

**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 April 29, 2006

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.)

**Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda  
(441) 296-6395**

(Address, including Zip Code, of Principal Executive Offices and  
Registrant's telephone number, including area code)

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

The number of shares outstanding of the registrant's common stock outstanding as of May 31, 2006 was 292,600,141 shares.

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

<b><u>Item 1.</u></b>	<b><u>Financial Statements:</u></b>
	<b><u>Unaudited Condensed Consolidated Balance Sheets at April 30, 2006 and January 31, 2006</u></b>
	<b><u>Unaudited Condensed Consolidated Statements of Income for the three months ended April 30, 2006 and 2005</u></b>
	<b><u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended April 30, 2006 and 2005</u></b>
	<b><u>Notes to Unaudited Condensed Consolidated Financial Statements</u></b>
<b><u>Item 2.</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>
<b><u>Item 3.</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>
<b><u>Item 4.</u></b>	<b><u>Controls and Procedures</u></b>

**PART II. OTHER INFORMATION**

<a href="#">Item 1.</a>	<a href="#">Legal Proceedings</a>
<a href="#">Item 1A.</a>	<a href="#">Risk Factors</a>
<a href="#">Item 2.</a>	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>
<a href="#">Item 3.</a>	<a href="#">Defaults Upon Senior Securities</a>
<a href="#">Item 4.</a>	<a href="#">Submission of Matters to a Vote of Securities Holders</a>
<a href="#">Item 5.</a>	<a href="#">Other Information</a>
<a href="#">Item 6.</a>	<a href="#">Exhibits</a>
<a href="#">Signatures</a>	
<a href="#">Exhibit Index</a>	

## PART I: FINANCIAL INFORMATION

### Item 1. Financial Statements

#### MARVELL TECHNOLOGY GROUP LTD.

#### UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

#### ASSETS

	April 30, 2006	January 31, 2006
Current assets:		
Cash and cash equivalents	\$ 529,389	\$ 348,431
Short-term investments	392,021	572,591
Accounts receivable, net of allowances of \$3,054 and \$3,028	293,536	245,164
Inventories	204,839	211,374
Prepaid expenses and other current assets	116,854	104,307
Deferred income taxes	18,007	18,007
Total current assets	1,554,646	1,499,874
Property and equipment, net	279,398	260,921
Goodwill	1,558,209	1,558,209
Acquired intangible assets	125,379	111,973
Other noncurrent assets	94,544	82,312
Total assets	<u>\$ 3,612,176</u>	<u>\$ 3,513,289</u>

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 150,738	\$ 196,606
Accrued liabilities	44,482	34,905
Accrued employee compensation	41,158	51,549
Income taxes payable	3,296	3,352
Deferred income	28,640	29,773
Current portion of capital lease obligations	17,032	16,563
Total current liabilities	285,346	332,748
Capital lease obligations, net of current portion	22,561	24,447
Non-current income taxes payable	100,097	85,126
Other long-term liabilities	26,835	24,871
Total liabilities	434,839	467,192
Commitments and contingencies (Notes 6 and 9)		
Shareholders' equity:		
Common stock, \$0.002 par value; 492,000 shares authorized; 292,381 and 291,388 shares issued and outstanding	585	583
Additional paid-in capital	3,304,563	3,250,169
Deferred stock-based compensation	—	(1,141)
Accumulated other comprehensive loss	(1,353)	(1,759)
Accumulated deficit	(126,458)	(201,755)
Total shareholders' equity	3,177,337	3,046,097
Total liabilities and shareholders' equity	<u>\$ 3,612,176</u>	<u>\$ 3,513,289</u>

See accompanying notes to unaudited condensed consolidated financial statements.

## MARVELL TECHNOLOGY GROUP LTD.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Three Months Ended April 30,	
	2006	2005
Net revenue	\$ 521,196	\$ 364,770
Operating costs and expenses:		
Cost of goods sold	240,664	175,251
Research and development	124,831	72,409
Selling and marketing	38,133	21,203
General and administrative	16,858	6,877
Amortization of acquired intangible assets	17,351	19,759
Total operating costs and expenses	437,837	295,499
Operating income	83,359	69,271
Interest and other income, net	7,616	3,612
Income before income taxes	90,975	72,883
Provision for income taxes	15,678	9,351
Net income	\$ 75,297	\$ 63,532
Net income per share:		
Basic	\$ 0.26	\$ 0.23
Diluted	\$ 0.23	\$ 0.20
Weighted average shares:		
Basic	291,851	278,793
Diluted	320,415	310,736

See accompanying notes to unaudited condensed consolidated financial statements.

## MARVELL TECHNOLOGY GROUP LTD.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended April 30,	
	2006	2005
<b>Cash flows from operating activities:</b>		
Net income	\$ 75,297	\$ 63,532
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,615	13,431
Stock-based compensation	44,536	871
Amortization of acquired intangible assets	17,351	19,759
Excess tax benefits from stock-based compensation	(697)	—
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(48,372)	(4,189)
Inventories	8,729	15,664
Prepaid expenses and other assets	(25,799)	(43,800)
Accounts payable	(45,868)	(7,428)
Accrued liabilities and other	2,500	763
Accrued employee compensation	(10,391)	(360)
Income taxes payable	14,915	8,086
Deferred income	(1,133)	2,575
Net cash provided by operating activities	46,683	68,904
<b>Cash flows from investing activities:</b>		
Cash paid for acquisition	(24,008)	—

Purchases of short-term investments	(57,405)	(99,018)
Sales and maturities of short-term investments	238,124	48,051
Acquisition costs	(461)	—
Purchases of property and equipment	(28,948)	(18,395)
Net cash provided by (used in) investing activities	127,302	(69,362)
<b>Cash flows from financing activities:</b>		
Proceeds from the issuance of common stock	10,904	20,119
Principal payments on capital lease obligations	(4,628)	(3,156)
Excess tax benefits from stock-based compensation	697	—
Net cash provided by financing activities	6,973	16,963
Net increase in cash and cash equivalents	180,958	16,505
Cash and cash equivalents at beginning of period	348,431	166,471
Cash and cash equivalents at end of period	<u>\$ 529,389</u>	<u>\$ 182,976</u>
<b>Supplemental cash flow information:</b>		
Acquisition of property and equipment under capital lease obligations	\$ 3,212	\$ 3,862
Reversal of deferred stock-based compensation	<u>\$ 1,141</u>	<u>\$ —</u>

See accompanying notes to unaudited condensed consolidated financial statements.

## MARVELL TECHNOLOGY GROUP LTD.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 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 high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. The Company’s diverse product portfolio includes switching, transceivers, wireless, PC connectivity, gateways, communications controllers, storage and power management solutions that serve diverse applications used in business enterprise, consumer electronics and emerging markets.

##### Basis of presentation

The Company’s fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal years 2006 and 2005 are 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 fairly state the Company’s financial position as of April 30, 2006, the results of its operations for the three months ended April 30, 2006 and 2005, and its cash flows for the three months ended April 30, 2006 and 2005. These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company’s audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2006. The January 31, 2006 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. However, the Company believes the disclosures are adequate to make the information presented not misleading. The results of operations for the three months ended April 30, 2006 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, some of the Company’s sales are made through distributors under agreements allowing for price protection and rights of return on product unsold by the distributors. Product revenue on sales made through distributors with rights of return and price protection is deferred until the distributors sell the product to end customers. 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 proportional performance method, with the associated costs included in research and development expense. The Company estimates the proportional performance of its development contracts based on an analysis of progress toward completion.

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.

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

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

### **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.

### **Warranty accrual**

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

### **Stock-based compensation**

Effective February 1, 2006 the Company adopted FASB Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123R”). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, restricted stock and employee stock purchase rights, to be recognized in the financial statements based on their respective grant date fair values and does not allow the previously permitted pro forma disclosure-only method as an alternative to financial statement recognition. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”), and related interpretations and amends SFAS No. 95, *Statement of Cash Flows*. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under previous literature. This requirement may reduce future net operating cash flows and increase net financing cash flows. In March 2005 the SEC issued SAB No. 107, *Share-Based Payment* (“SAB 107”), which provides guidance regarding the interaction of SFAS 123R and certain SEC rules and regulations. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

The Company adopted SFAS 123R using the modified prospective method which requires the application of the accounting standard as of February 1, 2006. The Company’s consolidated financial statements as of and for the first quarter of fiscal 2007 reflect the impact of adopting SFAS 123R. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. See Note 7 “Stock-Based Compensation” for further details.

SFAS 123R requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods. The Company has estimated the fair value of each award as of the date of grant or assumption using the Black-Scholes option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and that are freely transferable. The Black-Scholes model considers, among other factors, the expected life of the award and the expected volatility of the Company’s stock price. Although the Black-Scholes model meets the requirements of SFAS 123R and SAB 107, the fair values generated by the model may not be indicative of the actual fair values of the Company’s awards, as it

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does not consider other factors important to those share-based payment awards, such as continued employment, periodic vesting requirements, and limited transferability.

SFAS 123R also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Stock-based compensation expense was recorded net of estimated forfeitures for the three months ended April 30, 2006 such that expense was recorded only for those stock-based awards that are expected to vest. Previously under APB 25 to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture.

Prior to the adoption of SFAS 123R, the Company accounted for share-based payment awards to employees in accordance with APB 25 and related interpretations, and had adopted the disclosure-only alternative of SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”) and SFAS No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure*. In accordance with APB 25, stock-based compensation expense was

not recorded in connection with share-based payment awards granted with exercise prices equal to or greater than the fair market value of the Company's common stock on the date of grant, unless certain modifications were subsequently made. The Company recorded deferred compensation in connection with stock options granted, as well as stock options assumed in acquisitions, with exercise prices less than the fair market value of common stock on the date of grant or assumption in the case of acquisitions. The amount of such deferred compensation per share was equal to the excess of the fair market value over the exercise price on such date. The Company recorded deferred compensation in connection with restricted stock units equal to the fair market value of the common stock on the date of grant. Recorded deferred compensation was recognized as stock-based compensation expense ratably over the applicable vesting periods. In accordance with the provisions of SFAS 123R, all deferred compensation totaling \$1.1 million previously recorded has been eliminated with a corresponding reduction in additional paid-in capital.

## Reclassifications

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

## 2. Supplemental Financial Information

### Available-for-sale investments

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

	April 30, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	\$ 28,375	\$ —	\$ (494)	\$ 27,881
Auction rate securities	263,086	—	—	263,086
U.S. Federal, State, county and municipal debt securities	102,555	—	(1,501)	101,054
Short-term investments	<u>\$ 394,016</u>	<u>\$ —</u>	<u>\$ (1,995)</u>	<u>\$ 392,021</u>

  

	January 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	\$ 33,662	\$ —	\$ (551)	\$ 33,111
Auction rate securities	438,615	—	—	438,615
U.S. Federal, State, county and municipal debt securities	107,414	—	(1,592)	105,822
	579,691	—	(2,143)	577,548
Less amounts classified as cash equivalents	(4,957)	—	—	(4,957)
Short-term investments	<u>\$ 574,734</u>	<u>\$ —</u>	<u>\$ (2,143)</u>	<u>\$ 572,591</u>

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

The contractual maturities of available-for-sale debt securities classified as short-term investments at April 30, 2006 are presented in the following table (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 68,014	\$ 67,493
Due between one and five years	62,916	61,442
Due over five years	263,086	263,086
	<u>\$ 394,016</u>	<u>\$ 392,021</u>

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

April 30, 2006					
Less than 12 months		12 months or more		Total	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Corporate debt securities	\$	—	\$	—	\$	28,375	\$	(494)	\$	28,375	\$	(494)
U.S. Federal, State, county and municipal debt securities		—		—		102,555		(1,501)		102,555		(1,501)
Total temporarily impaired securities	\$	—	\$	—	\$	130,930	\$	(1,995)	\$	130,930	\$	(1,995)

	January 31, 2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ —	\$ —	\$ 33,661	\$ (551)	\$ 33,661	\$ (551)
U.S. Federal, State, county and municipal debt securities	5,023	(24)	102,393	(1,568)	107,416	(1,592)
Total temporarily impaired securities	\$ 5,053	\$ (24)	\$ 136,054	\$ (2,119)	\$ 141,077	\$ (2,143)

## Inventories

The components of inventory are presented in the following table (in thousands):

	April 30, 2006	January 31, 2006
Work-in-process	\$ 102,252	\$ 96,110
Finished goods	102,587	115,264
	<u>\$ 204,839</u>	<u>\$ 211,374</u>

## Prepaid expenses and other current assets

The following table presents details of prepaid expenses and other current assets (in thousands):

	April 30, 2006	January 31, 2006
Prepayments for foundry capacity	\$ 56,900	\$ 62,120
Receivable from foundry	26,339	19,512
Other	33,615	22,675
	<u>\$ 116,854</u>	<u>\$ 104,307</u>

## Property and equipment

	April 30, 2006	January 31, 2006
<b>Property and equipment (in thousands):</b>		
Machinery and equipment	\$ 155,722	\$ 142,320
Computer software	112,785	108,032
Furniture and fixtures	11,526	10,588
Leasehold improvements	9,535	9,292
Buildings	8,727	8,727
Building improvements	25,768	24,747
Land	51,500	51,500
Construction in progress	68,106	56,311
	443,669	411,517
Less: Accumulated depreciation and amortization	(164,271)	(150,596)
	<u>\$ 279,398</u>	<u>\$ 260,921</u>

## Goodwill and purchased intangible assets

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

	As of April 30, 2006			As of January 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	\$ 449,315	\$ (411,868)	\$ 37,447	\$ 437,415	\$ (400,980)	\$ 36,435
Core technology	30,500	(4,428)	26,072	26,400	(2,031)	24,369

Trade name	100	(100)	—	100	(100)	—
Supply contract	900	(43)	857	—	—	—
Customer contracts	68,300	(7,297)	61,003	54,400	(3,231)	51,169
Total identified intangible assets	549,115	(423,736)	125,379	518,315	(406,342)	111,973
Goodwill	1,906,115	(347,906)	1,558,209	1,906,115	(347,906)	1,558,209
Total intangible assets	<u>\$ 2,455,230</u>	<u>\$ (771,642)</u>	<u>\$ 1,683,588</u>	<u>\$ 2,424,430</u>	<u>\$ (754,248)</u>	<u>\$ 1,670,182</u>

The increase in purchased intangible assets during the three months ended April 30, 2006 was from the acquisition of the semiconductor division of UTStarcom, Inc. (see Note 3).

Identified intangible assets consist of purchased technology, core technology, supply contract and customer contracts and related relationships. Purchased technology is amortized on a straight-line basis over its estimated useful life of one to five years. Core technology is amortized on a straight-line basis over its estimated useful life of three to four years. The supply contract is amortized on a straight-line basis over its estimated useful life of four years. Customer contracts and related relationships are amortized on a straight-line basis over their estimated useful lives of four to five years. The aggregate amortization expense of identified intangible assets was \$17.4 million in the first quarter of fiscal 2007 and \$19.8 million in the first quarter of fiscal 2006. The estimated total annual amortization expenses of acquired intangible assets is \$45.4 million for the remaining nine months of fiscal 2007, \$34.8 million for fiscal 2008, \$29.5 million for 2009, \$15.4 million for fiscal 2010 and \$0.3 million for fiscal 2011.

### Other long-term liabilities

The following table presents details of other long-term liabilities (in thousands):

	April 30, 2006	January 31, 2006
Long-term facilities consolidation charge	\$ 2,713	\$ 2,896
Accrued severance	14,778	13,083
Other	9,344	8,892
	<u>\$ 26,835</u>	<u>\$ 24,871</u>

### Warranty accrual

The following table presents changes in the warranty accrual included in accrued liabilities during the three months ended April 30, 2006 and 2005 (in thousands):

	April 30, 2006	April 30, 2005
Warranty accrual (included in accrued liabilities):		
Beginning balance	\$ 3,914	\$ 1,571
Warranties issued	339	1,044
Settlements	(30)	(196)
Ending balance	<u>\$ 4,223</u>	<u>\$ 2,419</u>

### Net income per share

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

	Three Months Ended April 30,	
	2006	2005
Numerator:		
Net income	\$ 75,297	\$ 63,532
Denominator:		
Weighted average shares of common stock outstanding	291,851	278,793
Weighted average shares — basic	291,851	278,793
Effect of dilutive securities-		
Warrants	894	803
Contingently issuable shares	—	409
Common stock options and other	27,670	30,731
Weighted average shares — diluted	<u>320,415</u>	<u>310,736</u>



Basic net income per share	\$ 0.26	\$ 0.23
Diluted net income per share	\$ 0.23	\$ 0.20

Options to purchase 6,542,453 common shares at a weighted average exercise price of \$54.38 have been excluded from the computation of diluted net income per share for the three months ended April 30, 2006 based on the treasury stock method calculation. Options to purchase 256,143 common shares at a weighted average exercise price of \$39.14 have been excluded from the computation of diluted net income per share for the three months ended April 30, 2005 based on the treasury stock method calculation.

## Comprehensive income

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

	Three Months Ended April 30,	
	2006	2005
Net income	\$ 75,297	\$ 63,532
Other comprehensive loss:		
Unrealized gain (loss) on available-for-sale investments and other, net of tax	406	(730)
Total comprehensive income	\$ 75,703	\$ 62,802

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

## 3. Acquisitions

### Hard Disk and Tape Drive Controller Semiconductor Division of QLogic Corporation

On November 4, 2005, the Company acquired the hard disk and tape drive controller semiconductor business (the "Business") of QLogic Corporation. The acquired Business designs and supplies controller chips for data storage peripherals, such as hard disk and tape drives. As a result of the acquisition, the Business will provide controller chip products which the Company believes will be able to provide complementary products to its customers in the hard disk market while improving its ability to address the overall data storage market. These factors contributed to a purchase price that was in excess of the fair value of the Business' net tangible and intangible assets acquired and, as a result, the Company recorded goodwill in connection with this transaction.

Under terms of the agreement, the Company issued a combination of \$184.0 million in cash and 980,499 shares of its common stock valued at \$45.6 million for total consideration of \$229.6 million. The agreement provides for \$12.0 million of the consideration to be placed in escrow for up to one year from the closing date to secure QLogic's obligations under certain representation and warranty provisions.

The purchase price of the Business was \$232.5 million, determined as follows (in thousands):

Cash	\$ 184,032
Value of Marvell common stock issued	45,583
Transaction costs	2,920
Total purchase price	\$ 232,535

The value of the 980,499 shares of the Company's common stock issued was determined based on the average price of the Company's common stock over a 5-day period including the two days before and after August 29, 2005 (the announcement date), or \$46.49 per share.

Under the purchase method of accounting, the total purchase price as shown in the table is allocated to the Business' net tangible and intangible assets based on their fair values as of the date of the completion of the acquisition. Based on the fair values acquired, the purchase price allocation is as follows (in thousands):

Net tangible assets acquired	\$ 25,073
Amortizable intangible assets:	
Existing technology	42,700
Core technology	26,400
Customer relationships	54,200
In-process technology	4,300
Goodwill	79,862
Total estimated purchase price allocation	\$ 232,535

Of the purchase price, \$79.9 million was allocated to goodwill, \$123.3 million to amortizable intangible assets and \$25.1 million to net tangible assets acquired. The amortizable intangible assets have useful lives of two to four years. Approximately \$4.3 million was allocated to in-process research and development and expensed in the fourth quarter of fiscal 2006. Goodwill represents the excess of the purchase price of the acquired business over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

The results of operations of the Business have been included in the Company's consolidated statements of operations since the completion of the acquisition on November 4, 2005. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisition of the Business occurred at the beginning of the periods presented (in thousands, except for per share amounts):

	Quarter Ended April 30, 2005
Net revenue	\$ 408,278
Net income	\$ 67,608
Basic net income per share	\$ 0.24
Diluted net income per share	\$ 0.22

#### Semiconductor Division of UTStarcom, Inc.

On February 16, 2006, the Company completed the acquisition of the semiconductor division of UTStarcom, Inc. Under the terms of the agreement, the Company paid \$24.0 million in cash and may pay up to an additional \$16.0 million in cash if certain defined milestones are achieved. The semiconductor division of UTStarcom focuses on the design and development of personal handyphone systems (PHS) and next generation cellular communications technology. The primary reasons for the acquisition of the semiconductor division of UTStarcom were to strengthen and augment its software engineering workforce and enhance its technological capabilities for emerging cellular strategies, obtain an established product being utilized in wireless communications technology, reduce the time required to develop new products and bring them to market for next generation cellular technology and to complement the Company's existing wireless offerings.

The purchase price of the acquisition was \$24.8 million, determined as follows (in thousands):

Cash	\$ 24,008
Estimated transaction costs	792
Total estimated purchase price	<u>\$ 24,800</u>

Under the purchase method of accounting, the total purchase price as shown in the table is allocated to net tangible and intangible assets based on their fair values as of the date of the completion of the acquisition. Based on the fair values acquired, the preliminary purchase price allocation is as follows (in thousands):

Net tangible assets acquired	\$ 2,708
Amortizable intangible assets:	
Existing technology	11,900
Core technology	4,100
Supply contract	900
Customer relationships	13,900
Negative goodwill	<u>(8,708)</u>
Total purchase price allocation	<u>\$ 24,800</u>

The Company acquired tangible assets of approximately \$2.7 million consisting of inventory and fixed assets. The amortizable intangible assets of \$30.8 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from management. The amortizable intangible assets will be amortized over useful lives ranging from three to four years. The existing technology represents personal handyphone systems technology and other technology that UTStarcom has developed. Core technology represents the combination of

processes, patents, and trade secrets that are the building blocks for current and planned new products. Customer relationships represent future projected revenue that will be derived from sales of future versions of existing products that will be sold to existing customers. The value determined for the supply contract with UTStarcom represents the fair value of estimated revenues and net operating cash flows to be derived from the supply contract for the duration of the five-year contract.

Approximately \$8.7 million has been preliminarily allocated as negative goodwill, calculated as the excess of the fair value of net tangible and intangible assets acquired over the purchase price. Contingent consideration is still outstanding which may result in the recognition of additional costs of up to \$16.0 million from the acquisition if the contingency is issuable in cash or becomes issuable. The defined milestones for the contingent consideration are based on the achievement of certain levels of PHS subscribers and are expected to be resolved by September 30, 2006. The negative goodwill will be adjusted once the contingency is resolved. Any contingent payments made will result in additional consideration and reduce the negative goodwill. Accordingly, goodwill may be recorded if the total purchase price exceeds the fair value of the net tangible and intangible assets acquired. If the contingency does not occur, the negative goodwill will be reduced to zero and the amount will be allocated to intangible assets based on their relative fair values.

The unaudited consolidated financial statements include the results of operations of the semiconductor division of UTStarcom commencing as of the acquisition date. No supplemental pro forma information is presented for the acquisition due to the immaterial effect of the acquisition on the Company's results of operations.

#### 4. 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 included 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 included \$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 April 30, 2006, cash payments of \$10.1 million, net of sublease income, had been made in connection with these charges relating to the consolidation of the Company's facilities in California. Approximately \$3.4 million is accrued for this facilities consolidation charge, net of sublease income, as of April 30, 2006, of which \$0.7 million is the current portion included in accrued liabilities, while the long-term portion, totaling \$2.7 million, is payable through 2010 and is included in other long-term liabilities.

A summary of the facilities consolidation accrual related to the fiscal 2003 charge during the three months ended April 30, 2006 is as follows (in thousands):

	Balance at January 31, 2006	Net Cash Payments	Non-Cash Charges	Remaining Liability at April 30, 2006
Accrued losses on abandoned leased facilities:				
Non-cancelable lease commitments	\$ 3,578	\$ (181)	\$ —	\$ 3,397

#### 5. Recent Accounting Pronouncements

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS 154"), Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and Statement No. 3. The statement applies to all voluntary changes in accounting principle and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted this standard in the quarter ended April 30, 2006 and the adoption will only impact the consolidated financial statements in periods in which a change in accounting principle is made.

#### 6. Commitments and Contingencies

##### *Purchase Commitments*

The Company's manufacturing relationships with its foundries allow for the cancellation of all outstanding purchase orders, but requires repayment of all expenses incurred through the date of cancellation. As of April 30, 2006, foundries had incurred approximately \$145.0 million of manufacturing expenses on the Company's outstanding purchase orders. As of April 30, 2006, the Company also had approximately \$63.2 million of other outstanding non-cancelable purchase orders for capital purchase obligations.

On February 28, 2005 and as amended on March 31, 2005, the Company entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, the Company agreed to pay the foundry \$174.2 million over a period of eighteen months. The amendment extends the term of the agreement and the agreed-upon pricing terms until December 31, 2015. As of April 30, 2006, payments totaling \$129.0 million (included in prepaid expenses and other current assets and other non current assets) have been made and approximately \$44.6 million of the prepayment has been utilized as of April 30, 2006. At April 30, 2006, remaining commitments under the agreement were approximately \$45.2 million.

##### *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 had been structured, a 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. Definitive settlement documentation was completed in early June 2004 and first presented to the court on June 14, 2004. On February 15, 2005, the court issued an opinion

preliminarily approving the proposed settlement, contingent upon certain modifications being made to one aspect of the proposed settlement — the proposed “bar order”. The court ruled that it had no authority to deviate from the wording of the Private Securities Litigation Reform Act of 1995 and that any bar order that may issue should the proposed settlement be finally approved must be limited to the express wording of 15 U.S.C. section 78u-4(f)(7)(A). On May 2, 2005 the issuer defendants and plaintiffs jointly submitted an amendment to the settlement agreement conforming the language of the settlement agreement with the court’s February 15, 2005 ruling regarding the bar order. The court on August 31, 2005 issued an order preliminarily approving the settlement and setting a public hearing on its fairness for April 24, 2006 due to difficulties in mailing the required notice to class members. On April 24, 2006, the Court held a public hearing on the fairness of the proposed settlement. The Court took the matter under submission and has not yet ruled. 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, financial condition or cash flows.

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 the Company intends to defend all claims vigorously.

On June 21, 2005, the Company filed a cross complaint in the above disclosed action in the Santa Clara County Superior Court asserting claims against Jasmine and unnamed Jasmine officers and employees. The cross complaint was later amended to name two individual officers of Jasmine. Among other actions, the cross complaint alleges that Jasmine and its personnel engaged in fraud in connection with their effort to sell to Marvell technology that Jasmine and its personnel wrongfully obtained from a third party in violation of such third party’s rights. The cross complaint seeks declaratory judgment that Marvell’s technology does not incorporate any of Jasmine’s alleged technology. The cross complaint seeks further declaratory judgment that Jasmine and its personnel misappropriated certain aspects of Jasmine’s alleged technology. The Company intends to prosecute the cross complaint against Jasmine and its personnel vigorously. The Company cannot predict the outcome of this litigation. Any litigation could be costly, divert Company management’s attention and could have a material adverse effect on its business, results of operations, financial condition or cash flows.

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. Stock-Based Compensation**

### ***Stock Plans***

In April 1995, the Company adopted the 1995 Stock Option Plan (the “Option Plan”). The Option Plan, as amended, had 147,575,484 shares of common stock reserved for issuance thereunder as of April 30, 2006. Options granted under the Option Plan generally have a term of ten years and generally must be issued at prices not less than 100% and 85% for incentive and nonqualified stock options, respectively, of the fair market value of the stock on the date of grant. Incentive stock options granted to shareholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant. The options generally vest 20% one year after the vesting commencement date, and the remaining shares vest one-sixtieth per month over the remaining forty-eight months. Options granted under the Option Plan prior to March 1, 2000 may be exercised prior to vesting. The Company has the right to repurchase such shares at their original purchase price if the optionee is terminated from service prior to vesting. Such right expires as the options vest over a five-year period. Options granted under the Option Plan subsequent to March 1, 2000 may only be exercised upon or after vesting.

In August 1997, the Company adopted the 1997 Directors’ Stock Option Plan (the “Directors’ Plan”). The Directors’ Plan had 1,800,000 shares of common stock reserved thereunder as of April 30, 2006. Under the Directors’ Plan, an outside director is granted 30,000 options upon appointment to the Board of Directors. These options vest 20% one year after the vesting commencement date and remaining shares vest one-sixtieth per month over the remaining forty-eight months. An outside director is also granted 6,000 options on the date of each annual meeting of the shareholders. These options vest one-twelfth per month over twelve months after the fourth anniversary of the vesting commencement date. Options granted under the Directors’ Plan may be exercised prior to vesting. The Company has the right to repurchase such shares at their original purchase price if the director is terminated or resigns from the Board of Directors prior to vesting. Such right expires as the options vest over a five-year period.

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

In June 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the “Purchase Plan”). The Purchase Plan had 16,935,806 shares of common stock reserve for issuance thereunder as of April 30, 2006. Under the Purchase Plan, employees are granted the right to purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value of the shares at (i) the participant’s entry date into the two-year offering period, or (ii) the end of each six-month purchase period within the offering period. Participants purchase stock using payroll deductions, which may not exceed 20% of their total cash compensation. Offering and purchase periods begin on December 1 and June 1 of each year. For the three months ended April 30, 2006, the stock-based compensation expense related to the activity under the Purchase Plan was \$4.0 million. The Company did not issue any shares under the Purchase Plan in the three months ended April 30, 2006. As of April 30, 2006, there was \$7.5 million of unrecognized compensation cost related to the Purchase Plan.

Stock option activity under the Company's stock option plans for the three months ended April 30, 2006 is summarized below (in thousands, except per share amounts):

	<u>Options Outstanding</u> (In thousands)	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u> (In thousands)
Balance at January 31, 2006	47,122	\$ 19.77		
Options granted	5,494	\$ 57.38		
Options forfeited/canceled/expired	(595)	\$ 25.43		
Options exercised	(982)	\$ 11.11		
Balance at April 30, 2006	<u>51,039</u>	<u>\$ 23.91</u>		
Vested or expected to vest at April 30, 2006	<u>48,247</u>	\$ 23.24	7.34	<u>\$ 1,646,715</u>

The aggregate intrinsic value in the table below represents the total pretax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on April 28, 2006 of \$57.09 and the exercise price for in-the-money options) that would have been received by the option holders if all options had been exercised on April 30, 2006. The total intrinsic value of options exercised in the three months ended April 30, 2006 was \$47.4 million. Cash received from option exercises for the three months ended April 30, 2006 was \$10.9 million.

	<u>Options Outstanding</u>				<u>Options Exercisable</u>		
	<u>Number Outstanding</u> (In thousands)	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Average Intrinsic Value</u> (In thousands)	<u>Number Exercisable</u> (In thousands)	<u>Weighted Average Exercise Price</u>	<u>Average Intrinsic Value</u> (In thousands)
Range of exercise prices:							
\$0.00 - \$9.35	12,100	5.84	\$ 6.68	\$ 610,026	5,244	\$ 4.83	\$ 274,077
\$9.36 - \$18.25	12,391	6.41	\$ 14.93	522,406	7,526	\$ 14.21	322,745
\$18.26 - \$24.05	10,218	7.54	\$ 19.56	383,519	1,962	\$ 20.20	72,356
\$24.06 - \$54.21	13,319	9.12	\$ 42.64	192,477	935	\$ 31.99	23,469
\$54.22 - \$66.41	3,011	9.77	\$ 62.14	—	63	\$ 59.74	—
	<u>51,039</u>	<u>7.41</u>	<u>\$ 23.91</u>	<u>\$ 1,708,428</u>	<u>15,730</u>	<u>\$ 13.07</u>	<u>\$ 692,647</u>

The aggregate pretax intrinsic values in the preceding table were calculated based on the closing price of the Company's common stock of \$57.09 on April 28, 2006. At April 30, 2006, the weighted average remaining contractual life of the exercisable options was 5.7 years.

As of April 30, 2006, there was \$376.8 million, net of forfeitures, of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.8 years. The Company's current practice is to issue new shares to satisfy share option exercises.

Total tax benefit attributable to options exercised in the three months ended April 30, 2006 was \$0.7 million. The excess tax benefits from stock-based compensation of \$0.7 million as reported on the condensed consolidated statement of cash flows in financing activities represents the reduction, in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods.

#### **Stock Award Activity**

In the first quarter of fiscal 2007, the Company granted 70,000 restricted stock awards to its employees under the 1995 Stock Option Plan. Such awards generally vest over a period of five years from the date of grant. The restricted stock awards have the voting rights of common stock and the shares underlying the restricted are considered issued and outstanding. The Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse. The grant of restricted stock awards is deducted from the shares available for grant under the Company's stock option plan. Restricted stock activity under the Company's stock option plans for the three months ended April 30, 2006 is summarized below (in thousands, except per share amounts):

	<u>Restricted Stock Outstanding</u>	<u>Weighted Average Exercise Price</u>
Balance at January 31, 2006	—	\$ —
Restricted stock granted	70	64.42
Restricted stock forfeited	—	—
Restricted stock vested	—	—
Balance at April 30, 2006	<u>70</u>	<u>\$ 64.42</u>

No restricted stock awards vested during the three months ended April 30, 2006. Based on the closing price of the Company's stock of \$57.09, on April 28, 2006, the total pretax intrinsic value of all outstanding restricted stock was \$4.0 million.

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

	<u>Three Months Ended April 30,</u>	
	<u>2006</u>	<u>2005</u>

Cost of goods sold	\$ 2,865	\$ 7
Research and development	27,477	511
Selling and marketing	8,131	214
General and administrative	6,063	139
	<u>\$ 44,536</u>	<u>\$ 871</u>

During the quarter ended April 30, 2006, the Company capitalized \$0.1 million of stock-based compensation into inventory.

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

	Stock Option Plans Three Months Ended April 30,		ESPP Three Months Ended April 30,	
	2006	2005	2006	2005
Volatility	57%	73%	59% - 73%	110% - 112%
Expected life (in years)	4.9	4.6	1.3	1.3
Risk-free interest rate	4.7%	4.0%	3.9%	2.3%
Dividend yield	—	—	—	—

The volatility assumption was determined using the historical volatility of the Company's common stock for the three months ended April 30, 2006 and 2005. The expected life assumption was determined based on historical exercise patterns of similar awards, giving consideration to the contractual terms of the stock-based awards and vesting schedules. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect in effect at the time of grant. The Company has not paid any cash dividends in the past and does not anticipate paying any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in its option-pricing models.

The weighted average fair values per share of the of options granted in the three month period ended April 30, 2006 and 2005 was \$30.79 and \$21.22, respectively.

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 in the three months ended April 30, 2005 (in thousands, except for per share amounts):

	Three Months Ended April 30, 2005
Net income:	
As reported	\$ 63,532
Adjustments:	
Stock-based employee compensation expense included in reported net income, net of tax effects	871
Stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(33,581)
Pro forma	<u>\$ 30,822</u>
Basic net income per share:	
As reported	\$ 0.23
Pro forma	\$ 0.11
Diluted net income per share:	
As reported	\$ 0.20
Pro forma	\$ 0.10

## 8. Related Party Transactions

During the first quarters of fiscal 2007 and 2006, the Company incurred approximately \$0.4 million and \$0.3 million, respectively, of expenses from an unrelated third-party entity, ACM Aviation, Inc. ("ACM"), for charter aircraft services provided to MSI. The aircraft provided by ACM to the Company for such services is owned by Estopia Air LLC ("Estopia Air"). The Company's Chairman, President and Chief Executive Officer, Sehat Sutardja, Ph.D, and the Company's Director, Secretary and Chief Operating Officer, Weili Dai, through their control and ownership of Estopia Air, own the aircraft provided by ACM. The expenses incurred were the result of the Company's use of the aircraft for business travel purposes. The cost of such usage was determined based on market prices.

On February 19, 2005, the Company, through its subsidiaries MSI and Marvell Asia Pte. Ltd. ("MAPL"), entered into a development agreement with MagnetoX ("MagnetoX"). The development agreement is substantially on similar terms as other development agreements with other parties. The Company did not recognize any revenue from the development agreement or product revenue during the first quarter of fiscal 2007. Total revenue expected to be recognized from the development agreement is \$1.0 million. Herbert Chang, one of the Company's directors, is Chairman of the Board, President and Chief Executive Officer of MagnetoX. Estopia LLC ("Estopia") is also a shareholder of MagnetoX. Sehat Sutardja, Ph.D., and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of MagnetoX.

On August 19, 2005, the Company, through its subsidiaries MSI and Marvell International Ltd., entered into a License and Manufacturing Services Agreement (the "License Agreement") with C2 Microsystems, Inc. ("C2Micro"). The License Agreement is on substantially similar terms as other license and manufacturing services agreements with other third parties. The Company recognized \$0.2 million of revenue from the License Agreement with C2 Microsystems during the first quarter of fiscal 2007. Sehat Sutardja, Ph.D., and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of C2Micro. Herbert Chang,



through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2Micro. Pantas Sutardja, Ph.D., the Company's Chief Technology Officer, is also a shareholder of C2Micro.

## 9. Subsequent Events

On February 21, 2006, the Board of Directors approved a 2 for 1 stock split of the Company's common stock, to be effected pursuant to the issuance of additional shares as a stock dividend. The stock split is subject to shareholder approval of an increase in the Company's authorized share capital at the Company's 2006 Annual General Meeting which is scheduled for June 9, 2006.

Restated quarterly pro forma per share data for the three months ended April 30, 2006 and 2005 would be as follows (unaudited):

	Three Months Ended April 30,	
	2006	2005
Basic net income per share:		
As reported	\$ 0.26	\$ 0.23
Pro forma	\$ 0.13	\$ 0.11
Diluted net income per share:		
As reported	\$ 0.23	\$ 0.20
Pro forma	\$ 0.12	\$ 0.10

On May 1, 2006, the Company completed its acquisition of the printer semiconductor business of Avago Technologies Limited and paid \$240.0 million in cash upon closing of the transaction. The Company may pay an additional \$35.0 million in cash if certain defined milestones are achieved at various intervals through October 2007. The Company may also record a one-time charge for purchased in-process research and development expenses related to the acquisition. The amount of that charge which has not yet been determined, if any, would be recorded in the Company's second fiscal quarter of fiscal 2007.

On May 1, 2006, the Company completed an asset purchase agreement with a third party to acquire intellectual property and property and equipment. Under terms of the agreement, the Company paid \$7.0 million in cash upon closing of the transaction. In addition to the asset purchase, Marvell and the third party agree to enter into certain additional agreements, including a transition services agreement, a product distribution agreement and an intellectual property agreement. The Company may also record a one-time charge for purchased in-process research and development expenses related to the acquisition. The amount of that charge, if any, would be recorded in the Company's second fiscal quarter of fiscal 2007, but has not yet been determined.

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

The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "can," and similar expressions identify such forward-looking statements. These forward-looking statements include, but are not limited to, statements regarding the utilization of our products in a wide array of enterprise and consumer applications, our expectations as to growth in revenue from our 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 and gross profit, the impact, if any, of legal proceedings, expected revenue concentration from Asia, working capital needs, our expectations as to the number of days in inventory, 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 use of recently purchased land, commitments and costs to improve the buildings on recently purchased land, 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 taxes in foreign jurisdictions. These forward-looking statements are subject to risks and uncertainties which may cause actual results to differ materially from those expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the impact of international conflict and continued economic volatility in either domestic or foreign markets, our dependence upon the hard disk drive industry and integrated circuit industry, both of which are highly cyclical, our dependence on a small number of customers, our ability to develop new and enhanced products, our success in integrating businesses we acquire and the impact such acquisitions may have on our operating results, our ability to estimate customer demand accurately, the success of our strategic relationships with customers, our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products, our ability to manage future growth, the development and evolution of markets for our integrated circuits, our ability to protect our intellectual property, the impact of any change in our application of the United States federal income tax laws and the loss of any beneficial tax treatment that we currently enjoy, the outcome of pending or future litigation and other risks discussed in the section of this Form 10-Q titled "Risk Factors." In addition, any statements which refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements that speak only as of the date hereof. We undertake no obligation to update publicly any forward-looking statements. You are urged to review carefully our various disclosures in this Form 10-Q and our other reports filed with the SEC, including our Annual Report on Form 10-K for the year ended January 31, 2006, that attempt to advise you of the risks and factors that may affect our business.

## Overview

We are a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. Our diverse product portfolio includes switching, transceiver, wireless, PC connectivity, gateways, communications controller and storage and power management solutions that serve diverse applications used in business enterprises, consumer electronics and emerging markets. We are a fabless integrated circuit company, which means that we rely on independent, third-party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in

manufacturing products. In January 2001, we acquired Galileo Technology Ltd. (now Marvell Semiconductor Israel Ltd, or MSIL) in a stock-for-stock transaction for aggregate consideration of approximately \$2.5 billion. MSIL develops high-performance internetworking and switching products for the broadband communications market. In June 2003, we acquired RADLAN Computer Communications Ltd. (RADLAN), a leading provider of embedded networking software, for aggregate consideration to date of approximately \$134.7 million. In November 2005, we acquired the hard disk and tape drive controller business of QLogic Corporation for approximately \$232.5 million. The acquired business designs and supplies controller chips for data storage peripherals, such as hard disk and tape drives. In February 2006, we acquired the semiconductor design business of UTStarcom, Inc. for \$24.8 million. The semiconductor design business of UTStarcom designs and supplies chipsets for cellular phone applications. In May 2006, we acquired the printer semiconductor business of Avago Technologies Limited for \$240.0 million and potential additional earnout payments. In May 2006, we completed an asset purchase agreement with a third party to acquire intellectual property and property and equipment for \$7.0 million.

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

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

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal year 2006 is 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 Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods. For a description of our critical accounting policies and estimates, please refer to the “Critical Accounting Policies and Estimates” section of our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 31, 2006, as filed with the U.S. Securities and Exchange Commission. There have been no material changes in any of our accounting policies since January 31, 2006 except for the stock-based compensation.

*Stock-Based Compensation Expense for Fiscal 2007 and Thereafter.* Effective February 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, restricted stock units and employee stock purchase rights, to be recognized in our financial statements based on their respective grant date fair values. Under this standard, the fair value of each share-based payment award is estimated on the date of grant using an option pricing model that meets certain requirements. We currently use the Black-Scholes option pricing model to estimate the fair value of our share-based payment awards. The Black-Scholes model meets the requirements of SFAS 123R; however, the fair values generated by the model may not be indicative of the actual fair values of our awards as it does not consider certain factors important to our awards, such as continued employment, periodic vesting requirements and limited transferability. The determination of the fair value of share-based payment awards utilizing the Black-Scholes model is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We use the historical volatility of our common stock as the expected volatility assumption required in the Black-Scholes model. Our selection of the historical volatility approach is based on the lack of availability of data regarding actively traded options on our stock as we believe that historical volatility is more representative than implied volatility. The expected life of the awards is based on historical and other economic data trended into the future. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of our awards. The dividend yield assumption is based on our history and expectation of dividend payouts. The fair value of our restricted stock units is based on the fair market value of our common stock on the date of grant. Forfeitures, determined based on historical cancellations and grants, are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Stock-based compensation expense recognized in our financial statements in fiscal 2007 and thereafter is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our awards on a quarterly basis. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel

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any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions. Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income and pro forma net income per share in Notes 1 and 7 of our Notes to Unaudited Condensed Consolidated Financial Statements.



## 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 April 30,	
	2006	2005
Net revenue	100.0%	100.0%
Operating costs and expenses:		
Cost of goods sold*	46.2	48.0
Research and development*	24.0	19.9
Selling and marketing*	7.3	5.8
General and administrative*	3.2	1.9
Amortization of acquired intangible assets	3.3	5.4
Total operating costs and expenses	84.0	81.0
Operating income	16.0	19.0
Interest and other income, net	1.5	1.0
Income before income taxes	17.5	20.0
Provision for income taxes	3.0	2.6
Net income	14.5%	17.4%

\* Includes stock-based compensation

### Three Months Ended April 30, 2006 and 2005

#### Net Revenue

	Three Months Ended April 30,		% Change
	2006	2005	
Net revenue	\$ 521,196	\$ 364,770	42.9%

Net revenue consists primarily of product revenue from sales of our semiconductor devices, and to a much lesser extent, development revenue derived from development contracts with our customers. Net revenue is gross revenue, net of accruals for estimated sales returns and allowances. The increase in net revenue in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 reflects a significant increase in volume shipments of our storage System-on-Chips, or SOC, which increased \$85.8 million, local area network (LAN) on motherboard and wireless products, which increased \$28.7 million and hard disk drive controller products, which increased \$22.6 million. The increases in net revenue are primarily due to increased acceptance of our storage SOC and LAN on motherboard products, increased market share gains in the PC desktop segment with our storage SOC products and volume shipments of our wireless products and from new design wins. Revenue derived from development contracts decreased in absolute dollars during the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006, but represented less than 10% of net revenue for each period.

We expect that revenue for fiscal 2007 will increase from the level of revenue we reported in fiscal 2006 due to increases in shipments and volume production of our storage SOC's into the PC desktop segment and consumer storage electronics. Also, we expect additional growth in fiscal 2007 compared to fiscal 2006 due to increases in shipments of our WLAN products from new design wins, our Gigabit Ethernet products as well as incremental revenue from the products acquired from QLogic, UTStarcom and Avago Technologies.

Historically, a relatively small number of customers have accounted for a significant portion of our revenue. For the quarter ended April 30, 2006, four customers each represented more than 10% of our net revenues, for a combined total of 53% of our net revenue. For the quarter ended April 30, 2005, four customers each represented more than 10% of our net revenue, for a combined total of 54% of our net revenue. In addition, no distributor accounted for more than 10% of our net revenue in the quarter ended April 30, 2006 but one distributor accounted for approximately 11% of our net revenue in the quarter ended April 30, 2005.

Because we sell our products to many OEM manufacturers who have manufacturing operations located in Asia, a significant percentage of our sales are made to customers located outside of the United States. Sales to customers located in Asia represented 94% of our net revenue for the three months ended April 30, 2006 and April 30, 2005, respectively. The rest of our sales are to customers located in the United States and other geographic regions. We expect that a significant portion of our revenue will continue to be represented by sales to our customers in Asia. Substantially all of our sales to date have been denominated in United States dollars.

#### Cost of Goods Sold

	Three Months Ended April 30,		% Change
	2006	2005	
Cost of goods sold	\$ 240,664	\$ 175,251	37.3%
% of net revenue	46.2%	48.0%	
Gross margin	53.8%	52.0%	

Cost of goods sold consists primarily of the costs of manufacturing, assembly and test of integrated circuit devices and related overhead costs, product warranty costs, royalties and compensation and associated costs relating to manufacturing support, logistics and quality assurance personnel, including stock-based compensation costs. Gross margin is calculated as net revenue less cost of goods sold as a percentage of net revenue. The increase in gross margin percentage for the three months ended April 30, 2006 compared to the three months ended April 30, 2005 was primarily due to manufacturing efficiencies and product cost savings resulting from the benefits of favorable foundry pricing. Partially offsetting the increase in gross margins were higher inventory excess and obsolescence provisions, higher products costs associated with inventory that was acquired from our acquisitions, increased stock-based

compensation costs and higher royalties. The increase in inventory excess and obsolescence provisions was for older or slow-moving products. The increase in stock-based compensation expense was a result of our adoption of SFAS 123R. The increase in royalties in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 was due to higher sales of products that integrated licensed technology. The costs associated with contracted development work are included in research and development expense. Our gross margins may fluctuate in future periods due to, among other things, changes in the mix of products sold, the timing of production ramps of new products, increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting, charges for obsolete or potentially excess inventory, changes in the costs charged by our manufacturing and test subcontractors and changes in the amount of development revenue recognized.

#### *Research and Development*

	<b>Three Months Ended April 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>% Change</b>
Research and development	\$ 124,831	\$ 72,409	72.4%
% of net revenue	24.0%	19.9%	

Research and development expense consists primarily of compensation and associated costs relating to development personnel, including stock-based compensation expenses, prototype costs, depreciation and amortization expense, and allocated occupancy costs for these operations. The increase in research and development expense in absolute dollars in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 was primarily due to stock-based compensation expenses of \$27.5 million as a result of our adoption of SFAS 123R. In addition, research and development expenses increased due to the net hiring of additional development personnel including personnel related to our acquisitions of the hard disk and tape drive controller business of QLogic Corporation in November 2005 and the semiconductor division of UTStarcom, Inc. in February 2006, which resulted in an increase in salary and related costs of \$16.4 million. Additionally, we incurred increased costs for depreciation and amortization expense of \$1.3 million arising from purchases of property, equipment and technology licenses, increased costs of \$1.2 million for prototype and related product tape-out costs for new product initiatives, increased costs of \$1.2 million for patent filing fees to protect newly developed intellectual property and other allocated expenses of \$2.6 million related to our expanding operations.

We expect that research and development expense will increase in absolute dollars in future periods as we continue to devote resources to develop new products, migrate to lower process geometries, meet the changing requirements of our customers, expand into new markets and technologies and hire additional personnel, including those from our acquisitions.

#### *Selling and Marketing*

	<b>Three Months Ended April 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>% Change</b>
Selling and marketing	\$ 38,133	\$ 21,203	79.8%
% of net revenue	7.3%	5.8%	

Selling and marketing expense consists primarily of compensation and associated costs relating to sales and marketing personnel, including stock-based compensation expenses, sales commissions, promotional and other marketing expenses, and allocated occupancy costs for these operations. The increase in selling and marketing expense in absolute dollars in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 was primarily due to stock-based compensation expenses of \$8.1 million as a result of our adoption of SFAS 123R. In addition, selling and marketing expenses increased due to the net hiring of additional sales and marketing personnel, which resulted in an increase in salary and related costs of \$4.1 million. Additionally, we incurred other variable sales and marketing costs of \$3.3 million related to expanding our sales and marketing activities as we broaden our customer and product base.

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 into product markets such as consumer applications for our wireless and storage products.

#### *General and Administrative*

	<b>Three Months Ended April 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>% Change</b>
General and administrative	\$ 16,858	\$ 6,877	145.1%
% of net revenue	3.2%	1.9%	

General and administrative expense consists primarily of compensation and associated costs relating to general and administrative personnel, including stock-based compensation expenses, fees for professional services and allocated occupancy costs for these operations. The increase in absolute dollars in general and administrative expense in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 was primarily due to stock-based compensation expenses of \$6.0 million as a result of our adoption of SFAS 123R. In addition, general and administrative expense increased due to the net hiring of additional administrative personnel, which resulted in an increase in salary and related costs of \$1.4 million. Our expenses also increased due to higher professional fees of \$1.4 million due to attorney fees associated with our on-going legal proceedings and \$1.0 million due to higher professional fees as a result of our expanding operations and costs to comply with the regulatory requirements of the Sarbanes-Oxley Act of 2002.

We expect that general and administrative expenses will increase from the levels in fiscal 2007 compared to fiscal 2006 to support our expanding operations.

#### *Amortization of Acquired Intangible Assets*

	<b>Three Months Ended April 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>% Change</b>
Amortization of acquired intangible assets	\$ 17,351	\$ 19,759	(12.2)%
% of net revenue	3.3%	5.4%	

In connection with various acquisitions, we have recorded acquired intangible assets which are being amortized over their estimated economic lives of one to five years. The decrease in amortization of acquired intangible assets in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 is due to acquired intangible assets from the acquisition of MSIL being fully amortized at the end of fiscal 2006, offset by additional amortization of intangibles assets from other acquisitions.

### *Interest and Other Income, net*

	<b>Three Months Ended April 30,</b>		<b>% Change</b>
	<b>2006</b>	<b>2005</b>	
Interest and other income, net	\$ 7,616	\$ 3,612	110.9%
% of net revenue	1.5%	1.0%	

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. The increase in interest and other income, net for the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 is primarily due to higher interest income due to higher comparable invested cash balances and higher yields on our investments. Although combined cash and short-term investment balances increased from April 30, 2006 compared to April 30, 2005, the short-term investment balance as of April 30, 2006 decreased compared to the short-term investment balance as of April 30, 2005 due to sales of short-term investments prior to the end of the quarter ended April 30, 2006 to fund the acquisition of the printer semiconductor business of Avago Technologies, which closed on May 1, 2006.

### *Provision for Income Taxes*

	<b>Three Months Ended April 30,</b>		<b>% Change</b>
	<b>2006</b>	<b>2005</b>	
Provision for income taxes	\$ 15,678	\$ 9,351	67.7%
% of net revenue	3.0%	2.6%	

Our effective tax rate was 17.2% for the three months ended April 30, 2006 compared to 12.8% for the three months ended April 30, 2005. The effective tax rates were affected by profits earned in jurisdictions where the tax rate is lower than the U.S. tax rate and by non-tax-deductible expenses, such as stock-based compensation, nondeductible acquisition related expenses and the impact of adopting SFAS 123R.

### **Liquidity and Capital Resources**

Our principal source of liquidity as of April 30, 2006 consisted of \$921.4 million of cash, cash equivalents and short-term investments. Since our inception, we have financed our operations through a combination of sales of equity securities, cash generated by operations and cash assumed in acquisitions.

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

Net cash provided by operating activities was \$46.7 million for the three months ended April 30, 2006 compared to \$68.9 million for the three months ended April 30, 2005. The cash inflow from operations in the three months of fiscal 2007 was primarily a result of our generation of income during the period and changes in working capital. Non-cash charges in the first three months of fiscal 2007 included \$17.4 million related to amortization of acquired intangible assets, \$15.6 million of depreciation and amortization expense and \$44.5 million of stock-based compensation. Significant working capital changes contributing to positive cash inflow in the first three months of fiscal 2007 included an increase of \$14.9 million in income tax payable resulting from higher taxable income in the first three months of fiscal 2007 and a decrease in inventory of \$8.7 million, primarily as a result of a reduction in wafer starts. The number of days in inventory has increased at the end of the first quarter of fiscal 2007 to 77 days compared to 58 days at the end of the first quarter of fiscal 2006 due primarily to a higher comparable inventory balance at the end of each respective quarter. We expect the number of days in inventory to fluctuate in the range of approximately 60 to 75 days depending on our wafer starts and the inventory purchase needs of our customers as well as lead times and competitive situations in the marketplace.

Significant working capital changes offsetting positive cash flows in the first three months of fiscal 2007 included an increase in accounts receivable of \$48.3 million primarily due to higher total net revenue in the first three months of fiscal 2007 compared to the first three months of fiscal 2006. Although accounts receivable has increased, the days sales outstanding, or DSO, metric has remained consistent in the first three months of both fiscal 2007 and 2006 at 51 days. Many of our larger customers have regularly scheduled payment dates with some of the dates falling immediately before or after our fiscal quarter-end. As a result, our accounts receivable balance and DSO may fluctuate depending on the timing of large payments made by our customers. Also contributing to working capital changes offsetting positive cash flow in the first three months of fiscal 2007 was a decrease in accounts payable of \$45.9

million due to payments on outstanding balances and an increase in prepaid and other assets of \$25.8 million due primarily to a \$23.0 million payment in connection with a capacity reservation agreement with a foundry.

Net cash provided by operating activities was \$68.9 million for the three months ended April 30, 2005. The cash inflow from operations in the first three months of fiscal 2006 was primarily a result of our generation of income during the period and changes in working capital. Non-cash charges in the first three months of fiscal 2006 included \$19.8 million related to amortization of acquired intangible assets, \$13.4 million of depreciation and amortization expense and \$0.9 million of amortization of stock-based compensation. Significant working capital changes contributing to positive cash inflow in the first three months of

fiscal 2006 included a decrease in inventory of \$15.7 million, primarily as a result of better visibility of forecasted demand, as well as reduced cycle times from our foundry vendors. Accordingly, the number of days in inventory has decreased at the end of the first quarter of fiscal 2006 to 58 days compared to 76 days at the end of the first quarter of fiscal 2005. Other working capital changes contributing to positive cash inflow in the first three months of fiscal 2006 included an increase of \$8.1 million in income tax payable resulting from higher taxable income in the first three months of fiscal 2006 and an increase of \$2.6 million in deferred income due to increased shipments of product to distributors during the first quarter of fiscal 2006.

Significant working capital changes offsetting positive cash flows in the first three months of fiscal 2006 included an increase in prepaid and other assets of \$43.8 million due primarily to a \$37.0 million payment in connection with a capacity reservation agreement with a foundry. Also contributing to working capital changes offsetting positive cash flow in the first three months of fiscal 2006 was a decrease in accounts payable of \$7.4 million due to payments on outstanding balances and the decrease in inventory balances and an increase in accounts receivable of \$4.2 million primarily due to higher total net revenue in the first three months of fiscal 2006 compared to the first three months of fiscal 2005.

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 were to increase as they have in prior fiscal years, it is likely that our levels of accounts receivable would 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, foundry lead times and available capacity, and competitive situations in the marketplace. Such considerations are balanced against risk of obsolescence or potentially excess inventory levels.

### ***Net Cash Provided by (Used in) Investing Activities***

Net cash provided by investing activities was \$127.3 million for the first three months of fiscal 2007 and while net cash used in investing activities was \$69.4 million for the first three months of fiscal 2006. The net cash provided by investing activities in the first three months of fiscal 2007 was due to proceeds from the sales and maturities of short-term investments of \$238.1 million partially offset by purchases of property and equipment of \$28.9 million, cash paid for acquisitions of \$24.0 million and purchases of short-term investments of \$57.4 million. The net cash used in investing activities in the first three months of fiscal 2006 was due to purchases of property and equipment of \$18.4 million, purchases of short-term investments of \$99.0 million, partially offset by the proceeds from the sales and maturities of short-term investments of \$48.1 million.

### ***Net Cash Provided by Financing Activities***

Net cash provided by financing activities was \$7.0 million for the three months ended April 30, 2006 and \$17.0 million for the three months ended April 30, 2005. In the first three months of fiscal 2007 and 2006, 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. The proceeds from the issuance of common stock are primarily due to the exercises of stock options. The increase in capital lease obligations is due to additional computer-aided design software licenses, which we have acquired for use in our research and development activities.

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## **Contractual Obligations and Commitments**

Our relationships with our foundries 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 April 30, 2006, foundries had incurred approximately \$145.0 million of manufacturing expenses on our outstanding purchase orders. The purchase obligations are included in outstanding purchase commitments as of April 30, 2006.

On February 28, 2005 and as amended on March 31, 2005, we entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, we agreed to pay the foundry \$174.2 million over a period of eighteen months. The amendment extends the term of the agreement and the agreed upon pricing terms until December 31, 2015. As of April 30, 2006, payments totaling \$129.0 million (included in prepaid expenses and other current assets and other non current assets) have been made and approximately \$44.6 million of the prepayment has been utilized as of April 30, 2006. At April 30, 2006, remaining commitments under the agreement were approximately \$45.2 million.

In October 2001, we entered into a lease agreement with Yahoo! Inc. to lease a building in Sunnyvale, California consisting of approximately 213,000 square feet. The lease commenced on January 1, 2002 and was amended in the third quarter of fiscal 2006 to end December 31, 2005. In February 2002, we consolidated our three existing facilities in California into this new building. The leases on two of our former facilities expired in February 2002 and June 2005, respectively, but we have an ongoing, non-cancelable lease for the remaining facility, for which we have obtained a sublease. Actual sublease income approximated the estimated sublease income, but is less than our actual lease commitment, resulting in future negative cash flow over the remaining term of the sublease of approximately \$3.4 million as of April 30, 2006. At April 30, 2006, cash payments of \$10.1 million, net of sublease income had been made in connection with this charge. Approximately \$3.4 million is accrued for this facilities consolidation charge as of April 30, 2006 of which \$0.7 million is the current portion while the long-term portion totaling \$2.7 million is payable through 2010.

We expect to make significant commitments and incur costs to improve the buildings at our U.S. headquarters located in Santa Clara, California over the next twelve months. Based upon our current forecasts, we currently expect to spend approximately \$50.0 million to \$60.0 million for building improvements over the next twelve to eighteen months, of which \$39.9 million of non-cancelable purchase orders is currently outstanding. The amount that we plan to spend and commit for building improvements is an estimate and may change as the scope of the work is refined and plans are finalized. 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 cost of goods sold, research and development, sales and marketing and general and administrative expenses.

On November 4, 2005, we completed the acquisition of the hard disk and tape drive controller semiconductor business of QLogic Corporation. The acquisition was completed in accordance with the terms and conditions of an Asset Purchase Agreement dated August 29, 2005. Under the terms of the agreement, in exchange for certain assets and intellectual property of QLogic, we paid \$180.0 million in cash and issued 980,499 shares of our common stock

to QLogic valued at \$45.6 million for consideration of \$225.6 million. An additional payment of \$4.0 million was made for an inventory adjustment, resulting in total cash paid of \$184.0 million and total consideration of \$232.5 million, including acquisition costs. Pursuant to the agreement, on the closing date, we placed a portion of the shares in escrow as security for its indemnification rights under the agreement. The shares can be held in escrow for up to 12 months from the closing date. Our shares of common stock were issued pursuant to an exemption under the Securities Act of 1933.

On February 16, 2006, we completed the acquisition of the semiconductor division of UTStarcom, Inc. for \$24.0 million in cash. We may pay an additional \$16.0 million if certain defined milestones are achieved at various intervals through September 2006.

In April 2006, we made a deposit of \$0.5 million for the purchase of land in Singapore. We plan to make additional commitments to construct a building for our Singapore office once the purchase of land is completed in September 2006.

We currently intend to fund our short and long-term capital requirements, as well as our liquidity needs, with existing cash, cash equivalents and short-term investment balances as well as cash generated by operations. We believe that our existing cash, cash equivalents and short-term investment balances will be sufficient to meet our working capital needs, capital requirements, investment requirements, including acquisitions, 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, expenditures in connection with acquisitions, costs of making improvements to facilities and

increases in operating expenses, which are all subject to uncertainty. To the extent that our existing cash, cash equivalents 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 April 30, 2006 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Period						
	2007 (remaining nine months)	2008	2009	2010	2011	There- after	Total
Contractual obligations:							
Operating leases	\$ 4,919	\$ 6,183	\$ 5,934	\$ 4,087	\$ 3,669	\$ 28,740	\$ 53,532
Capital lease obligations	14,408	17,896	8,781	2,389	—	—	43,474
Purchase commitments to foundries	145,031	—	—	—	—	—	145,031
Capacity reservation commitment	45,180	—	—	—	—	—	45,180
Mask purchase commitment	4,500	—	—	—	—	—	4,500
Capital purchase obligations	63,176	—	—	—	—	—	63,176
Acquisition related commitments	247,000	—	—	—	—	—	247,000
Total contractual cash obligations	\$ 524,214	\$ 24,079	\$ 14,715	\$ 6,476	\$ 3,669	\$ 28,740	\$ 601,893

Included in operating lease commitments are anticipated lease payments for two airplanes that are currently under construction. Delivery of one airplane is expected in fiscal 2007 while delivery of the second airplane is expected in fiscal 2008. The airplanes will be used for business travel purposes and will be accounted for as operating leases once the airplanes are completed and delivered.

On May 1, 2006, we completed the acquisition of the printer semiconductor business of Avago Technologies Limited. Under the agreement, we paid \$240.0 million in cash upon closing of the transaction. We may pay an additional \$35.0 million if defined milestones are achieved at various intervals through October 2007. We may also record a one-time charge for purchased in-process research and development expenses related to the acquisition. The amount of that charge, if any, and the period in which it would be recorded has not yet been determined.

On May 1, 2006, we completed the acquisition from a third party of certain intellectual property and property and equipment. Under terms of the asset purchase agreement, we paid \$7.0 million in cash upon closing of the transaction. In addition to the asset purchase, Marvell and the third party agreed to enter into certain additional agreements, including a transition services agreement, a product distribution agreement and an intellectual property agreement. We may also record an as-yet undetermined one-time charge for purchased in-process research and development expenses related to the acquisition, the amount of which, if any, would be recorded in our second fiscal quarter of fiscal 2007.

## Off-Balance Sheet Arrangements

As of April 30, 2006, we did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

## Recent Accounting Pronouncements

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 ("SFAS 154"), Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and Statement No. 3. The statement applies to all voluntary changes in accounting principle and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted this standard in the quarter ended April 30, 2006 and the adoption will only impact the consolidated financial statements in periods in which a change in accounting principle is made.

## Related Party Transactions

During first quarters of fiscal 2006 and 2005, we incurred approximately \$0.4 million and \$0.3 million, respectively of expenses from an unrelated third-party entity, ACM Aviation, Inc. (“ACM”) for charter aircraft services provided to MSI. The aircraft provided by ACM to us for such services is owned by Estopia Air LLC (“Estopia Air”). Our President and Chief Executive Officer, Sehat Sutardja, Ph.D, and Chief Operating Officer, Weili Dai, through their control and ownership in Estopia Air, own the aircraft provided by ACM. The expenses were the result of our use of the aircraft for business travel purposes. The pricing was based on values determined to be market prices.

On February 19, 2005, through our subsidiaries MSI and Marvell Asia Pte. Ltd. (“MAPL”), we entered into a development agreement with MagnetoX (“MagnetoX”). The development agreement is on substantially similar terms as other development agreements with other third parties. We did not recognize any revenue from the development agreement or product revenue during the first quarter of fiscal 2007. This development agreement is on substantially similar terms as other development agreements with other third parties. Herbert Chang, one of our directors, is a shareholder of MagnetoX. Estopia LLC (“Estopia”) is also a shareholder of MagnetoX. Sehat Sutardja, Ph.D. and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of MagnetoX.

On August 19, 2005, through our subsidiaries MSI and Marvell International Ltd., we entered into a License and Manufacturing Services Agreement (the “License Agreement”) with C2 Microsystems, Inc. (“C2Micro”). The License Agreement is on substantially similar terms as other license and manufacturing services agreements with other third parties. We recognized \$0.2 million of revenue from the License Agreement with C2Micro during the first quarter of fiscal 2007. Sehat Sutardja, Ph.D., and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of C2Micro. Herbert Chang, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2Micro. Pantas Sutardja, Ph.D., our Chief Technology Officer, is also a shareholder of C2Micro.

## 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 in which we have invested 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. Also, 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 auction rate 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 April 30, 2006 (in thousands). This table does not include money market funds because those funds are not subject to market risk. Although auction rate securities generally have legally stated maturities in excess of one year, auction rate securities are presented below with an expected fiscal year maturity date in 2007 because such securities are structured with short-term interest reset dates of generally less than 90 days at which time we can sell or continue to hold the securities at par.

	Expected Fiscal Year Maturity Date					Total	Fair Value
	2007	2008	2009	2010	2011		
Variable Rate	\$ 263,086	\$ —	\$ —	\$ —	\$ —	\$ 263,086	\$ 263,086
Average Interest Rate	4.82%	—	—	—	—	4.82%	
Fixed Rate	\$ 68,014	\$ 37,729	\$ 20,177	\$ 5,010	\$ —	\$ 130,930	\$ 128,935
Average Interest Rate	3.00%	3.05%	3.57%	4.75%	—	3.17%	

At any time, fluctuations in interest rates could affect interest earnings on our cash, cash equivalents, and short-term investments, or the fair value of our investment portfolio. A 10% move in interest rates as of April 30, 2006 would have an immaterial effect on our financial position, results of operations and cash flows.

**Investment Risk.** We invest in equity instruments of privately-held companies for business and strategic purposes. These investments, which totaled \$11.7 million at April 30, 2006, are included in other non-current assets in the accompanying balance sheets and are accounted for under the cost method because our ownership is less than 20% and we do not have the ability to exercise significant influence over the operations on these companies. 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. Occasionally, we will enter into short-term forward exchange contracts to hedge exposures for purchases denominated in foreign currencies such as the Singapore Dollar and the New Israeli Shekel. We do not enter into any other derivative financial instruments for trading or speculative purposes.

## Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent



limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also 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. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of April 30, 2006, the end of the quarterly period covered by this report. Based on the foregoing, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting during the most recent 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, a part of which provides that the insurers for all issuer defendants would guarantee up to \$1 billion to investors who are class members, depending upon plaintiffs’ success against non-settling parties. Our board of directors 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. Definitive settlement documentation was completed in early June 2004 and first presented to the court on June 14, 2004. On February 15, 2005, the court issued an opinion preliminarily approving the proposed settlement, contingent upon certain modifications being made to one aspect of the proposed settlement — the proposed “bar order”. The court ruled that it had no authority to deviate from the wording of the Private Securities Litigation Reform Act of 1995 and that any bar order that may issue should the proposed settlement be finally approved must be limited to the express wording of 15 U.S.C. section 78u-4(f)(7)(A). On May 2, 2005 the issuer defendants and plaintiffs jointly submitted an amendment to the settlement agreement conforming the language of the settlement agreement with the court’s February 15, 2005 ruling regarding the bar order. The court on August 31, 2005 issued an order preliminarily approving the settlement and setting a public hearing on its fairness for April 24, 2006 due to difficulties in mailing the required notice to class members. On April 24, 2006, the court held a public hearing on the fairness of the proposed settlement. The court took the matter under submission and has not yet ruled. 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, financial condition or cash flows 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.

On September 12, 2001, Jasmine Networks, Inc. (“Jasmine”) filed a lawsuit in the Santa Clara County Superior Court asserting claims against our personnel and us for improperly obtaining and using information and technologies during the course of the negotiations with our personnel regarding the potential acquisition of certain Jasmine assets by Marvell. The lawsuit claims that our officers improperly obtained and used such information and technologies after we signed a non-disclosure agreement with Jasmine. We believe the claims asserted against our officers and us are without merit and we intend to defend all claims vigorously.

On June 21, 2005, we filed a cross complaint in the above disclosed action in the Santa Clara County Superior Court asserting claims against Jasmine and unnamed Jasmine officers and employees. The cross complaint was later amended to name two individual officers of Jasmine. Among other actions, the cross complaint alleges that Jasmine and its personnel engaged in fraud in connection with their effort to sell to Marvell technology that Jasmine and its personnel wrongfully obtained from a third party in violation of such third party’s rights. The cross complaint seeks declaratory judgment that our technology does not incorporate any of Jasmine’s alleged technology. The cross complaint seeks further declaratory judgment that Jasmine and its personnel misappropriated certain aspects of Jasmine’s alleged technology. We intend to prosecute the cross complaint against Jasmine and its personnel vigorously. We cannot predict the outcome of this litigation. Any litigation could be costly, divert our management’s attention and could have a material adverse effect on our business, results of operations, financial condition or cash flows.

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 1A. Risk Factors**

In addition to the factors discussed in the “Overview” and “Liquidity and Capital Resources” sections of Item 2 “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, experiences rapid technological change, and is facing increased competition from alternate technologies.***

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 because 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 their market share, our sales may decrease.

Future changes in the nature of information storage products may reduce demand for traditional hard disk drives. For instance, products using alternative technologies, such as semiconductor memory, optical storage, and other storage technologies could become a significant source of competition to applications of hard disk drives. Flash memory has typically been more costly than disk drive technologies. However, flash memory manufacturers have been reducing the prices for their products, which could enable them to compete more effectively with very small form factor hard disk drive products. Demand for hard disk drives could be reduced if alternative storage technologies such as flash memory can meet customers’ cost and capacity requirements.

***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 first quarter of fiscal 2007, approximately 53% of our net revenue was derived from sales to four customers, each of whom individually accounted for 10% or more of our net revenue during this period. Of these customers, Western Digital accounted for approximately 15%, Toshiba accounted for approximately 13%, Samsung accounted for approximately 13% and Fujitsu accounted for approximately 12%. 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 due 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, purchase fewer products than they did in the past, or 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 may purchase integrated circuits from our competitors; or
- our customers may discontinue sales or lose market share in the markets for which they purchase our products.

***If we are unable to accurately predict our future sales and to appropriately budget for our expenses, our operating results can suffer.***

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.

***Because we expect to experience lower sequential growth rates in future periods, investors should not rely on our historical growth rates when evaluating our business.***

For the past four years, we have been able to report significant sequential quarterly growth in revenues; however, our revenues have grown at a slower sequential rate in the past seven sequential quarters ending with the first quarter of fiscal 2007 compared to the double digit sequential growth rate of the previous eleven quarters. This slower growth rate is due, among other things, to the larger base of revenue and market share we now enjoy, which makes continuation of double digit revenue growth on a sequential quarterly basis unlikely in the current market. However, due to our recent acquisitions, the growth in our revenues is attributable to a combination of both organic growth and growth from our acquisitions. Accordingly, investors should not rely on the results of any prior quarterly or annual periods as an indication of our future performance.



***The implementation of new accounting rules related to the expensing of stock-based awards adversely affected our reported results of operations for first quarter of fiscal 2007 and will continue to negatively impact our operating results in subsequent periods. Any subsequent changes in accounting rules may also have an adverse effect on our results of operations.***

Effective February 1, 2006, we adopted Statement of Financial Accounting Standards no. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires all share-based payment awards to employees, including grants of employee stock options, to be recognized in the financial statements based on their grant date fair values and does not allow the previously permitted pro forma disclosure-only method as an alternative to financial statement recognition.

The adoption of SFAS 123R has a significant adverse impact on our reported results of operations because the stock-based compensation expense is charged directly against our reported earnings. Our net income for the three months ended April 30, 2006 reflected stock-based compensation expense of \$44.5 million as a result of our adoption of SFAS 123R. The amount of unearned stock-based compensation currently estimated to be expensed in the period commencing May 1, 2006 through April 30, 2011 related to unvested share-based payment awards at April 30, 2006 is \$376.8 million. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or assume unvested equity awards in connection with acquisitions.

We also plan to grant additional employee stock options as well as restricted stock units in the second quarter of fiscal 2007 as part of our compensation plan. The unearned stock-based compensation resulting from those stock options and restricted stock unit grants will depend on the number of stock options and restricted stock units granted and their then current fair values.

Had we adopted SFAS 123R in prior periods, the magnitude of the impact of that standard on our results of operations would have approximated the impact of SFAS 123 assuming the application of the Black-Scholes option pricing model as described in the disclosure of pro forma net income (loss) and pro forma net income (loss) per share in Notes 1 and 7 of Notes to Unaudited Condensed Consolidated Financial Statements. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement may reduce net operating cash flows and increase net financing cash flows in periods after its adoption.

Any other subsequent changes in the accounting rules applicable to us may also have an adverse effect on our results of operations.

***If we are unable to develop and introduce new and enhanced products that achieve market acceptance in a timely and cost-effective 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 and introduce new products and enhancements to our existing products. We must also achieve market acceptance for these products and enhancements. If we do not successfully develop and achieve market acceptance for new and enhanced products, our ability to maintain or increase revenues will suffer. The development of our products is highly complex. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. 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.

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.

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

To achieve our business objectives, we anticipate that we will need to continue to expand. We have experienced a period of rapid growth and expansion in the past. Through internal growth and acquisitions, we significantly increased the scope of our operations and expanded our workforce from 1,205 employees, as of January 31, 2003 to 2,795 employees, as of April 30, 2006. Nonetheless, we may not be able to expand our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products and services or to the demand for new products requested by our customers. In that event, we may be unable to meet competitive challenges or exploit potential market opportunities, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expected, the rate of increase in our operating expenses may exceed the rate of increase in our revenue, which would adversely affect our operating results.

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

***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 several third-party foundries to produce substantially all of our integrated circuit products. We also currently rely on several third-party assembly and test subcontractors to assemble, package and test our products. The resurgence of severe acute respiratory syndrome, or SARS, the outbreak of avian flu 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 harm our business, financial condition or results of operations.

With limited exceptions, our vendors are not obligated to perform services or supply products to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. These vendors may allocate capacity to the production of other companies' products while reducing deliveries to us on short notice. In particular, some foundry customers may have long-term agreements with these foundries that 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 we are unable to obtain timely and adequate deliveries from our providers at the required 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 qualify 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.

***Our Marvell Semiconductor Israel Ltd., Marvell T.I. 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, Marvell T.I. Ltd, or MTIL 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, MTIL and RADLAN are directly influenced by the political, economic and military conditions affecting Israel. Major hostilities involving or within Israel could disrupt MSIL, MTIL and RADLAN's 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 ongoing situation in Iraq and political tensions with Iran 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, MTIL and RADLAN.

***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 acquired businesses;

- the potential disruption of our ongoing business;
- the distraction of management from our business;
- the potential inability of management to maximize our financial and strategic position as a result of an acquisition;
- the potential for costs and delays in implementing, and the potential difficulty in maintaining uniform standards, controls, procedures and policies, including the integration of different information systems;
- the impairment of relationships with employees and customers 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;
- the risk that there could be deficiencies in the internal control of any acquired company or investments that could result in a material weakness in our overall internal controls taken as a whole;

- the potential loss of key employees of an acquired company; and
- the potential dilution of earnings through acquisitions and options granted to employees of acquired companies or businesses

Our ability to realize the expected benefits of our pending acquisition of the printer semiconductor business of Avago Technologies Limited will depend in large part on our ability to retain the business' relationship with its principal customer, as well as the factors described above relating to our ability to integrate effectively the acquired business and its technologies, operations and personnel.

***Our recent acquisitions and any future acquisitions could harm our operating results and share price.***

We recently acquired the hard disk and tape drive controller semiconductor business of QLogic Corporation and the semiconductor design business division of UTStarcom, Inc. In addition, in May 2006, we announced the completion of the acquisition of the printer semiconductor division of Avago Technologies, Pte. Also in May 2006, we completed the acquisition from a third party of certain intellectual property and property and equipment.

Any acquisitions could materially harm our operating results as a result of possible concurrent issuances of dilutive equity securities or payment of cash. 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 acquired in-process research and development charges and other intangible assets, which could result in significant impairment and acquired in-process research and development 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 past few years, 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. Although recently we have seen some signs of recovery in the worldwide economy, we cannot predict the timing, strength and duration of any economic recovery, worldwide or in our served markets. If the economy does not continue to recover, 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 \$1.7 billion as of April 30, 2006. An impairment review could result in a write-down of all or a portion of these assets to their fair values. We intend to perform an annual impairment review during the fourth quarter of each fiscal year or

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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 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 many of our products to customers 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.

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

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. In the recent past, some of our customers have developed excess inventories of their own products and have, as a consequence, deferred purchase orders for our products. We currently do not have the ability to accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face volatile pricing and unpredictable demand for their own products and are increasingly focused more on cash preservation and tighter inventory management. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it more difficult to forecast customer demand. We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. If we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to, if at all. As a result, we would hold excess or obsolete inventory, which would reduce our profit margins and adversely affect our financial results. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would forego revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations. Furthermore, we generally recognize revenue upon shipment of products to a customer. If a customer refuses to accept shipped products or does not timely pay for these products, we could incur significant charges against our income.

***The uncertain and volatile worldwide economy, acts of war, terrorism, international conflicts and related uncertainties may adversely impact our revenues and profitability.***

In recent years, worldwide economic conditions have been volatile with concerns about inflation, increased reliance on consumer confidence and the situation in Iraq. The events of September 11, 2001, the continuing international conflicts and terrorist acts, continued increases in oil prices, the possibility of an extended United States presence in Iraq and the potential pandemic of avian or other flu-like illness can be expected to place further pressure on economic conditions in the United States and worldwide. These conditions make it extremely difficult for our customers, our vendors and for us to accurately forecast and plan future business activities. We cannot predict the timing, strength or duration of any economic recovery, worldwide, or in our served markets. If the worldwide economy or our served markets in which we operate were to experience any of the conditions above, our business, financial condition and results of operations could be adversely affected.

***We are a mid-sized 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, some 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.

***Because we do not have significant 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 typically 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 customers 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 customers 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.

***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.

***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. The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. Although we have entered into contractual commitments to supply specified levels of products to some of our customers, we may not have sufficient levels of production capacity with all of our foundries, despite signing a long-term guaranteed production capacity agreement with one of our foundries. Despite this agreement, foundry capacity may not be available when we need it or at reasonable prices. We place our orders on the basis of our customers' purchase orders or our forecast of customer demand, and the foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are or that have long-term agreements with our main foundries, may induce our foundries to reallocate capacity to those customers. This reallocation could impair our ability to secure the supply of components that we need. Although we use several independent foundries to manufacture substantially all of our semiconductor products, most of our components are not manufactured at more than one foundry at any given time, and our products typically are designed to be manufactured in a specific process at only one of these foundries. Accordingly, if one of our foundries is unable to provide us with components as needed, we could experience significant delays in securing sufficient supplies of those components. We cannot assure you that any of our existing or new foundries will be able to produce integrated circuits with acceptable manufacturing yields, or that our foundries will be able to deliver enough semiconductor devices to us on a timely basis, or at reasonable prices. These and other related factors could impair our ability to meet our customers' needs and have a material and adverse effect on our operating results.

In order to secure sufficient foundry capacity when demand is high and mitigate the risks described in the foregoing paragraph, we may enter into various arrangements with suppliers that could be costly and harm our operating results, such as nonrefundable deposits with or loans to foundries in exchange for capacity commitments, and contracts that commit us to purchase specified quantities of integrated circuits over extended periods.

We may not be able to make any such arrangement in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility, and not be on terms favorable to us. For example, amounts payable under our foundry capacity are non-refundable regardless of whether we are able to utilize all of any of the guaranteed wafer capacity under the terms of the agreement. 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 complexity of our products could result in unforeseen delays or expenses or 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. 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.

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

In order to remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes. We are dependent on our relationships with our foundry subcontractors to transition to smaller geometry processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage the transition or that we will be able to maintain our existing foundry relationships or develop new ones. If any of our foundry subcontractors or we experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations. As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, if at all. Moreover, even if we are able to achieve higher levels of design integration, such integration may have a short-term adverse impact on our operating results, as we may reduce our revenue by integrating the functionality of multiple chips into a single chip.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.***

Our management, including our CEO and CFO, does not expect that our system of internal control over financial reporting can prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, involving Marvell have been, or will be, detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential

future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. The Sarbanes-Oxley Act of 2002 requires management and our auditors to evaluate and assess the effectiveness of our internal control over financial reporting. These Sarbanes-Oxley Act requirements may be modified, supplemented or amended from time to time. Implementing these changes may take a significant amount of time and may require specific compliance training of our personnel. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. If we or our auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price. We may not be able to effectively and timely implement necessary control changes and employee training to ensure continued compliance with the Sarbanes-Oxley Act and other regulatory and reporting requirements. Our rapid growth in recent periods, and our possible future expansion through additional acquisitions, present challenges to maintain the internal control and disclosure control standards applicable to public companies. If we fail to maintain effective internal controls we could be subject to regulatory scrutiny and sanctions and investors could lose confidence in the accuracy and completeness of our financial reports. We cannot assure you that we will be able to fully comply with the requirements of the Sarbanes-Oxley Act or that management or our auditors will conclude that our internal controls are effective in future periods.

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

Our U.S. headquarters located in Santa Clara, California and our planned purchase of real property in Singapore subjects us to the risks of owning real property, 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;
- possible disputes with tenants or other third parties related to the buildings or the property or both; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of an earthquake.

***We depend on key personnel with whom we do not have employment agreements to manage our business, and if we are unable to retain our current personnel and hire additional personnel, our ability to develop and successfully market our products could be harmed.***

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. The loss of any key employees or the inability to attract or retain qualified personnel, including engineers and sales and marketing personnel, could delay the development and introduction of and harm our ability to sell our products. We believe that our future success is highly dependent on the contributions of Sehat Sutardja, Ph.D., our co-founder, President and Chief Executive Officer; Weili Dai, our co-founder and Executive Vice President; and Pantas Sutardja, Ph.D., our co-founder 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, manufacturing, marketing and sales of integrated circuits. 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.

Stock options generally comprise a significant portion of our compensation packages for all employees. The FASB requirement to expense the fair value of stock options awarded to employees beginning in the first quarter of our fiscal 2007 has increased our operating expenses and may cause us to reevaluate our compensation structure for our employees. We cannot be certain that the changes in our compensation policies, if any, will improve our ability to attract, retain and motivate employees. Our inability to attract and retain additional key employees and the increase in stock-based compensation expense could each have an adverse effect on our business, financial condition and results of operations.

***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 greatly influence the election of directors and the approval or disapproval of significant corporate actions.***

As of May 31, 2006, our executive officers and directors beneficially owned or controlled, directly or indirectly, approximately 20% of the outstanding shares of our common stock. Additionally, Sehat Sutardja, Ph.D. and Weili Dai are husband and wife and Sehat Sutardja, Ph.D. and Pantas Sutardja, Ph.D. are brothers. All three are directors and together they held approximately 19% of our outstanding common stock as of May 31, 2006. As a result, if the directors and officers as a group or any of Sehat Sutardja, Ph.D., Weili Dai and Pantas Sutardja, Ph.D. act together, they will significantly influence 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 our company on terms that other shareholders may desire. Furthermore, we have a classified board, which could also further delay or prevent an acquisition, under certain circumstances.

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 that 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 By-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.

***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 94% of our net revenue in the first three months of fiscal 2007, 94% of our net revenue in fiscal 2006 and 93% of our net revenue in fiscal 2005.

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;

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- political and economic instability, including wars, terrorism, other hostilities and political unrest, boycotts, curtailment of trade and other business restrictions; and
  - inadequate local infrastructure.

Because 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 third-party foundries 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, Malaysia 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 these most recent earthquakes, 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.

In May 2005, a fire occurred at one of our third-party subcontractor's production facilities that produce packaging substrates that we use in our products. In the recent past others in our industry experienced a shortage in the supply of packaging substrates that we use for our products. We do not purchase substrates from the factory where the fire occurred, however, the fire affected the overall supply of substrates and has indirectly impacted us through increased lead times and less supply of substrates that we use in our products. If our third-party subcontractors are unable to obtain sufficient packaging materials for our products in a timely manner, we may experience a significant product shortage or delay in product shipments, which could seriously harm our customer relationships and materially and adversely affect our net revenue, business, results of operations, financial condition and cash flows.

***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 products are likely to decrease over the next fiscal year below levels we have historically experienced due to pricing pressures from our customers, an increase in sales of storage SOC's, which typically have lower margins than standalone read channel devices, and an increase in sales of wireless and other products into consumer application markets, which are highly competitive and cost sensitive.

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 product sales cycle that does not assure product sales, and that if unsuccessful, may harm our operating results.***

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

Qualification is typically followed by an extended development period by our customers and an additional three to 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 its 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 must keep pace with rapid technological change and evolving industry standards in the semiconductor industry to remain competitive.***

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards and our customers' changing demands. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, short product life cycles and increasing demand for higher levels of integration and smaller process geometries. Our past sales and profitability have resulted, to a large extent, from our ability to anticipate changes in technology and industry standards and to develop and introduce new and enhanced products incorporating the new standards and technologies. Our ability to adapt to these changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and prospects for growth. If new industry standards emerge, our products or our customers' products could become unmarketable or obsolete, and we could lose market share. We may also have to incur substantial unanticipated costs to comply with these new standards. In addition, our target markets continue to undergo rapid growth and consolidation. A significant slowdown in any of these markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our customers to develop new products and enhance existing products for the markets we serve and to introduce and promote those products successfully.

***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.

***We may become involved with 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. 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 also party to other claims and litigation proceedings arising in the normal course of business. The impact on us as a result of such claims and litigation cannot currently be ascertained. 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 that may adversely impact gross margins. Any litigation, regardless of the outcome, is time-consuming and expensive to resolve, may require us to pay significant monetary damages and can divert management time and attention.

***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.

***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 and 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 and capital gains, those taxes should not apply to us until March 28, 2016. However, it is possible that this exemption would not be extended beyond that date.

The Economic Development Board of Singapore granted Pioneer Status to our wholly-owned subsidiary in Singapore in July 1999. Initially, this tax exemption was to expire after eight years, but the Economic Development Board on September 27, 2004 agreed to extend the term to 10 years. 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 income tax. 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. Until we receive written confirmation of the extended Pioneer Status, we will be operating in accordance with the current pioneer

status agreement as well as its October 1, 2004 agreement under which the Economic Development Board in Singapore agreed to grant our Singapore subsidiary a Development and Expansion incentive for a term of 5 years, commencing July 1, 2004. Under the Development and Expansion Incentive agreement, a portion of the income of the subsidiary which does not qualify for Pioneer Status will be taxed at a reduced rate of 10 percent. We agreed to maintain Singapore as our Asia Pacific headquarters and to meet several requirements relating to headcount, production activities and spending.

The Israeli government has granted Approved Enterprise Status to two of 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.

***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.

On June 26, 2003, the plaintiffs announced that a settlement among plaintiffs, the issuer defendants and their directors and officers, and their insurers had been structured, a 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 court issued an order preliminarily approving the settlement in August 2005 and held a public hearing on its fairness in April 2006. The court has not yet ruled following the public hearing. 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.

***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 changes 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 2. Unregistered Sales of Equity 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***

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

- |       |   |
|-------|---|
| 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 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 Sehat Sutardja, 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     |

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\* 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.

## SIGNATURES

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

MARVELL TECHNOLOGY GROUP LTD.

June 8, 2006  
Date

By: /s/ GEORGE A. HERVEY  
George A. Hervey  
Vice President and Chief Financial Officer

## EXHIBIT INDEX

Exhibit Number	Description
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**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dr. Sehat Sutardja, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 functions):
  - 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: June 8, 2006

By: /s/ DR. SEHAT SUTARDJA  
Dr. Sehat Sutardja  
Chairman of the Board,  
President and Chief Executive Officer

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

I, George A. Hervey, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 functions):
  - 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: June 8, 2006

By: /s/ GEORGE A. HERVEY  
George A. Hervey  
Vice President and Chief Financial Officer

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**STATEMENT OF CHIEF EXECUTIVE OFFICER UNDER 18 U.S.C. § 1350**

I, Dr. Sehat Sutardja, the Chief Executive Officer of Marvell Technology Group Ltd. (the “Company”), certify for the purposes of section 1350 of chapter 63 of title 18 of the United States Code that, to the best of my knowledge,

- (i) the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended April 30, 2006 (the “Report”), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DR. SEHAT SUTARDJA

Dr. Sehat Sutardja  
Chairman of the Board,  
President and Chief Executive Officer

Date: June 8, 2006

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**STATEMENT OF CHIEF FINANCIAL OFFICER UNDER 18 U.S.C. § 1350**

I, George A. Hervey, the Chief Financial Officer of Marvell Technology Group Ltd. (the “Company”), certify for the purposes of section 1350 of chapter 63 of title 18 of the United States Code that, to the best of my knowledge,

- (i) the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended April 30, 2006 (the “Report”), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE A. HERVEY

George A. Hervey

Vice President and Chief Financial Officer

Date: June 8, 2006

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