.1 For the period commencing on the Effective Date and expiring on the date which is sixty (60) days after the Effective Date, but in no event later than October 15, 2003 (the "Feasibility Period"), Buyer and Buyer's Agents shall have the right to enter the Real Property and to conduct and carry out any and all inspections, tests and studies that Buyer deems appropriate in its evaluation of the physical condition of the Property, the compliance of the Property with applicable laws, and the suitability of the Property for Buyer's intended use, as Buyer deems appropriate in its sole discretion. Buyer shall be allowed until 5:00 P.M. (Pacific Time) on the last day of the Feasibility Period to deliver to Seller, with a copy also to be delivered to Escrow Agent and to Seller's counsel designated in Section 14 hereof, a written notice of Buyer's election to purchase the Property ("Buyer's Notice"). Buyer's failure to deliver the Buyer's Notice within the Feasibility Period shall conclusively be deemed Buyer's election not to purchase the Property and to terminate the Agreement.

5.2.2 During the Feasibility Period, Buyer and Buyer's Agents shall be granted a right of entry on the Real Property to perform such soil, engineering and geological tests and other physical inspections, including building systems and components, to make such other reports as Buyer shall deem appropriate and for any other purpose related to Buyer's proposed use of the Property. Buyer's entry onto the Real Property as provided in this Section 5.2 is referred to herein as the "Inspection." Buyer's right of entry upon the Real Property for the purposes of the Inspection shall be subject to, and Buyer agrees to perform, each of the following conditions and covenants, all of which shall survive the termination of this Agreement or delivery of the Deed (as hereinafter defined) and the Closing:

(i) Buyer shall pay all costs, expenses, liabilities and charges incurred by Buyer related to Buyer's entry.

(ii) Buyer, at Buyer's sole cost, shall repair all damage or injury caused by Buyer or Buyer's Agents in connection with any such inspection or entry and shall return the Real Property to the condition existing prior to such entry, it being understood, however, that Buyer shall not be responsible for damage due to the mere discovery of a pre-

existing condition, provided Buyer shall be responsible for any exacerbation of a pre-existing condition resulting from Buyer's activities.

(iii) Any such entry upon the Real Property shall be upon no less than 24 hours advance notice to Seller and shall be at reasonable times during normal business hours and shall not unreasonably interfere with the Seller's and/or Magma's operations on the Real Property. Seller shall have the right to accompany Buyer and Buyer's Agents during any entry upon the Real Property and to require that Buyer and Buyer's Agents comply with Seller's reasonable security procedures.

(iv) Buyer shall keep the Real Property free and clear of all liens arising out of Buyer's activities conducted upon the Real Property.

(v) Buyer shall indemnify and hold Seller harmless from any lien, loss, claim, liability, or expense, including reasonable attorneys' fees and costs, directly arising out of or in connection with the Inspection. Such obligation to indemnify and hold Seller harmless shall survive Closing or any termination of this Agreement.

(vi) Buyer shall provide (or cause Buyer's Agents to provide) liability insurance with a combined single limit liability of not less than Five Million Dollars (\$5,000,000), either under Buyer's policy or such insurance provided by Buyer's Agents, and which liability insurance shall cover all activities performed by Buyer or Buyer's Agents, in connection with the Inspection activities. Seller shall be named as an additional insured upon such insurance. Buyer shall provide proof of such insurance in the form of a certificate of insurance prior to, and as a condition of, any such entry.

(vii) Buyer shall not conduct any invasive testing of the Real Property without Seller's prior written approval, which shall include a work plan acceptable to Seller. Prior to performing any environmental tests or studies on the Real Property beyond the scope of work generally performed in a "Phase I" environmental property assessment study, Buyer shall notify Seller of the scope of work intended to be performed and shall provide Seller an opportunity to confer, either directly or through Seller's consultants, with Buyer's environmental consultants in order to determine whether to consent to any sampling or testing of surface or subsurface soils, surface water or ground water. Seller shall not unreasonably withhold consent to any inspections of the existing Improvements (including asbestos testing) requested to be performed by Buyer. Seller may elect to deny Buyer permission to conduct invasive testing or other inspections of the soils, surface water or ground water based on Seller's good faith determination, in its sole discretion, that such inspections are inadvisable, including without limitation for any of the following reasons: (A) Seller's environmental consultants object to the methodology or procedures of the inspections proposed, (B) or such inspections otherwise do not satisfy the requirements set forth in this Section 5. In any event, if Seller has not consented or refused to consent in writing to such environmental tests or studies within three (3) Working Days of Buyer's written notification to Seller requesting such consent, Seller shall be deemed to have refused to consent to such tests and/or studies. Prior to the Closing, all information derived from Buyer's tests and test results shall, to the extent permissible under

existing law, remain confidential and shall not be disclosed to any party other than as is necessary to consummate the transaction contemplated hereby or to exercise Buyer's rights hereunder including, without limitation, to Buyer's counsel and its consultants, and to Buyer's prospective lenders and partners, if any, or as required to comply with any applicable Laws. At Seller's request, Buyer shall provide Seller with copies of all reports and test results relating to Buyer's tests and evaluations of the environmental or physical condition of the Real Property prior to the Closing. Buyer shall obtain all consultants' consent to the foregoing as a part of any retention agreement with the consultant. Seller's rights to such reports and test results relating to the environmental or physical conditions of the Real Property shall survive the Closing and recording of the Deed from Seller to Buyer. Buyer shall bear the costs and expenses with respect to its feasibility studies hereunder, including, but not limited to, all environmental matters and investigations.

6. Buyer's Covenants, Representations, Warranties and Acknowledgments. Buyer hereby represents and warrants to Seller and covenants with Seller as follows:

6.1 Authority. Subject to Section 7.1.6, below, Buyer has the power and authority to enter into and to perform all of Buyer's obligations pursuant to this Agreement, and to purchase the Property on the terms and conditions set forth herein. No consent of any third party is required in order for Buyer to perform any of its obligations hereunder. Buyer will finance the purchase of the Property using Buyer's own funds, and no third party financing shall be required in order for Buyer to consummate its purchase of the Property.

6.2 No conflict. This Agreement and Buyer's purchase of the Property hereunder do not violate any material terms or provisions of any contract to which Buyer is a party.

6.3 Confidentiality and Exclusivity.

6.3.1 Definitions. As used herein, the following terms have the meanings set forth below: (i) the term "Information" shall mean all information relating to the products, business, assets, financial condition or prospects of 3Com which has been or may hereafter be furnished to Buyer; and (ii) the term "Confidential Information" shall mean all Information which 3Com protects against unrestricted disclosure to others and which: (i) if in written or other tangible form, is clearly designated as "Confidential" or "Proprietary"; and (ii) if disclosed orally, is identified as confidential at the time of its disclosure and reduced to a writing designating such Information as "Confidential" which is delivered to Buyer promptly following such oral disclosure. By way of illustration, but not limitation, Confidential Information may include designs, structures, processes, financial information and data regarding suppliers and customers.

6.3.2 Non-Disclosure. Until the Closing, Buyer agrees, with respect to any Confidential Information received by it from 3Com: (i) to hold the Confidential Information in confidence and use it only for the purposes previously stated (i.e. for the purpose of evaluating and effecting the proposed purchase and sale transaction between the parties hereto); (ii) to use the same methods and degree of care to prevent disclosure of the Confidential Information as it uses to prevent disclosure of its own proprietary and confidential information; (iii) not to disclose

any Confidential Information to any third party (other than directors and officers of Buyer, employees of Buyer involved directly with the proposed transaction and counsel and financial advisors to Buyer, all of whom shall be informed of the confidential nature of the Confidential Information), without the prior written consent of 3Com; and (iv) if this Agreement is terminated for any reason, to promptly return the Confidential Information received in any tangible form to 3Com at the request of 3Com and to retain no reproductions, copies, extracts or summaries of any Confidential Information.

6.3.3 Exclusivity. Commencing on the Effective Date and through the date this Agreement is terminated or the parties proceed to Closing, Buyer agrees that it shall not review, tour, offer to purchase or otherwise conduct negotiations or discussions with any party for the possible lease or purchase of real property in Santa Clara, San Mateo and/or Alameda Counties other than the Property which is comparable to the Property.

6.4 Limitations. Buyer shall not be obligated to treat Information as Confidential Information if such Information: (i) was rightfully in Buyer's possession or was rightfully known to Buyer prior to receipt from 3Com; (ii) is independently developed by Buyer, provided that the burden of proof of such independent development shall be on Buyer; (iii) is or becomes publicly known WITHOUT the fault of Buyer; (iv) is or becomes rightfully available to Buyer without confidential restriction from a source not bound by a confidentiality obligation to 3Com; or (v) is required to be disclosed pursuant to court or government action provided, however, that 3Com is given reasonable prior notice of such disclosure. The obligations of confidentiality and other restrictions imposed under this Agreement shall terminate with respect to each item of Confidential Information one (1) year from the date of its delivery to Buyer.

6.5 "AS IS" Purchase. Seller shall deliver the Property at the Closing with the interior of the Buildings in its "AS IS" condition. Except for and subject to the representations and warranties of Seller as are expressly set forth in this Agreement or in the Deed (as hereinafter defined), if any, (a) Buyer acknowledges and agrees that Buyer is acquiring the Property in its "AS IS" condition, WITH ALL FAULTS, IF ANY, AND WITHOUT ANY WARRANTY, EXPRESS OR IMPLIED, and (b) neither Seller nor any agents, representatives, or employees of Seller have made any representations or warranties, direct or indirect, oral or written, express or implied, to Buyer or Buyer's Agents with respect to the Property or its operation, including without limitation the square footage of the Land or the Improvements thereon, the condition of the Property, its fitness for any particular purpose, or its compliance with any laws, Seller expressly disclaims any such representations or warranties and Buyer is not aware of and does not rely upon any such representation or warranty of any other party. Buyer acknowledges that the Feasibility Period will have afforded Buyer an adequate period of time and the opportunity to make such inspections (or have such inspections made by consultants) as it desires of the Property and all factors relevant to its use, and that Buyer has elected to go forward with the purchase of the Property based on such examinations and inspections as Buyer has deemed appropriate to make. Buyer agrees that, except as specifically provided in Section 3.1 of this Agreement, Seller has not made, does not make and specifically disclaims any representations, warranties, covenants, agreements or guaranties of any kind or character whatsoever, whether express or implied, oral or written, past, present or future, concerning the

Property and its operation, including without limitation, (a) the value of or income derived from the Property; (b) the suitability of the Property for Buyer's use, including without limitation any future development of the Property and the availability of utilities necessary to service the Property; (c) the habitability, merchantability, profitability, marketability or fitness for a particular purpose of the Property; (d) the nature, quality or condition of the water, drainage, undershoring, subsurface, soil and geology of the Property; (e) the nature, quality or condition of the interior, exterior and structure of all Improvements, including without limitation the square footage, state (or lack) of repair and absence of latent defects; (f) the compliance of or by the Property or its operation with all applicable law, rules, ordinances or regulations of any applicable governmental authority or entity, including without limitation any and all building codes, Environmental Laws (as defined in Section 6.5(b), below), land use laws and the Americans with Disabilities Act of 1990; (g) the presence or absence of hazardous materials at, on, under or adjacent to the Property; (h) the conformity of the Property with and the status of all zoning requirements, permitting requirements and other entitlements relevant to the use or contemplated use of the Property; and (i) the conformity of the Improvements to any plans or specifications for the Property, including any such plans and specifications included in the Property Documents.

BUYER ACKNOWLEDGES AND AGREES THAT ANY INFORMATION MADE AVAILABLE TO BUYER OR PROVIDED OR TO BE PROVIDED BY OR ON BEHALF OF SELLER WITH RESPECT TO THE PROPERTY WAS OBTAINED FROM A VARIETY OF SOURCES AND THAT NEITHER SELLER NOR ITS AGENTS HAVE MADE ANY INDEPENDENT INVESTIGATION OR VERIFICATION OF SUCH INFORMATION AND MAKES NO REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION EXCEPT AS MAY OTHERWISE BE EXPRESSLY PROVIDED HEREIN. BUYER FURTHER ACKNOWLEDGES AND AGREES THAT TO THE MAXIMUM EXTENT PERMITTED BY LAW, THE SALE OF THE PROPERTY AS PROVIDED FOR HEREIN IS MADE ON AN "AS-IS" CONDITION AND BASIS, WITH ALL FAULTS.

The provisions of this Section 6.4 shall survive the Closing and the delivery of the Deed.

6.6 Release of Claims.

(a) From and after the Closing, Buyer hereby completely releases and forever discharges and covenants not to sue Seller and Seller's affiliates, employees, successors, assigns, heirs, agents, and representatives from and against all claims, liabilities, demands, orders, governmental requests or requirements or directives, judgments, damages, losses and costs (collectively, "Claims") arising from or related to the following: (i) any Hazardous Materials in, on, beneath, discharged from, migrating from, discharged to or migrating to the Real Property, including the soil or groundwater thereof, at any time; (ii) any use, generation, handling, treatment, storage, transportation or disposal of Hazardous Materials at or from the Real Property; and (iii) any of the matters referred to in Section 6.4 above or any other latent or patent defect affecting the Real Property (collectively, the "Released Matters"); provided, however, that subject to the limitations on Buyer's remedies set forth in Section 11.2 hereof the

Released Matters shall not include (x) Claims arising from Hazardous Materials placed at on the Real Property by Seller during the period during which Seller held title to the Property, or (y) Claims arising from any breach of an express representation or warranty by Seller under Section 3.1 hereof. In connection with such waiver and relinquishment, Buyer acknowledges that it is aware that it hereafter may discover Claims or facts in addition to or different from those which it now knows or believes to exist with respect to the Released Matters, but that it is its intention to fully, finally and forever to settle and release all of the Released Matters in accordance with the provisions of this Section 6.5, and the release set forth herein shall be and remain in effect as a full and complete release notwithstanding the discovery or existence of any such additional or different Claims or facts. The foregoing release of Claims shall be binding on Buyer and its successors and assigns and shall survive the Closing.

(b) As used in this Agreement, the term "Hazardous Materials" means any material, waste, chemical or byproduct that is or hereafter is defined or designated under Environmental Laws (as defined below) as a pollutant or as a contaminant, a hazardous or toxic substance, waste or material, or any other unwholesome, hazardous, toxic, or radioactive substance, waste, material, chemical or byproduct, or which is listed, regulated or restricted by any Environmental Law (including without limitation, petroleum hydrocarbons and any distillates or fractions thereof, polychlorinated biphenyls, and asbestos containing materials ("ACM")). As used herein, the term "Environmental Laws" means any applicable federal, state, local or foreign law (including common law), statute, regulation, rule, ordinance, permit, license, order, requirement, agreement or approval, or any determination, judgment, directive or order of any executive or judicial authority at any federal, state or local level (whether now existing or subsequently adopted or promulgated) relating to pollution or the protection of the environment, natural resources, flora, fauna, or public or worker health and safety.

6.7 No Title Warranty. Nothing in this Agreement or in any instrument delivered by Seller to Buyer shall be construed as a warranty or representation by Seller, either express or implied, concerning Seller's title to the Property, and Owner makes no such warranty or representation. Buyer is relying solely upon the Title Report, the Title Policy and Buyer's own investigations respecting Seller's title to the Property.

7. Conditions Precedent.

7.1 Conditions Precedent to Buyer's Obligations. The Closing and Buyer's obligations under this Agreement to purchase the Property shall be subject to the satisfaction, prior to the times prescribed herein, of the following conditions, with Buyer to retain the right to waive, in writing, in whole or in part, any of the following conditions at or prior to the time prescribed herein for approval or disapproval by Buyer, and such waiver may be made by Buyer at or prior to the Closing in Buyer's sole and absolute discretion:

7.1.1 Accuracy of Representation. All of the representations and warranties of Seller contained in this Agreement shall have been true and correct in all material respects when made, and shall be true and correct in all material respects on the date of Closing with the same effect as if made on and as of such date.

7.1.2 Performance. Seller shall have performed, observed and complied with all material covenants, agreements and conditions required by this Agreement to be performed, observed and complied with on its part prior to or as of the Closing.

7.1.3 Closing Date. The Closing shall have occurred on or before the Closing Date (as defined in Section 8.1 hereof).

7.1.4 Documents and Deliveries. All instruments and documents required on Seller's part to effectuate the Closing and the transactions contemplated hereby shall be delivered to Buyer or the Escrow Agent, as required hereby, and shall be in form and substance consistent with the requirements herein.

7.1.5 Title Policy. At the Closing, the Title Company shall have provided to Buyer a standard owner's policy of title insurance (the "Title Policy"). If requested by Buyer, the Title Policy shall include "extended" coverage and/or such additional endorsements (to be obtained at Buyer's sole expense) as Buyer has requested during the Title Objection Period and that have been agreed upon before expiration of the Title Objection Period. The Title Policy shall be dated as of the Closing and shall insure Buyer's fee simple title to the Real Property in the amount of the Purchase Price, subject only to the Permitted Exceptions.

7.1.6 Due Authorization. Buyer's agreement to purchase the Property from Seller is conditioned upon Buyer's obtaining approval of this Agreement by Buyer's Board of Directors, on or before the date which is ten (10) days after the Effective Date. In the event such approval is not obtained at such time, Buyer shall immediately notify Seller in writing, and this Agreement shall terminate and the parties shall have no further rights and obligations hereunder excepting only those which by their express terms survive the termination of this Agreement.

7.2 Conditions Precedent to Seller's Obligations. The Closing and Seller's obligations under this Agreement to sell the Property shall be subject to the satisfaction, prior to the times prescribed herein, of the following conditions, with Seller to retain the right to waive, in writing, in whole or in part, any of the following conditions at or prior to the time prescribed herein for approval or disapproval by Seller:

7.2.1 Accuracy of Representations. All of the representations and warranties of Buyer contained in this Agreement shall have been true and correct in all material respects when made, and shall be true and correct in all material respects on the date of Closing with the same effect as if made on and as of such date.

7.2.2 Performance. Buyer shall have performed, observed and complied with all material covenants, agreements and conditions required by this Agreement to be performed, observed and complied with on its part prior to or as of the Closing hereunder.

7.2.3 Closing Date. The Closing shall have occurred on or before the Closing Date (as defined in Section 8.1 hereof).

7.2.4 Documents and Deliveries. All instruments and documents required on Buyer's part to effectuate the Closing and the transactions contemplated hereby shall be delivered to Seller or the Escrow Agent, as required hereby, shall be in form and substance consistent with the requirements herein, and all funds to be deposited into the Escrow pursuant hereto shall have been timely deposited by Buyer.

7.2.5 Due Authorization. Seller's agreement to sell the Property to Buyer is conditioned upon Seller's obtaining approval of this Agreement by Seller's Board of Directors, on or before the date which is ten (10) days after the Effective Date. In the event such approval is not obtained at such time, Seller shall immediately notify Buyer in writing, and this Agreement shall terminate and the parties shall have no further rights and obligations hereunder excepting only those which by their express terms survive the termination of this Agreement.

7.3 Failure of Conditions.

7.3.1 Failure of Conditions Benefiting Buyer. If any material conditions set forth in Section 7.1 hereof are not satisfied or waived by Buyer in writing at or prior to the times prescribed therein, then Buyer shall have the option, in addition to its other rights and remedies hereunder, to decline to proceed with the Closing until such conditions are satisfied or, at Buyer's option, to terminate this Agreement, and each party shall maintain its remedies against the other party for any default by such party as provided in and limited by Section 11 of this Agreement. If Buyer believes that any condition to Closing has not been satisfied, then Buyer immediately shall notify Seller thereof. Buyer acknowledges that certain conditions precedent set forth in Section 7.1 hereof may not be under Seller's control, and the mere failure of a condition precedent to be satisfied shall not by itself be deemed to constitute a default by Seller hereunder. In the event this Agreement is terminated due to the failure of any of Buyer's conditions precedent, all obligations, liabilities and rights of the parties hereunder shall terminate excepting any obligations which expressly survive the Closing or termination hereof, and Buyer shall promptly return to Seller all documentation delivered by Seller to Buyer and shall provide copies to Seller of all reports and studies obtained or developed by Buyer with respect to the Property, at no cost to Seller.

7.3.2 Failure of Conditions Benefiting Seller. If any material conditions set forth in Section 7.2 hereof are not satisfied or waived by Seller in writing at or prior to the times prescribed therein, then Seller shall have the option, in addition to its other rights and remedies hereunder, to decline to proceed with the Closing until such conditions are satisfied or, at Seller's option, to terminate this Agreement, and each party shall maintain its remedies against the other party for any default by such party as provided in and limited by Section 11 of this Agreement. If Seller believes that any condition to Closing has not been satisfied, then Seller immediately shall notify Buyer thereof. Seller acknowledges that certain conditions precedent set forth in Section 7.2 hereof may not be under Buyer's control, and the mere failure of a condition precedent to be satisfied shall not by itself be deemed to constitute a default by Buyer hereunder. In the event this Agreement is terminated due to the failure of any of Seller's conditions precedent, all obligations, liabilities and rights of the parties hereunder shall terminate excepting any obligations which expressly survive the Closing or termination hereof, and Buyer

shall promptly return to Seller all documentation delivered by Seller to Buyer and shall provide copies to Seller of all reports and studies obtained or developed by Buyer with respect to the Property, at no cost to Seller.

8. Closing; Deliveries.

8.1 Timing of Closing. The consummation of the transaction contemplated hereby (the "Closing") shall be held on October 31, 2003 (the "Closing Date"), at 9:00 o'clock a.m. at the offices of the Title Company (or on such earlier date and time, at such other location, as shall be mutually agreed to by Seller and Buyer). At the Closing, Seller and Buyer shall have made the Closing deliveries set forth in, respectively, Sections 8.2, 8.3 and 8.4, the performance of which obligations shall be concurrent conditions. Buyer shall have the right to move the Closing to an earlier date by giving Seller at least three (3) Working Days advance notice.

8.2 Seller's Closing Deposits. On or prior to the Closing Date, Seller shall deliver or cause to be delivered into the Escrow the following:

8.2.1 A duly executed and acknowledged grant deed, in substantially the form attached hereto as EXHIBIT "B" (the "Deed"), conveying the Real Property to Buyer subject only to the Permitted Exceptions.

8.2.2 A duly executed original Bill of Sale for the Personal Property to be transferred to Buyer, in the form attached hereto as EXHIBIT "C" (the "Bill of Sale")

8.2.3 Two (2) duly executed original counterparts of an assignment assigning to Buyer all Seller's right, title and interest in the Magma Lease, in the form attached hereto as EXHIBIT "D" (the "Assignment of Lease").

8.2.4 Two duly executed original counterparts of an assignment assigning to Buyer all Seller's right, title and interest in the Assigned Contracts and the Intangibles, in the form of EXHIBIT "E" hereto (the "Assignment of Intangibles").

8.2.5 Originals or copies of the Magma Lease and Assigned Contracts to the extent not previously delivered to Buyer.

8.2.6 An estoppel certificate executed by Magma, in substantially the form required under the Magma Lease, dated no earlier than forty five (45) days prior to the Closing.

8.2.7 A certification and affidavit, duly executed by Seller, as required by the Foreign Investment in Real Property Tax Act of 1980, as amended, and California Withholding form 593.

8.2.8 Title affidavits and indemnities and such other documents reasonably required by the Title Company to issue the Title Policy and endorsements required by Buyer.

8.2.9 A certificate executed by Seller remaking as of the Closing Date the Seller's representations and warranties in Section 3.1.

8.2.10 The original LC (as defined in Section 9.1.4, below).

8.2.11 All other instruments and documents, affidavits reasonably required to effectuate this Agreement and the transactions contemplated thereby.

8.3 Buyer's Closing Deposits. On or prior to the Closing Date, Buyer shall deposit into the Escrow for delivery to Seller at the Closing the following:

8.3.1 A wire transfer in the amount required under Section 2 hereof (subject to the adjustments and prorations provided for in this Agreement) for delivery to Seller or to the order or account of Seller or to such other person or persons as Seller shall designate in writing.

8.3.2 Two (2) original counterparts of the Assignment of Lease, duly executed by Buyer.

8.3.3 Two (2) original counterparts of the Assignment of Intangibles, duly executed by Buyer.

8.3.4 A certificate executed by Buyer reaffirming the Buyer's representations and warranties in Article 6.

8.3.5 Such other documents, affidavits and indemnities as reasonably may be required by the Title Company or the Escrow Agent to consummate the transactions contemplated hereby.

8.4 Joint Deposits. On or prior to the Closing Date, Buyer and Seller each shall deposit into the Escrow the following:

8.4.1 A closing statement ("Closing Statement") executed by Seller and Buyer.

8.4.2 A notice letter to Magma (the "Tenant") in the form of EXHIBIT "F" hereto.

9. Apportionments; Taxes; Expenses.

9.1 Apportionments and Prorations. At the Closing the following items and any other items customarily prorated in similar transactions shall be adjusted and apportioned by credits to the appropriate party on the Closing Statement as of the end of the day (the "Adjustment Date") immediately prior to the date of Closing (unless otherwise specified below), it being hereby acknowledged and agreed, that all items of income and expense for the period prior to the end of the Adjustment Date shall be for the account of Seller and all items of income and expense for the period following the Adjustment Date shall be for the account of Buyer:

9.1.1 Taxes and Other Expenses. The parties agree that as between Buyer and Seller, general real estate taxes, personal property taxes and ad valorem taxes (collectively, "Taxes"), as well as utility, maintenance and other operating expenses (collectively with taxes, "Property Expenses") for periods prior to the Closing shall be Seller's sole responsibility, and Property Expenses for the period from and after the Closing shall be Buyer's sole responsibility, subject to the following provisions of this Section 9.1.1. If and to the extent that the final amounts of any Property Expenses are unavailable at the Closing (including, but not limited to, utility charges for which final meter readings cannot be made), Seller and Buyer shall adjust the same based upon a reasonable estimate of that item and a readjustment thereof as of the Adjustment Date will be made as soon as the final amounts are ascertainable, with the party owing sums following such post-closing adjustments paying same to the other within ten days following such readjustment; provided, however, that with respect to all Property Expenses other than Taxes, the parties agree to reconcile such amounts within ninety (90) days after the Closing, and provided further, that the parties shall make no such post-closing adjustment if the aggregate amount of such adjustments is less than \$500. Notwithstanding the foregoing, nothing herein shall be deemed to assign to Buyer any right of Seller to appeal or apply for a reduction in Taxes for periods attributable prior to the Closing, and Seller shall be entitled to pursue any and all such appeals after the Closing at its expense, and Buyer expressly disclaims any interest whatsoever in any tax reductions or credits obtained by Seller in connection therewith. In the event any such appeal or application by either party results in a refund to Buyer of Taxes attributable to the period before Closing, then Buyer shall pay such amounts to Seller promptly after receipt, reduced by a percentage of Buyer's expenses in connection with such appeal or application equal to the percentage Seller's portion of such refund bears to the entire Tax refund paid to Buyer. In the event any such appeal or application by either party results in a refund to Seller of Taxes attributable to the period after Closing, then Seller shall pay such amounts to Buyer promptly after receipt, reduced by a percentage of Seller's expenses in connection with such appeal or application equal to the percentage Buyer's portion of such refund bears to the entire Tax refund paid to Seller.

9.1.2 Assigned Contracts. To the extent there are any unpaid monetary obligations of Seller with respect to any of the Assigned Contracts as of the Closing Date, such obligations shall be included within the Property Expenses and apportioned between Buyer and Seller as provided in Section 9.1.1, above.

9.1.3 Rent. Rent under the Magma Lease shall be apportioned as of the Closing, to the extent such rent has actually been collected as of such date. Seller agrees to credit Buyer at Closing for one (1) month's Base Rent previously collected by Seller and applicable to the first calendar month of the lease term occurring after the "Free Rent Period", as defined in the Magma Lease, so long as the Closing occurs prior to such Free Rent Period. Notwithstanding the foregoing, all other components of "Rent" under the Magma Lease shall be apportioned as of the Closing. If Seller collects or receives any rent payments which properly belong to Buyer, Seller shall immediately pay such amounts to Buyer. If Buyer collects or receives any rent payments which properly belong to Seller, Buyer shall immediately pay such amounts to Seller.

9.1.4 Security Deposits. Buyer and Seller agree and acknowledge that the only security deposit held for a Lease on the Property is a \$100,000 deposit under the Magma Lease, held by Seller in the form of a letter of credit (the "LC"). Seller shall deliver the original LC to Buyer through Escrow at Closing, and shall cooperate with Buyer and shall make commercially reasonable efforts to cause the transfer to Buyer of the beneficiary's rights under the LC, provided that if Seller fails to achieve the transfer of such letters of credit, Seller shall not be in default hereunder, and in no event shall such failure delay or prevent the Closing. Seller's obligations under this Section 9.1.4 shall survive the Closing.

9.1.5 Other Tenant Charges. Notwithstanding Section 9.1.1 and Section 9.1.2 above, any amounts payable by the Tenants under the Magma Lease for taxes, common area expenses, operating expenses, or additional charges of any other nature relating to the Property, if any, shall be prorated as of the Closing ("Expense Reimbursements"), with Seller retaining rights to Expense Reimbursements relating to periods before the Closing and Buyer being entitled to Expense Reimbursements relating to periods after the Closing. If the Expense Reimbursements are required to be reconciled by the landlord at the end of the calendar year or other specified time period, Buyer shall perform such reconciliation as and when required and shall deliver a copy thereof to Seller. In such event, Seller shall reimburse Buyer, or Buyer shall reimburse Seller, as appropriate, for any amounts that such party is responsible to pay or is entitled to receive as the result of underpayments or overpayments of Expense Reimbursements.

9.1.6 Lease Commissions and Allowances. Seller shall remain liable for the obligation to pay for all leasing commissions payable in connection with the Magma Lease (and any other leases entered into by Seller pursuant to the terms of this Agreement) pursuant to the terms of such lease and any commission agreements binding on Seller with respect thereto; provided, however, that Seller shall not be liable to Buyer, nor shall Buyer receive a credit at Closing, for any free rent period under the Magma Lease (or any other leases entered into by Seller pursuant to the terms of this Agreement) to the extent such period occurs after the Closing.

9.2 Expenses. The expenses and costs of the transactions contemplated by this Agreement shall be borne by the parties as follows, all of which obligations shall survive the Closing:

9.2.1 Advisors. Except as otherwise provided in this Agreement, each party will pay all its own expenses incurred in connection with this Agreement and the transactions contemplated hereby, including, without limitation, (a) all costs and expenses stated herein to be borne by such party, and (b) all of its own respective accounting, legal and appraisal fees.

9.2.2 Seller's Expenses. Provided the Closing occurs, Seller shall pay at the Closing (a) the cost of a standard CLTA Title Policy, and (b) One Hundred percent (100%) of all State of California and County of Santa Clara real estate transfer taxes.

9.2.3 Buyer's Expenses. Buyer shall pay all costs, expenses and fees incurred in connection with its "due diligence" activities. Provided the Closing occurs, Buyer

shall pay at the Closing all premiums associated with any ALTA extended coverage for the owner's Title Policy, together with the cost of all endorsements requested by Buyer.

9.2.4 Escrow and Other Expenses. The cost of all escrow and recording fees shall be shared equally by Buyer and Seller. All other customary and usual closing costs, if any, shall be borne by the parties in accordance with the custom of Santa Clara County, as determined by the Title Company.

9.3 Survival. The obligations of the parties pursuant to this Section 9 shall survive the Closing and shall not merge into any documents of conveyance delivered at Closing.

10. Casualty; Condemnation; Insurance.

10.1 Threshold Amount for Termination Option. If, at any time prior to the date of Closing, Improvements having a replacement value of \$500,000 or more are destroyed or damaged as a result of fire or any other casualty whatsoever, or as a result of the fact that any portion of the Real Property is condemned by eminent domain proceedings by any public authority, then, at Buyer's option, this Agreement shall terminate, and the Deposit shall be returned to Buyer, and except as expressly set forth herein, neither party shall have any further liability or obligation to the other hereunder. Buyer shall exercise such termination right, if at all, within fifteen (15) days after receipt of written notice from Seller advising Buyer of such casualty or condemnation.

10.2 Allocation of Compensation. If there is any casualty or taking as above set forth and if (a) the casualty or condemnation involves less than \$500,000, or (b) Buyer elects not to terminate this Agreement as provided above, then (1) in the case of condemnation, all eminent domain proceeds paid or payable to Seller shall belong to Buyer and shall be paid over and assigned to Buyer at Closing; and (2) in the case of a casualty, Seller shall assign to Buyer all rights to any insurance proceeds paid or payable under the applicable insurance policy(ies) and Buyer shall receive a credit at Closing in the amount of the applicable deductible or co-payment. In no event shall Seller have any obligation to restore any damage to or loss of the Real Property caused by or arising from casualty or condemnation, nor shall Buyer have the right to terminate this Agreement in such a case except as set forth in Section 10.1 hereof.

11. Remedies for Buyer's Default and Seller's Default.

11.1 BUYER'S DEFAULT. FROM AND AFTER THE EXPIRATION OF THE FEASIBILITY PERIOD, IN THE EVENT THE SALE OF THE PROPERTY AS CONTEMPLATED HEREUNDER IS NOT CONSUMMATED DUE TO A DEFAULT OF THIS AGREEMENT BY BUYER, THEN SELLER SHALL, AS ITS SOLE AND EXCLUSIVE REMEDY THEREFOR, HAVE THE RIGHT TO TERMINATE THIS AGREEMENT, IN WHICH CASE IT SHALL BE ENTITLED TO RECEIVE THE DEPOSIT, INCLUDING ALL ACCRUED INTEREST THEREON, AS LIQUIDATED DAMAGES (AND NOT AS A PENALTY) IN LIEU OF, AND AS FULL COMPENSATION FOR, ALL OTHER RIGHTS OR CLAIMS OF SELLER AGAINST BUYER BY REASON OF SUCH DEFAULT. UPON SUCH DEFAULT BY BUYER, THIS AGREEMENT SHALL TERMINATE AND THE PARTIES

SHALL BE RELIEVED OF ALL FURTHER OBLIGATIONS AND LIABILITIES HEREUNDER, EXCEPT AS EXPRESSLY SET FORTH HEREIN. BUYER AND SELLER ACKNOWLEDGE THAT THE DAMAGES TO SELLER RESULTING FROM BUYER'S BREACH WOULD BE DIFFICULT, IF NOT IMPOSSIBLE TO ASCERTAIN WITH ANY ACCURACY, AND THAT THE LIQUIDATED DAMAGE AMOUNT SET FORTH IN THIS SECTION 11.1 REPRESENTS BOTH PARTIES' EFFORTS TO APPROXIMATE SUCH POTENTIAL DAMAGES AND IS REASONABLE UNDER THE CIRCUMSTANCES EXISTING ON THE EFFECTIVE DATE. NOTHING HEREIN SHALL LIMIT SELLER'S REMEDIES WITH RESPECT TO ANY BREACH OF ANY COVENANT OF BUYER TO INDEMNIFY, DEFEND, PROTECT OR HOLD HARMLESS SELLER OR TO REIMBURSE SELLER FOR ANY SUMS OTHERWISE PAYABLE TO SELLER (INCLUDING ATTORNEYS' FEES AND COSTS), OR TO PROVIDE CERTAIN DOCUMENTS TO SELLER AFTER TERMINATION AS PROVIDED HEREIN, TO THE EXTENT SUCH COVENANT SURVIVES THE TERMINATION OF THIS AGREEMENT OR THE CLOSING UNDER THE EXPRESS TERMS OF THIS AGREEMENT. BUYER AND SELLER SPECIFICALLY ACKNOWLEDGE THEIR AGREEMENT TO THE FOREGOING LIQUIDATED DAMAGES PROVISION BY INITIALING THIS PARAGRAPH IN THE APPROPRIATE SPACES PROVIDED BELOW:

Buyer's Initials _____

Seller's Initials _____

11.2 Seller's Default. In the event that the Closing does not occur as a result of a breach of any of Seller's covenants, representations, warranties or other obligations under this Agreement, and if such breach is not cured within five (5) days after Seller's receipt of written notice specifying such breach, then Buyer shall have as its sole and exclusive remedy the right to either (a) terminate this Agreement and to receive a return of the Deposit and (if Buyer so elects) to file an action for Buyer's actual damages to recover Buyer's out-of-pocket costs incurred in connection with the transactions contemplated by this Agreement (but in no event any punitive, consequential, or special damages) in an amount not to exceed \$1,000,000, or (b) seek the remedy of specific performance to enforce Seller's obligation to convey title to the Property to Buyer in accordance with the terms and conditions of this Agreement, it being understood and agreed, however, that the remedy of specific performance shall not be available to enforce any other obligation of Seller hereunder. Buyer hereby waives any right or remedy available at law or in equity to seek damages in excess of \$1,000,000 in the event of Seller's breach of any covenant, representation, warranty or other obligation hereunder. Buyer shall be deemed to have elected to seek the remedy referred to in clause (a) of this Section 11.2 unless Buyer files suit for specific performance within 30 days after the later of (i) the scheduled Closing Date, or (ii) the date Seller's cure period has expired.

12. Further Assurances. Seller and Buyer each agrees to perform such other acts, and to execute, acknowledge and deliver, prior to, at or subsequent to the Closing, such other customary instruments, documents and other materials as the other may reasonably request and as shall be necessary in order to effect the consummation of the transactions contemplated hereby.

13. Possession. Subject to the Magma Lease, possession of the Property shall be surrendered by Seller to Buyer at Closing. Notwithstanding the preceding sentence, Buyer acknowledges that Seller shall have a right of access, for one hundred twenty (120) days after Closing (the "Transition Period"), in and to the following portions of the Property: (i) PBX room in Building 4, (ii) network room located in Building 3, both of which are shown on EXHIBIT "G", attached hereto, and (iii) all telecommunication lines and conduit located in Building 3 and running from Building 3 to the Property line (collectively the "Transition Facilities"). Buyer agrees that, during the Transition Period, it shall make commercially reasonable efforts to provide continuous utilities and services to the Transition Facilities in connection with Seller's transition of its operations out of the Improvements, including without limitation electricity, 24 hour HVAC (for the indoor Transition Facilities), backup generator and UPS service (collectively, "Services"), at no cost to Seller. Seller agrees that during the Transition Period, its right to use and access the Transition Facilities shall be subject to the following conditions:

13.1 Buyer shall not be liable to Seller for any loss, injury or other damage to Seller arising from or in connection with any interruption or termination of the Services from any cause, and Seller hereby waives all such claims against Buyer except to the extent caused by Buyer's gross negligence or willful misconduct. Notwithstanding any other provision of this Agreement to the contrary, in no event shall Buyer be liable to Seller for any indirect, punitive or consequential damages in connection with Seller's use of the Transition Facilities.

13.2 Seller shall make commercially reasonable efforts not to interfere with the operations of Buyer or any other tenant or occupant of the Property in connection with Seller's use of the Transition Facilities.

13.3 During the Transition Period, Seller shall continue to maintain its liability and property insurance covering the Transition Facilities in the same form as such facilities have been insured prior to the Closing. Buyer and Seller agree that their respective property loss risks shall be borne by their own insurance carriers, and agree to look solely to, and seek recovery only from, their respective insurance carriers in the event of a property loss to the extent that such coverage is carried by such party. The parties each hereby waive all rights and claims against each other for such losses to the extent of such insurance, and waive all rights of subrogation of their respective insurers. The parties agree that their respective insurance policies are now, or shall be, endorsed such that the waiver of subrogation shall not affect the right of the insured to recover thereunder.

The terms and conditions of this Article 13 shall survive the Closing.

14. Notices. All notices and other communications provided for herein shall be in writing and shall be sent to the address set forth below (or such other address as a party may hereafter designate for itself by notice to the other parties as required hereby) of the party for whom such notice or communication is intended:

If to Seller:
3Com Corporation
5500 Great America Parkway
Santa Clara, CA 95052
Attention.: Real Estate Department
Fax: (408) 326-5718

with a copy to each of:

3Com Corporation
5500 Great America Parkway
Santa Clara, CA 95052
Attention.: Legal Department
Fax: (408) 326-5001

Gray Cary Ware & Freidenrich LLP
2000 University Avenue
East Palo Alto, CA 94303
Attention.: Austin Stewart, Esq.
Fax: (650) 833-2001

and:

If to Buyer:

Marvell Semiconductor, Inc.
700 First Avenue
Sunnyvale, CA 94089
Attention: Matthew Gloss
Fax: (408) 752-9046

with a copy to:

Shartsis, Friese and Ginsburg LLP
One Maritime Plaza - 18th Floor
San Francisco, CA 94111
Attention: Mary Kay Kennedy, Esq.
Fax: (415) 421-2922

and:

If to Escrow Agent:

First American Title Guaranty Company
1737 North First Street, Suite 100
San Jose, CA 95112
Attention: Rob Tidd
Fax: (408) 451-7836

Any such notice or communication shall be sufficient if sent by registered or certified mail, return receipt requested, postage prepaid; by hand delivery; by overnight courier service; or by confirmed facsimile transmission. Any such notice or communication shall be effective when received by the addressee or upon refusal of such delivery, or, in the case of facsimile transmission, as of the date of the facsimile transmission, provided that any notice alleging a default by the other party must be sent by both facsimile transmission and by any of the other methods specified herein.

15. Brokers. Pursuant to a separate agreement between Seller and Cushman & Wakefield of California, Inc. ("Seller's Broker"), if and when the Closing occurs and otherwise subject to such separate agreement, Seller shall be responsible for a brokerage commission payable to Seller's Broker. Buyer represents that Buyer has not retained any broker, finder or other party in connection with the purchase and sale of the Property or any other matter contemplated by this Agreement other than CPS, A Commercial Real Estate Company, Inc. ("Buyer's Broker"). Seller agrees to pay Seller's Broker pursuant to its existing agreement, and Seller shall also pay a commission to Buyer's Broker pursuant to a separate agreement between Seller and Buyer's Broker. Nothing in this Agreement shall modify Seller's agreement with Seller's Broker or create any dual agency by Buyer's Broker. Except as referred to in the preceding provisions of this Section 15, Buyer and Seller each represents to the other that it has not dealt with any broker or agent in connection with this transaction. Each party hereby indemnifies and holds harmless the other party from all loss, cost and expense (including reasonable attorneys' fees) arising out of a breach of its representation or undertaking set forth in this Section 15. The provisions of this Section 15 shall survive the Closing or the termination of this Agreement.

16. Escrow Agent. The Escrow Agent shall hold those Escrow deliveries as contemplated by Section 8 of this Agreement and conduct the Closing in accordance with the terms and provisions of the escrow instructions to be provided to the Escrow Agent by the parties hereto prior to Closing.

17. Fitness Center. For the period ending five (5) years following the Closing, Buyer shall permit Seller's employees (up to a maximum of 125 employees at any given time) the continued right to use the Fitness Center located at the Real Property; provided, however, that such rights shall be personal to 3Com, and shall only be available to 3Com employees working in Santa Clara County. Such use by Seller's employees shall be permitted subject to payment of a monthly membership charge not to exceed Thirty Dollars (\$30.00) per month and execution of any reasonable waiver form requested by Buyer or its agents. Buyer also reserves the right to (i) restrict the hours of usage for Seller's employees, so long as such use is available from 6 a.m. to 9 p.m., Monday through Friday, (ii) to impose reasonable rules and regulations, so long as the

same are consistently applied in a non-discriminatory manner, and (iii) discontinue operating any Fitness Center altogether. The provisions of this Section 17 shall survive the Closing and shall be binding on Seller, Buyer and their respective successors and assigns.

18. California Disclosure Report/Wetlands Disclosure. Seller acknowledges that the Disclosure Statutes (hereinafter defined) provide that a seller of real property must make certain disclosures regarding certain natural hazards potentially affecting the property, as more particularly provided therein. As used in this Agreement, "Disclosure Statutes" means, collectively, California Government Code Sections 8589.3, 8589.4 and 51183.5, California Public Resources Code Sections 2621.9, 2694 and 4136 and any other California statutes that require Seller to make disclosures concerning the Property. Prior to the expiration of the Feasibility Period, Seller will deliver to Buyer a Natural Hazard Disclosure Report for the Property in accordance with the foregoing statutes (the "Report"). Buyer hereby agrees as follows with respect to the Disclosure Statutes and the Report: (i) that the delivery of the Report to Buyer as provided above shall be deemed to satisfy all obligations and requirements of Seller under the Disclosure Statutes; (ii) that Seller shall not be liable for any error or inaccuracy in, or omission from, the information in the Report; (iii) that the Report was provided by Seller for purposes of complying with the Disclosure Statutes and shall not be deemed to constitute a representation or warranty by Seller as to the presence or absence in, at or around the Property of the conditions that are the subject of the Disclosure Statutes; and (iv) the Report is for Seller and Buyer only and is not for the benefit of, or to be used for any purpose by, any other party, including, without limitation, insurance companies, lenders, or governmental agencies. In addition, Seller hereby discloses to Buyer that a portion of the Land has been designated as a protected wetlands area. Buyer agrees that Seller has made no representation or warranty with respect to such portions of the Property, and agrees to satisfy itself during the Feasibility Period that the existence of a designated wetlands area, together with jurisdiction over such areas by various State and Federal governmental agencies, will not adversely affect Buyer's intended use, development or disposition of the Property.

19. Miscellaneous.

19.1 Assignability. Buyer shall not assign its rights under this Agreement without Seller's prior written consent. Any assignee of Buyer shall expressly assume all of the obligations of Buyer under this Agreement, and any such assignment shall not release Buyer from any of its obligations hereunder. Notwithstanding the foregoing, Buyer shall have the right to assign all of its rights and obligations under this Agreement to any entity wholly owned by Buyer, and to cause such entity to take title to the Property at the Closing, upon written notice to Seller but without the requirement of obtaining Seller's consent, and in such event, no such assignment shall operate to release Buyer from any of its obligations under this Agreement.

19.2 Governing Law; Parties in Interest. This Agreement shall be governed by the law of the State of California (without regard to its conflicts of laws principles) and, subject to Section 19.1 hereof, shall bind and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, assigns and personal representatives.

19.3 Recording. Neither this Agreement nor any notice or memorandum hereof shall be recorded in any public record. A violation of this prohibition shall constitute a material breach of this Agreement.

19.4 Time of the Essence. Time is of the essence of this Agreement.

19.5 Headings. The headings preceding the text of the sections and subsections hereof are inserted solely for convenience of reference and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

19.6 Counterparts. This Agreement may be executed simultaneously in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19.7 Schedules and Exhibits. All Schedules and Exhibits which are referred to herein and which are attached hereto or bound separately and initialed by the parties are expressly made and constitute a part of this Agreement. Such Schedules and Exhibits consist of the following:

Exhibit A:	Legal Description of Real Property
Exhibit B:	Grant Deed
Exhibit C:	Bill of Sale
Exhibit D:	Assignment of Lease
Exhibit E:	Assignment of Intangibles
Exhibit F:	Tenant Notice Letter
Exhibit G:	Transition Facilities
Schedule A.(3):	Excluded Personal Property

19.8 Survival. Unless otherwise expressly stated in this Agreement, the warranties, representations and covenants of Seller and Buyer shall terminate as of the Closing and shall be deemed to have merged with the Deed.

19.9 Entire Agreement; Amendments. This Agreement and the Exhibits hereto set forth all of the promises, covenants, agreements, conditions and undertakings between the parties hereto with respect to the subject matter hereof, and supersede all prior and contemporaneous letters of intent, agreements and understandings, inducements or conditions, express or implied, oral or written, except as contained herein. This Agreement may not be changed orally but only by an agreement in writing, duly executed by or on behalf of the party or parties against whom enforcement of any waiver, change, modification, consent or discharge is sought.

19.10 Attorneys' Fees. If there is any legal action or proceeding between Seller and Buyer arising from or based upon this Agreement, the unsuccessful party to such action or proceeding shall pay to the prevailing party all costs and expenses, including reasonable attorneys' fees and disbursements incurred by the prevailing party in such action or proceeding

and in any appeal in connection therewith, and such costs, expenses, attorneys' fees and disbursements shall be included in and as part of such judgment.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

SELLER:

3COM CORPORATION,
a Delaware corporation

By: _____

Its: _____

BUYER:

MARVELL SEMICONDUCTOR, INC.,
a California corporation

By: _____

Its: _____

EXHIBIT A
DESCRIPTION OF THE LAND
30

EXHIBIT B

GRANT DEED

Recorded at the Request of and
When Recorded, Return and
Mail Tax Statements to:

Marvell Semiconductor, Inc.
700 First Avenue
Sunnyvale, CA 94089
Attn: _____

GRANT DEED

For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, 3COM CORPORATION, a Delaware corporation ("Grantor") hereby grants to MARVELL SEMICONDUCTOR, INC., a California corporation ("Grantee") that certain real property located in the City and County of Santa Clara, California, more particularly described in EXHIBIT "A" attached hereto and incorporated herein by this reference ("Property").

The conveyance by Grantor to Grantee pursuant to this Grant Deed is subject to: (i) a lien securing payment of real estate taxes and assessments not yet due and payable; and (ii) all covenants, conditions, easements, restrictions, liens, encumbrances and other exceptions of record as of the date hereof.

IN WITNESS WHEREOF, Grantor has executed this Grant Deed this ____ day of October, 2003.

"Grantor"

3COM CORPORATION, a
Delaware corporation

By: _____
Its: _____

[Signature must be Acknowledged]

EXHIBIT C

BILL OF SALE

For good and valuable consideration, the receipt of which is hereby acknowledged, 3COM CORPORATION, a Delaware corporation ("Seller"), does hereby sell, transfer, and convey, without representation or warranty of any kind, to MARVELL SEMICONDUCTOR, INC., a California corporation ("Buyer"), all of Seller's right, title and interest in and to certain personal property as described and as limited more particularly on EXHIBIT "A" hereto and used in connection with that certain real property described in EXHIBIT "B" attached hereto.

This Bill of Sale may be executed in counterparts, which taken together, shall constitute one and the same agreement.

Dated this __ day of _____, 2003.

SELLER:

3COM CORPORATION,
a Delaware corporation

By: _____

Its: _____

BUYER:

MARVELL SEMICONDUCTOR, INC.,
a California corporation

By: _____

Its: _____

EXHIBIT "A"

TO

BILL OF SALE

PERSONAL PROPERTY:

See attached descriptions captioned "Trailer Inventory," "Cube Furniture,"
"Ancillary Furniture," "Building 1 - 5 & Misc.," and "Magma Furniture &
Equipment - Building 6"

EXHIBIT D

ASSIGNMENT OF LEASE

THIS ASSIGNMENT OF LEASE ("Assignment of Lease") is dated and effective as of this ____ day of October, 2003, and is made by and between 3COM CORPORATION, a Delaware corporation ("Assignor"), and MARVELL SEMICONDUCTOR, INC., a California corporation ("Assignee").

RECITALS

This Assignment of Lease is made with reference to the following facts:

A. Concurrently with this Assignment, subject to that certain Purchase and Sale Agreement dated August 15, 2003 (the "Agreement"), Assignor is selling to Assignee, and Assignee is purchasing from Assignor, that real property and related improvements, fixtures and personal property comprising that certain Building commonly known as 5400-5460 Bayfront Plaza, located in City and County of Santa Clara, California (the "Property").

B. In connection with such purchase and sale, Assignor desires to assign and delegate to Assignee, and Assignee desires to assume, all of Assignor's right, title, interest, duties and obligations in, to and under that certain Office Lease dated June 19, 2003, between Seller and Magma Design Automation, Inc. (the "Lease").

NOW, THEREFORE, in consideration of the purchase price paid by Assignee to Assignor for the Property and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee agree as follows:

1. Assignment. Assignor hereby assigns and delegates to Assignee all of Assignor's right, title, interest, duties and obligations in, to and under the Lease.

2. Assumption. Assignee hereby accepts the foregoing assignment from Assignor and hereby assumes all of the Assignor's obligations, duties, responsibilities and liabilities under the Lease, and Assignee agrees to pay, perform and discharge, when due, all of the duties and obligations on the part of Assignor to be paid, performed or discharged under the Lease attributable to the period from and after the date hereof. Notwithstanding the foregoing, Assignor agrees to pay, perform and discharge when due, all of the duties and obligations on the part of Assignor to be paid, performed or discharged under the Lease attributable to the period prior to the date hereof.

3. Attorneys Fees. If this Assignment of Lease or the transaction contemplated herein gives rise to a lawsuit, arbitration or other legal proceeding between the parties hereto, the prevailing party shall be entitled to recover its costs and reasonable attorneys' fees in addition to any other judgment of the court or arbitrator(s).

IN WITNESS WHEREOF, the parties hereto have executed this Assignment of Lease as of the date first above written.

ASSIGNOR:

3COM CORPORATION,
a Delaware corporation

By: _____

Its: _____

ASSIGNEE:

MARVELL SEMICONDUCTOR, INC.,
a California corporation

By: _____

Its: _____

EXHIBIT E

ASSIGNMENT OF CONTRACTS
AND INTANGIBLE PROPERTY

THIS ASSIGNMENT OF CONTRACTS AND INTANGIBLE PROPERTY ("Assignment of Intangibles") is dated and effective as of this ____ day of October, 2003, and is made by and between 3COM CORPORATION, a Delaware corporation ("Assignor"), and MARVELL SEMICONDUCTOR, INC., a California corporation ("Assignee").

RECITALS

This Assignment of Intangibles is made with reference to the following facts:

A. Concurrently with this Assignment, subject to that certain Purchase and Sale Agreement dated August 15, 2003 (the "Agreement"), Assignor is selling to Assignee, and Assignee is purchasing from Assignor, that real property and related improvements, fixtures and personal property comprising that certain Building commonly known as 5400-5460 Bayfront Plaza, located in City and County of Santa Clara, California (the "Property").

B. In connection with such purchase and sale, Assignor desires to assign and delegate to Assignee, and Assignee desires to assume, all of Assignor's right, title, interest, duties and obligations in, to and under (i) all Assigned Contracts (as defined in Section 4.1 of the Agreement); (ii) all assignable existing warranties and guaranties issued to or held by Seller in connection with the Land or the Improvements; and (iii) all permits, licenses and governmental approvals applicable to or benefiting the Real Property, to the extent assignable by Seller to Buyer, but not including any claims for reduction in property taxes for periods prior to Closing (collectively, the "Intangible Property").

NOW, THEREFORE, in consideration of the purchase price paid by Assignee to Assignor for the Property and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee agree as follows:

1. Assignment. Assignor hereby assigns and delegates to Assignee all of Assignor's right, title, interest, duties and obligations in, to and under all of the Intangible Property, including without limitation the "Assigned Contracts" (as defined in the Agreement) set forth on EXHIBIT "A" attached hereto.

2. Assumption. Assignee hereby accepts the foregoing assignment from Assignor and hereby assumes all of the Assignor's obligations, duties, responsibilities and liabilities under the Intangible Property, and with respect to the Assigned Contracts, Assignee agrees to pay, perform and discharge, when due, all of the duties and obligations on the part of Assignor to be paid, performed or discharged under the Assigned Contracts attributable to the period from and

after the date hereof. Notwithstanding the foregoing, Assignor agrees to pay, perform and discharge when due, all of the duties and obligations on the part of Assignor to be paid, performed or discharged under the Assigned Contracts attributable to the period prior to the date hereof.

3. Attorneys Fees. If this Assignment of Intangibles or the transaction contemplated herein gives rise to a lawsuit, arbitration or other legal proceeding between the parties hereto, the prevailing party shall be entitled to recover its costs and reasonable attorneys' fees in addition to any other judgment of the court or arbitrator(s).

IN WITNESS WHEREOF, the parties hereto have executed this Assignment of Intangibles as of the date first above written.

ASSIGNOR:

3COM CORPORATION,
a Delaware corporation

By: _____

Its: _____

ASSIGNEE:

MARVELL SEMICONDUCTOR, INC.,
a California corporation

By: _____

Its: _____

EXHIBIT "A"

TO

ASSIGNMENT OF CONTRACTS AND INTANGIBLE PROPERTY

ASSIGNED CONTRACTS:

[TO BE ATTACHED PRIOR TO CLOSING]

EXHIBIT F

FORM OF TENANT NOTICE LETTER

_____, 2003

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

To: _____

RE: Assignment of Lease between _____, Landlord, and
_____, Tenant, dated _____, 2__ for property
located at [INSERT TENANT ADDRESS]

This is to notify you that the Premises have been acquired by, and the
Landlord's interest in the Leases has been assigned to _____
("BUYER").

You are further notified that all rental payments under your Leases shall
be paid to [INSERT PROPERTY MANAGER NAME] ("PROPERTY MANAGER"), at

PROPERTY MANAGER
ADDRESS
CITY, STATE ZIP
TELEPHONE:
FACSIMILE:

in accordance with the terms of your Lease unless you are otherwise notified in
writing by Buyer. In addition, please immediately cause all insurance policies
required to be maintained pursuant to your Lease to be changed to name Buyer and
Property Manager as additional insureds or loss payee, as appropriate. Please
send revised certificates of insurance to Property Manager at your earliest
convenience. Please also note that, to the extent any Leases call for a security
deposit, such security deposits have been assigned by Buyer.

If you have any questions, please contact Property Manager at the address
set forth above.

Very truly yours,

a _____

By: _____
Its: _____

EXHIBIT G

TRANSITION FACILITIES

SCHEDULE A(3)

EXCLUDED PERSONAL PROPERTY

FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT

THIS FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT (the "Amendment") is entered into as of October 15, 2003, by and between 3COM CORPORATION, a Delaware corporation ("Seller"), and MARVELL SEMICONDUCTOR, INC., a California corporation ("Buyer"), with reference to the following facts:

A. Seller and Buyer entered into that certain Purchase and Sale Agreement dated August 15, 2003 (the "Purchase Agreement") pursuant to which Seller agreed to sell to Buyer, and Buyer agreed to buy from Seller, the real property commonly known as 5400-5460 Bayfront Plaza, City and County of Santa Clara, California, as more particularly described therein (the "Property"), subject to the terms and conditions of the Purchase Agreement.

B. The parties have agreed to amend certain provisions of the Purchase Agreement as specifically set forth in this Amendment.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows (capitalized terms used herein but not herein defined shall have the meaning ascribed to them in the Purchase Agreement):

1. Extension of Feasibility Period. Seller and Buyer hereby agree that the Feasibility Period (defined in Section 5.2.1 of the Purchase Agreement) shall be extended to, and shall expire as of, 5:00 P.M. (Pacific Time) on October 22, 2003. During the extended Feasibility Period, Buyer shall have the right to inspect the Property as provided in the Purchase Agreement, and the Initial Deposit shall continue to be refundable until the expiration of the Feasibility Period, as so extended.

2. Amendment of Purchase Price. Seller and Buyer hereby agree that the "Purchase Price", as defined in Section 2 of the Purchase Agreement, is amended to be Sixty Three Million Nine Hundred Thirty Three Thousand Four Hundred Eighty Two and no/100 Dollar (\$63,933,482.00).

3. Amendment to Sections 6.5 and 6.6. Seller and Buyer hereby agree that (i) in Section 6.5 of the Purchase Agreement (A) the reference to "Section 6.5(b)" is revised to refer to "Section 6.6(b)", and (B) the reference to "this Section 6.4" is revised to refer to "this Section 6.5", and (ii) in Section 6.6 of the Purchase Agreement, (1) the reference to "Section 6.4" is revised to refer to "Section 6.5", and (2) the reference to "this Section 6.5" is revised to refer to "this Section 6.6".

4. Effectiveness of Purchase Agreement. Except as provided in this Amendment, the provisions of the Purchase Agreement remain unchanged and in full force and effect in accordance with their terms.

5. Effectiveness of Amendment. This Amendment will become effective when it has been executed by both Seller and Buyer. Each party warrants and represents to the

other party that the individual executing this Amendment on behalf of the party has authority to execute this Amendment.

6. Miscellaneous. This Amendment may be executed in counterparts, all such executed counterparts shall constitute the same agreement, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart. In order to expedite the transaction contemplated herein, telecopied signatures may be used in place of original signatures on this Amendment. Seller and Buyer intend to be bound by the signatures on the telecopied document, are aware that the other party will rely on the telecopied signatures, and hereby waive any defenses to the enforcement of the terms of this Amendment based on the form of signature.

IN WITNESS WHEREOF, Seller and Buyer have executed this Amendment as of the date first set forth above.

SELLER:

3 COM CORPORATION
a Delaware corporation

By: _____
Name: MARK SLAVEN
Title: CFO

BUYER:

MARVELL SEMICONDUCTOR, INC.,
a California corporation

By: _____
Name: GEORGE HERVEY
Title: V.P. OF FINANCE & CFO

SECOND AMENDMENT TO PURCHASE AND SALE AGREEMENT

THIS SECOND AMENDMENT TO PURCHASE AND SALE AGREEMENT (the "Amendment") is entered into as of October 22, 2003 (the "Second Amendment Effective Date"), by and between 3COM CORPORATION, a Delaware corporation ("Seller"), and MARVELL SEMICONDUCTOR, INC., a California corporation ("Buyer"), with reference to the following facts:

A. Seller and Buyer have entered into that certain Purchase and Sale Agreement dated August 15, 2003, as amended by that certain First Amendment to Purchase and Sale Agreement dated October 15, 2003 (collectively, the "Purchase Agreement"), pursuant to which Seller agreed to sell to Buyer, and Buyer agreed to buy from Seller, the real property commonly known as 5400-5460 Bayfront Plaza, City and County of Santa Clara, California, as more particularly described therein (the "Property"), subject to the terms and conditions of the Purchase Agreement.

B. The parties have agreed to further amend certain provisions of the Purchase Agreement as specifically set forth in this Amendment, subject to the terms and conditions contained herein.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows (capitalized terms used herein but not herein defined shall have the meaning ascribed to them in the Purchase Agreement):

1. Buyer's Election to Purchase. Based upon Buyer's review of the Property during the Feasibility Period, Buyer hereby elects to proceed with the purchase of the Property. This Amendment shall constitute written notice of Buyer's election to purchase the Property pursuant to Section 5.2.1 of the Purchase Agreement and shall supersede any provisions of said Section 5.2.1 regarding the manner in which such notice of Buyer's election to purchase the Property is to be given. Seller and Buyer further acknowledge and agree that, notwithstanding anything to the contrary in Section 2.1 of the Purchase Agreement, the Additional Deposit, in the amount of \$2,000,000, shall be made by Buyer into Escrow on or before 5:00 p.m. on October 23, 2003.

2. Extension of Closing Date. Seller and Buyer hereby agree that the Closing Date (defined in Section 8.1 of the Purchase Agreement) shall be extended from October 31, 2003, to, and the Closing shall occur on, November 7, 2003; and all references in the Purchase Agreement to the Closing Date shall mean November 7, 2003.

3. Effectiveness of Purchase Agreement. Except as provided in this Amendment, the provisions of the Purchase Agreement remain unchanged and in full force and effect in accordance with their terms.

4. Effectiveness of Amendment. This Amendment will be effective as of the Second Amendment Effective Date. Each party warrants and represents to the other party that

the individual executing this Amendment on behalf of the party has authority to execute this Amendment.

5. Miscellaneous. This Amendment may be executed in counterparts, all such executed counterparts shall constitute the same agreement, and the signature of any party to any counterpart shall be deemed a signature to, and may be appended to, any other counterpart. In order to expedite the transaction contemplated herein, telecopied signatures may be used in place of original signatures on this Amendment. Seller and Buyer intend to be bound by the signatures on the telecopied document, are aware that the other party will rely on the telecopied signatures, and hereby waive any defenses to the enforcement of the terms of this Amendment based on the form of signature.

IN WITNESS WHEREOF, Seller and Buyer have executed this Amendment as of the date first set forth above.

SELLER:

3 COM CORPORATION
a Delaware corporation

By: _____
Name: MARK SLAVEN
Title: CFO

BUYER:

MARVELL SEMICONDUCTOR, INC.,
a California corporation

By: _____
Name: DR. SEHAT SUTARDJA
Title: PRESIDENT & CEO

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dr. Sehat Sutardja, Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marvell Technology Group Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 15, 2003

By: /s/ SEHAT SUTARDJA

 Dr. Sehat Sutardja, Ph.D.
 Co-Chairman of the Board,
 President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, George A. Hervey, certify that:

1. I have reviewed this report on Form 10-Q of Marvell Technology Group Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 15, 2003

By: /s/ GEORGE A. HERVEY

George A. Hervey
Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

With reference to the Quarterly Report of Marvell Technology Group Ltd. (the "Company") on Form 10-Q for the quarter ended October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dr. Sehat Sutardja, Ph.D., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ SEHAT SUTARDJA

- - - - -

Dr. Sehat Sutardja, Ph.D.
Co-Chairman of the Board,
President and Chief Executive Officer
December 15, 2003

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

With reference to the Quarterly Report of Marvell Technology Group Ltd. (the "Company") on Form 10-Q for the quarter ended October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George Hervey, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ GEORGE A. HERVEY

- - - - -

George A. Hervey
Vice President and Chief Financial Officer
December 15, 2003