

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 May 2, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 000-30877

Marvell Technology Group Ltd.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of
incorporation or organization)

77-0481679

(I.R.S. Employer
Identification No.)

Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda

(441) 296-6395

(Address of principal executive offices, Zip Code and registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.002 per share	MRVL	Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 common shares of the registrant outstanding as of May 22, 2020 was 665.3 million shares.

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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements

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

	May 2, 2020	February 1, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 667,548	\$ 647,604
Accounts receivable, net	468,760	492,346
Inventories	270,374	322,980
Prepaid expenses and other current assets	72,282	74,567
Total current assets	1,478,964	1,537,497
Property and equipment, net	348,066	357,092
Goodwill	5,337,405	5,337,405
Acquired intangible assets, net	2,651,678	2,764,600
Deferred tax assets	639,470	639,791
Other non-current assets	525,946	496,850
Total assets	\$ 10,981,529	\$ 11,133,235
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 185,711	\$ 213,747
Accrued liabilities	380,653	346,639
Accrued employee compensation	124,277	149,780
Total current liabilities	690,641	710,166
Long-term debt	1,439,852	1,439,024
Deferred tax liabilities	33,284	31,233
Other non-current liabilities	282,130	274,232
Total liabilities	2,445,907	2,454,655
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common shares, \$0.002 par value	1,330	1,328
Additional paid-in capital	6,144,907	6,135,939
Accumulated other comprehensive income	868	—
Retained earnings	2,388,517	2,541,313
Total shareholders' equity	8,535,622	8,678,580
Total liabilities and shareholders' equity	\$ 10,981,529	\$ 11,133,235

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net revenue	\$ 693,641	\$ 662,452
Cost of goods sold	366,739	301,024
Gross profit	326,902	361,428
Operating expenses:		
Research and development	279,584	266,867
Selling, general and administrative	122,027	110,005
Restructuring related charges	21,287	5,682
Total operating expenses	422,898	382,554
Operating loss	(95,996)	(21,126)
Interest income	1,058	1,268
Interest expense	(16,830)	(21,203)
Other income (loss), net	3,754	(116)
Interest and other income (loss), net	(12,018)	(20,051)
Loss before income taxes	(108,014)	(41,177)
Provision for income taxes	5,019	7,273
Net loss	\$ (113,033)	\$ (48,450)
Net loss per share - Basic	\$ (0.17)	\$ (0.07)
Net loss per share - Diluted	\$ (0.17)	\$ (0.07)
Weighted-average shares:		
Basic	663,547	658,963
Diluted	663,547	658,963

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net loss	\$ (113,033)	\$ (48,450)
Other comprehensive income, net of tax:		
Net change in unrealized gain (loss) on cash flow hedges	868	—
Other comprehensive income, net of tax	868	—
Comprehensive loss, net of tax	<u>\$ (112,165)</u>	<u>\$ (48,450)</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	Common Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
Balance at February 1, 2020	663,481	\$ 1,328	\$ 6,135,939	\$ —	\$ 2,541,313	\$ 8,678,580
Issuance of common shares in connection with equity incentive plans	2,993	5	5,466	—	—	5,471
Tax withholdings related to net share settlement of restricted stock units	—	—	(31,498)	—	—	(31,498)
Share-based compensation	—	—	60,199	—	—	60,199
Repurchase of common stock	(1,251)	(3)	(25,199)	—	—	(25,202)
Cash dividends declared and paid (\$0.06 per share)	—	—	—	—	(39,763)	(39,763)
Net loss	—	—	—	—	(113,033)	(113,033)
Other comprehensive income	—	—	—	868	—	868
Balance at May 2, 2020	<u>665,223</u>	<u>\$ 1,330</u>	<u>\$ 6,144,907</u>	<u>\$ 868</u>	<u>\$ 2,388,517</u>	<u>\$ 8,535,622</u>

	Common Stock		Additional Paid-in-Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
Balance at February 2, 2019	658,514	\$ 1,317	\$ 6,188,598	\$ —	\$ 1,116,495	\$ 7,306,410
Issuance of common shares in connection with equity incentive plans	5,120	11	30,985	—	—	30,996
Tax withholdings related to net share settlement of restricted stock units	—	—	(28,756)	—	—	(28,756)
Share-based compensation	—	—	59,422	—	—	59,422
Repurchase of common stock	(2,359)	(5)	(50,018)	—	—	(50,023)
Cash dividends declared and paid (\$0.06 per share)	—	—	—	—	(39,467)	(39,467)
Net loss	—	—	—	—	(48,450)	(48,450)
Balance at May 4, 2019	<u>661,275</u>	<u>\$ 1,323</u>	<u>\$ 6,200,231</u>	<u>\$ —</u>	<u>\$ 1,028,578</u>	<u>\$ 7,230,132</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Cash flows from operating activities:		
Net loss	\$ (113,033)	\$ (48,450)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50,483	38,654
Share-based compensation	59,687	58,598
Amortization of acquired intangible assets	112,922	79,740
Amortization of inventory fair value adjustment associated with acquisitions	17,284	—
Other expense, net	11,451	12,577
Deferred income taxes	2,372	4,356
Changes in assets and liabilities:		
Accounts receivable	23,586	22,775
Inventories	35,834	15,848
Prepaid expenses and other assets	(6,694)	8,004
Accounts payable	(3,557)	(1,873)
Accrued liabilities and other non-current liabilities	10,796	(30,929)
Accrued employee compensation	(25,503)	6,516
Net cash provided by operating activities	175,628	165,816
Cash flows from investing activities:		
Purchases of technology licenses	(3,684)	(1,484)
Purchases of property and equipment	(35,343)	(19,183)
Other, net	665	(342)
Net cash used in investing activities	(38,362)	(21,009)
Cash flows from financing activities:		
Repurchases of common stock	(25,202)	(48,022)
Proceeds from employee stock plans	5,458	31,084
Tax withholding paid on behalf of employees for net share settlement	(31,501)	(28,758)
Dividend payments to shareholders	(39,763)	(39,467)
Payments on technology license obligations	(23,807)	(15,268)
Principal payments of debt	—	(50,000)
Other, net	(2,507)	(4,893)
Net cash used in financing activities	(117,322)	(155,324)
Net increase (decrease) in cash and cash equivalents	19,944	(10,517)
Cash and cash equivalents at beginning of period	647,604	582,410
Cash and cash equivalents at end of period	\$ 667,548	\$ 571,893

See accompanying notes to unaudited condensed consolidated financial statements

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

Note 1. Basis of Presentation

The unaudited condensed consolidated financial statements of Marvell Technology Group Ltd., a Bermuda exempted company, and its wholly owned subsidiaries (the “Company”), as of and for the three months ended May 2, 2020, have been prepared as required by the U.S. Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted as permitted by the SEC. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's fiscal year 2020 audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2020. In the opinion of management, the financial statements include all adjustments, including normal recurring adjustments and other adjustments, that are considered necessary for fair presentation of the Company's financial position and results of operations. All inter-company accounts and transactions have been eliminated. Operating results for the periods presented herein are not necessarily indicative of the results that may be expected for the entire year. Certain prior year amounts have been reclassified to conform to current year presentation. These amounts were not material to any of the periods presented. These financial statements should also be read in conjunction with the Company's critical accounting policies included in the Company's Annual Report on Form 10-K for the year ended February 1, 2020 and those included in this Form 10-Q below.

The Company's fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. Accordingly, every fifth or sixth fiscal year will have a 53-week period. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2020 had a 52-week year. Fiscal 2021 is a 52-week year.

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

Note 2. Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued a new standard requiring financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The standard eliminates the probable initial recognition threshold and reflects an entity’s current estimate of all expected credit losses. The measurement of expected credit losses is based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. The new standard was adopted by the Company on February 2, 2020 and did not have a material effect on the Company’s consolidated financial statements.

In August 2018, the FASB issued an accounting standards update to align the requirements for capitalizing implementation costs incurred in a software hosting arrangement that is a service contract and costs to develop or obtain internal-use software. The new standard was adopted by the Company on February 2, 2020 on a prospective basis and did not have a material effect on the Company’s consolidated financial statements.

In August 2018, the FASB issued an accounting standards update that modifies the disclosure requirements on fair value measurements. The new guidance adds, modifies and removes certain fair value measurement disclosure requirements. The new standard was adopted by the Company on February 2, 2020 and did not have a material effect on the Company’s consolidated financial statements.

In November 2018, the FASB issued an accounting standards update that clarifies when transactions between participants in a collaborative arrangement are within the scope of the new revenue recognition standard that the Company adopted at the beginning of fiscal 2019. The new standard was adopted by the Company on February 2, 2020 and did not have a material effect on the Company’s consolidated financial statements.

Accounting Pronouncements Not Yet Effective

In December 2019, the FASB issued an accounting standards update that simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation and modified the methodology for calculating income taxes in an interim period. It also clarifies and simplifies other aspects of the accounting for income taxes. The guidance is effective for the Company beginning in the first quarter of fiscal year 2022, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

Note 3. Business Combinations

Avera.

On November 5, 2019, the Company completed the acquisition of Avera, the ASIC business of GlobalFoundries. Avera is a leading provider of ASIC semiconductor solutions. The Company acquired Avera to expand its ASIC design capabilities. Total purchase consideration consisted of cash consideration paid to GlobalFoundries of \$593.5 million, net of working capital and other adjustments. An additional \$90 million in cash would have been paid to acquire additional assets if certain conditions were satisfied. GlobalFoundries and the Company have disagreed whether the necessary conditions have been satisfied and have been discussing the resolution of the matter.

The purchase consideration allocation set forth herein is preliminary and may be revised as additional information becomes available during the measurement period of up to 12 months from the closing date of the acquisition. Any such revisions or changes may be material.

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

The purchase price allocation is as follows (in thousands):

Inventories	\$	106,465
Prepaid expenses and other current assets		17,495
Property and equipment, net		25,677
Acquired intangible assets, net		379,000
Other non-current assets		6,870
Goodwill		129,392
Accrued liabilities		(64,155)
Deferred tax liabilities		(6,594)
Other non-current liabilities		(650)
	<u>\$</u>	<u>593,500</u>

The Company incurred total acquisition related costs of \$5.7 million which were recorded in selling, general and administrative expense in the unaudited condensed consolidated statements of operations.

Aquantia Corp.

On September 19, 2019, the Company completed the acquisition of Aquantia. Aquantia is a manufacturer of high speed transceivers which includes copper and optical physical layer products. The Company acquired Aquantia to further its position in automatic in-vehicle networking and strengthen its multi-gig ethernet PHY portfolio for enterprise infrastructure, data center and access application. The total consideration paid to acquire Aquantia, which consisted of cash and share based compensation awards was approximately \$502.2 million.

The merger consideration allocation set forth herein is preliminary and may be revised as additional information becomes available during the measurement period of up to 12 months from the closing date of the acquisition. Any such revisions or changes may be material.

The purchase price allocation is as follows (in thousands):

Cash and short term investments	\$	27,914
Inventory		33,900
Acquired intangible assets		193,000
Goodwill		227,594
Other non-current assets		35,123
Accrued liabilities		(21,813)
Other, net		6,471
Total merger consideration	<u>\$</u>	<u>502,189</u>

The Company incurred total acquisition related costs of \$5.3 million, which were recorded in selling, general and administrative expense in the unaudited condensed consolidated statements of operations.

Unaudited Supplemental Pro Forma Information

The unaudited supplemental pro forma financial information presented below is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the acquisitions had been completed on the date indicated, does not reflect synergies that might have been achieved, nor is it indicative of future operating results or financial position. The pro forma adjustments are based upon currently available information and certain assumptions the Company believes are reasonable under the circumstances.

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

The following unaudited supplemental pro forma information presents the combined results of operations for each of the periods presented, as if Avera and Aquantia had been acquired as of the beginning of fiscal year 2019. The unaudited supplemental pro forma information includes adjustments to amortization and depreciation for acquired intangible assets and property and equipment, adjustments to share-based compensation expense, the purchase accounting effect on inventories acquired, interest expense, and transaction costs. The unaudited supplemental pro forma information presented below is for informational purposes only and is not necessarily indicative of our unaudited condensed consolidated results of operations of the combined business had the Avera and Aquantia acquisitions actually occurred at the beginning of fiscal year 2019 or of the results of our future operations of the combined business.

The unaudited supplemental pro forma financial information for the periods presented is as follows (in thousands):

	Three Months Ended	
	May 4, 2019	
Pro forma net revenue	\$	758,006
Pro forma net loss	\$	(86,738)

Note 4. Goodwill and Acquired Intangible Assets, Net

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired in a business combination. The carrying value of goodwill as of May 2, 2020 and February 1, 2020 is \$5.3 billion. See “Note 3 - Business Combinations” for discussion of the acquisitions.

Acquired Intangible Assets, Net

In connection with the Cavium acquisition on July 6, 2018, the Aquantia acquisition on September 19, 2019 and the Avera acquisition on November 5, 2019, the Company acquired \$3.3 billion of intangible assets. As of May 2, 2020 and February 1, 2020, net carrying amounts are as follows (in thousands, except for weighted-average remaining amortization period):

	May 2, 2020			
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Weighted-Average Remaining Amortization Period (Years)
Developed technologies	\$ 2,511,000	\$ (500,301)	\$ 2,010,699	6.18
Customer contracts and related relationships	643,000	(153,916)	489,084	6.36
Trade names	23,000	(10,105)	12,895	2.75
Total acquired amortizable intangible assets	\$ 3,177,000	\$ (664,322)	\$ 2,512,678	6.20
IPR&D	139,000	—	139,000	n/a
Total acquired intangible assets	\$ 3,316,000	\$ (664,322)	\$ 2,651,678	

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

	February 1, 2020			
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Weighted-Average Remaining Amortization Period (Years)
Developed technologies	\$ 2,511,000	\$ (413,735)	\$ 2,097,265	6.41
Customer contracts and related relationships	643,000	(128,939)	514,061	6.61
Trade names	23,000	(8,726)	14,274	2.96
Total acquired amortizable intangible assets	\$ 3,177,000	\$ (551,400)	\$ 2,625,600	6.43
IPR&D	139,000	—	139,000	n/a
Total acquired intangible assets	\$ 3,316,000	\$ (551,400)	\$ 2,764,600	

The intangible assets are amortized on a straight-line basis over the estimated useful lives, except for certain Cavium customer contracts and related relationships, which are amortized using an accelerated method of amortization over the expected customer lives, which more closely align with the pattern of realization of economic benefits expected to be obtained. The IPR&D will be accounted for as an indefinite-lived intangible asset and will not be amortized until the underlying projects reach technological feasibility and commercial production at which point the IPR&D will be amortized over the estimated useful life. Useful lives for these IPR&D projects are expected to range between 3 to 10 years. In the event the IPR&D is abandoned the related assets will be written off.

Amortization for acquired intangible assets for the three months ended May 2, 2020 was \$112.9 million. Amortization expense for acquired intangible assets for the three months ended May 4, 2019 was \$79.7 million.

The following table presents the estimated future amortization expense of acquired amortizable intangible assets as of May 2, 2020 (in thousands):

Fiscal Year	Amount
Remainder of 2021	\$ 338,764
2022	441,969
2023	428,891
2024	399,920
2025	354,012
Thereafter	549,122
	\$ 2,512,678

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

Note 5. Restructuring and Other Related Charges

The Company continuously evaluates its existing operations to increase operational efficiency, decrease costs and increase profitability. The Company recorded restructuring and other related charges of \$21.3 million for the three months ended May 2, 2020. The Company expects to complete these restructuring actions by the end of fiscal 2021.

The Company recorded restructuring and other related charges of \$5.7 million for the three months ended May 4, 2019.

The following table presents details related to the restructuring related charges as presented in the unaudited condensed consolidated statements of operations (in thousands):

	Three Months Ended	
	May 2, 2020	May 4, 2019
Severance and related costs	\$ 17,003	\$ 1,488
Facilities and related costs	1,131	478
Other exit-related costs	400	191
	18,534	2,157
Release of reserves:		
Facilities and related costs	(70)	(188)
Other exit-related costs	—	(127)
Other restructuring charges:		
Impairment of equipment and other	—	633
Right-of-use asset amortization and impairment	2,823	3,207
	\$ 21,287	\$ 5,682

The following table sets forth a reconciliation of the beginning and ending restructuring liability balances by each major type of cost associated with the restructuring charges (in thousands):

	Severance and related costs	Facilities and related costs	Other exit-related costs	Total
Balance at February 1, 2020	\$ 13,228	\$ 653	\$ 547	\$ 14,428
Restructuring charges	17,003	1,131	400	18,534
Net cash payments	(21,132)	(1,229)	(333)	(22,694)
Release of reserves	—	(70)	—	(70)
Exchange rate adjustment	(21)	—	—	(21)
Balance at May 2, 2020	9,078	485	614	10,177
Less: non-current portion	—	104	—	104
Current portion	\$ 9,078	\$ 381	\$ 614	\$ 10,073

The remaining accrued severance and related costs and the other exit-related costs are expected to be paid in fiscal 2021. The remaining accrued facility and related costs includes remaining payments under lease obligations related to vacated space that are expected to be paid through fiscal 2023.

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

Note 6. Revenue

The majority of the Company's revenue is generated from sales of the Company's products. The following table summarizes net revenue disaggregated by product group (in thousands, except percentages):

	Three Months Ended		Three Months Ended	
	May 2, 2020	% of Total	May 4, 2019	% of Total
Net revenue by product group:				
Networking (1)	\$ 393,920	57 %	\$ 341,344	52 %
Storage (2)	258,688	37 %	278,667	42 %
Other (3)	41,033	6 %	42,441	6 %
	<u>\$ 693,641</u>		<u>\$ 662,452</u>	

- 1) Networking products are comprised primarily of Ethernet Solutions, Embedded Processors and Custom ASICs.
- 2) Storage products are comprised primarily of Storage Controllers and Fibre Channel Adapters.
- 3) Other products are comprised primarily of Printer Solutions and Application Processors.

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

The following table summarizes net revenue disaggregated by primary geographical market based on destination of shipment (in thousands, except percentages):

	Three Months Ended		Three Months Ended	
	May 2, 2020	% of Total	May 4, 2019	% of Total
Net revenue based on destination of shipment:				
China	\$ 280,146	40 %	\$ 246,134	37 %
United States	81,232	12 %	73,005	11 %
Thailand	67,544	10 %	46,666	7 %
Malaysia	64,668	9 %	63,320	10 %
Singapore	38,706	6 %	11,625	2 %
Philippines	24,574	4 %	62,488	9 %
Other	136,771	19 %	159,214	24 %
	<u>\$ 693,641</u>		<u>\$ 662,452</u>	

These destinations of shipment are not necessarily indicative of the geographic location of the Company's end customers or the country in which the Company's end customers sell devices containing the Company's products. For example, a substantial majority of the shipments made to China relate to sales to non-China based customers that have factories or contract manufacturing operations located within China.

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

	Three Months Ended		Three Months Ended	
	May 2, 2020	% of Total	May 4, 2019	% of Total
Net revenue by customer type:				
Direct customers	\$ 531,404	77 %	\$ 514,558	78 %
Distributors	162,237	23 %	147,894	22 %
	<u>\$ 693,641</u>		<u>\$ 662,452</u>	

Contract Liabilities

Contract liabilities consist of the Company's obligation to transfer goods or services to a customer for which the Company has received consideration or the amount is due from the customer. As of May 2, 2020, contract liability balances are comprised of variable consideration estimated based on a portfolio basis using the expected value methodology based on analysis of historical data, current economic conditions, and contractual terms. Variable consideration estimates consist of the estimated returns, price discounts, price protection, rebates, and stock rotation programs. As of the end of a reporting period, some of the performance obligations associated with contracts will have been unsatisfied or only partially satisfied. In accordance with the practical expedients available in the guidance, the Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less. Contract liabilities are included in accrued liabilities in the condensed consolidated balance sheets.

The opening balance of contract liabilities at the beginning of the first quarter of fiscal year 2021 was \$111.5 million. During the three months ended May 2, 2020, contract liabilities increased by \$188.1 million associated with variable consideration estimates, offset by \$193.2 million decrease in such reserves primarily due to credit memos issued to customers. The ending balance of contract liabilities as of the first quarter of fiscal year 2021 was \$106.4 million. The amount of revenue recognized during the three months ended May 2, 2020 that was included in the contract liabilities balance at February 1, 2020 was not material.

Sales Commissions

The Company has elected to apply the practical expedient to expense commissions when incurred as the amortization period is typically one year or less. These costs are recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of operations.

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

Note 7. Supplemental Financial Information (in thousands)

Consolidated Balance Sheets

	May 2, 2020	February 1, 2020
Inventories:		
Work-in-process	\$ 196,501	\$ 216,496
Finished goods	73,873	106,484
Inventories	<u>\$ 270,374</u>	<u>\$ 322,980</u>
	May 2, 2020	February 1, 2020
Property and equipment, net:		
Machinery and equipment	\$ 689,443	\$ 686,351
Land, buildings, and leasehold improvements	287,429	285,084
Computer software	101,865	100,613
Furniture and fixtures	24,725	24,582
	1,103,462	1,096,630
Less: Accumulated depreciation and amortization	(755,396)	(739,538)
Property and equipment, net	<u>\$ 348,066</u>	<u>\$ 357,092</u>
	May 2, 2020	February 1, 2020
Other non-current assets:		
Technology and other licenses	\$ 283,335	\$ 277,634
Operating right-of-use assets	124,752	110,907
Prepaid ship and debit *	74,599	75,362
Other	43,260	32,947
Other non-current assets	<u>\$ 525,946</u>	<u>\$ 496,850</u>

* Prepaid ship and debit of \$74.6 million and \$75.4 million as of May 2, 2020 and February 1, 2020, respectively, relate to certain prepaid distributor arrangements for ship and debit claims.

	May 2, 2020	February 1, 2020
Accrued liabilities:		
Contract liabilities	\$ 106,411	\$ 111,486
Technology license obligations	85,455	71,623
Deferred non-recurring engineering credits	52,645	51,109
Lease liabilities - current	30,128	28,662
Accrued royalty	13,189	10,927
Accrued restructuring	10,073	14,302
Accrued income tax payable	7,265	6,133
Other	75,487	52,397
Accrued liabilities	<u>\$ 380,653</u>	<u>\$ 346,639</u>

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

	May 2, 2020	February 1, 2020
Other non-current liabilities		
Lease liabilities - non current	\$ 127,195	\$ 115,778
Technology license obligations	102,585	107,893
Non-current income tax payable	33,973	37,983
Other	18,377	12,578
Other non-current liabilities	<u>\$ 282,130</u>	<u>\$ 274,232</u>

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by components for the current period are presented in the following table:

	Unrealized Gain (Loss) on Cash Flow Hedges
Balance at February 1, 2020	\$ —
Other comprehensive income (loss) before reclassifications	995
Amounts reclassified from accumulated other comprehensive income (loss)	(127)
Net current-period other comprehensive income, net of tax	868
Balance at May 2, 2020	<u>\$ 868</u>

As of May 4, 2019, there were no changes in accumulated other comprehensive income (loss).

Share Repurchase Program

On November 17, 2016, the Company announced that its Board of Directors authorized a \$1.0 billion share repurchase plan. The newly authorized stock repurchase program replaced in its entirety the prior \$3.25 billion stock repurchase program. On October 16, 2018, the Company announced that its Board of Directors authorized a \$700 million addition to the balance of its existing share repurchase program. As of May 2, 2020, there was \$564.5 million remaining available for future share repurchases. The Company intends to effect share repurchases in accordance with the conditions of Rule 10b-18 under the Exchange Act, but may also make repurchases in the open market outside of Rule 10b-18 or in privately negotiated transactions. The share repurchase program will be subject to market conditions and other factors, and does not obligate the Company to repurchase any dollar amount or number of its common shares and the repurchase program may be extended, modified, suspended or discontinued at any time.

The Company repurchased 1.3 million of its common shares for \$25.2 million during the three months ended May 2, 2020. Midway through the quarter ended May 2, 2020, the Company temporarily suspended the share repurchase program as the Company believed it is prudent to strengthen its liquidity to increase its cash balance during the COVID-19 environment. The Company repurchased 2.4 million of its common shares for \$50.0 million during the three months ended May 4, 2019. The Company records all repurchases, as well as investment purchases and sales, based on their trade date. The repurchased shares are retired immediately after repurchases are completed.

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

Note 8. Fair Value Measurements

Fair value is an exit price representing the amount that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the accounting guidance establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.

Level 2—Other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's Level 1 assets include institutional money-market funds that are classified as cash equivalents and which are valued primarily using quoted market prices. The Company's Level 2 assets include time deposits, as the market inputs used to value these instruments consist of market yields. In addition, forward contracts and the severance pay fund are classified as Level 2 assets as the valuation inputs are based on quoted prices and market observable data of similar instruments.

The tables below set forth, by level, the Company's assets and liabilities that are measured at fair value on a recurring basis. The tables do not include assets and liabilities that are measured at historical cost or any basis other than fair value (in thousands):

	Fair Value Measurements at May 2, 2020			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	\$ 3,859	\$ —	\$ —	\$ 3,859
Time deposits	—	26,673	—	26,673
Prepaid expenses and other current assets:				
Foreign currency forward contracts	—	868	—	868
Other non-current assets:				
Severance pay fund	—	700	—	700
Total assets	<u>\$ 3,859</u>	<u>\$ 28,241</u>	<u>\$ —</u>	<u>\$ 32,100</u>

	Fair Value Measurements at February 1, 2020			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	\$ 46,355	\$ —	\$ —	\$ 46,355
Time deposits	—	88,177	—	88,177
Other non-current assets:				
Severance pay fund	—	693	—	693
Total assets	<u>\$ 46,355</u>	<u>\$ 88,870</u>	<u>\$ —</u>	<u>\$ 135,225</u>

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

Fair Value of Debt

The Company classified the Term Loan, the 2023 Notes and 2028 Notes under Level 2 of the fair value measurement hierarchy. The carrying value of the Term Loan approximates its fair value as the Term Loan is carried at a market observable interest rate that resets periodically. The estimated aggregate fair value of the 2023 Notes and 2028 Notes was \$1.1 billion at May 2, 2020 and February 1, 2020, and were classified as Level 2 as there are quoted prices from less active markets for the notes.

Note 9. Debt

In connection with the acquisition of Cavium, the Company executed debt agreements in June 2018 to obtain a \$900 million term loan, a \$500 million revolving credit facility and \$1.0 billion of senior unsecured notes.

Term Loan and Revolving Credit Facility

On June 13, 2018, the Company entered into a credit agreement ("Credit Agreement") with twelve lenders. The Credit Agreement provides for borrowings of: (i) up to \$500.0 million in the form of a revolving line of credit ("Revolving Credit Facility") and (ii) \$900.0 million in the form of a term loan ("Term Loan"). The proceeds of the Term Loan were used to fund a portion of the cash consideration for the Cavium acquisition, repay Cavium's debt, and pay transaction expenses in connection with the Cavium acquisition. The proceeds of the Revolving Credit Facility are intended for general corporate purposes of the Company and its subsidiaries, which may include, among other things, the financing of acquisitions, the refinancing of other indebtedness and the payment of transaction expenses related to the foregoing. As of May 2, 2020, there was no outstanding balance related to the Revolving Credit Facility. Following is further detail of the terms of the various debt agreements.

The Term Loan has a three year term which matures on July 6, 2021 and has a stated floating interest rate which equates to reserve-adjusted LIBOR + 137.5 bps. The effective interest rate for the Term Loan was 3.817% as of May 2, 2020. The Term Loan does not require any scheduled principal payments prior to final maturity but does permit the Company to make early principal payments without premium or penalty. The Revolving Credit Facility has a five year term and has a stated floating interest rate which equates to reserve-adjusted LIBOR + 150.0 bps. As of May 2, 2020, the full amount of the Revolving Credit Facility of \$500.0 million was undrawn and will be available for draw down through June 13, 2023. An unused commitment fee is payable quarterly based on unused balances at a rate that is based on the ratings of the Company's senior unsecured long-term indebtedness. This rate was 0.175% at May 2, 2020.

The Company currently carries debt that rely on the LIBOR as the benchmark rate, with the Term Loan maturing on July 6, 2021. LIBOR is expected to be phased out as a benchmark rate by the end of 2021. The Company expects its debt to continue to use LIBOR until the rate is no longer available or a relevant governmental authority makes a public statement that LIBOR will no longer be available after a certain date. To the extent LIBOR ceases to exist, the Company will need to amend its credit agreements that utilize LIBOR as a factor in determining the interest rate. Currently, there is not a firm timeframe for this change. This update currently has no foreseeable impact on the Company's unaudited condensed consolidated financial statements; however, it may have an effect in the future.

The Credit Agreement requires that the Company and its subsidiaries comply, subject to certain exceptions, with covenants relating to customary matters such as creating or permitting certain liens, entering into sale and leaseback transactions, consolidating, merging, liquidating or dissolving, and entering into restrictive agreements. It also prohibits subsidiaries of the Company from incurring additional indebtedness, and requires the Company to comply with a leverage ratio financial covenant as of the end of any fiscal quarter. As of May 2, 2020, the Company was in compliance with all of its debt covenants.

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

Senior Unsecured Notes

On June 22, 2018, the Company completed a public offering of (i) \$500.0 million aggregate principal amount of the Company's 4.200% Senior Notes due 2023 (the "2023 Notes") and (ii) \$500.0 million aggregate principal amount of the Company's 4.875% Senior Notes due 2028 (the "2028 Notes" and, together with the 2023 Notes, the "Senior Notes").

The 2023 Notes mature on June 22, 2023 and the 2028 Notes mature on June 22, 2028. The stated and effective interest rates for the 2023 Notes are 4.200% and 4.423%, respectively. The stated and effective interest rates for the 2028 Notes are 4.875% and 5.012%, respectively. The Company may redeem the Senior Notes, in whole or in part, at any time prior to their maturity at the redemption prices set forth in Senior Notes. In addition, upon the occurrence of a change of control repurchase event (which involves the occurrence of both a change of control and a ratings event involving the Senior Notes being rated below investment grade), the Company will be required to make an offer to repurchase the Senior Notes at a price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the repurchase date. The indenture governing the Senior Notes also contains certain limited covenants restricting the Company's ability to incur certain liens, enter into certain sale and leaseback transactions and merge or consolidate with any other entity or convey, transfer or lease all or substantially all of the Company's properties or assets to another person, which, in each case, are subject to certain qualifications and exceptions.

Summary of Borrowings and Outstanding Debt

The following table summarizes the Company's outstanding debt at May 2, 2020 and February 1, 2020 (in thousands):

	May 2, 2020	February 1, 2020
Face Value Outstanding:		
Term Loan	\$ 450,000	\$ 450,000
2023 Notes	500,000	500,000
2028 Notes	500,000	500,000
Total borrowings	\$ 1,450,000	\$ 1,450,000
Less: Unamortized debt discount and issuance cost	(10,148)	(10,976)
Net carrying amount of debt	\$ 1,439,852	\$ 1,439,024
Less: Current portion	—	—
Non-current portion	\$ 1,439,852	\$ 1,439,024

During the three months ended May 2, 2020, the Company recognized \$15.4 million of interest expense in its unaudited condensed consolidated statements of operations related to interest, amortization of debt issuance costs and accretion of discount associated with the outstanding Term Loan and Senior Notes.

During the three months ended May 4, 2019, the Company recognized \$19.3 million of interest expense in its unaudited condensed consolidated statements of operations related to interest, amortization of debt issuance costs and accretion of discount associated with the outstanding Term Loan and Senior Notes.

As of May 2, 2020, the aggregate future contractual maturities of the Company's outstanding debt, at face value, were as follows (in thousands):

Fiscal Year	Amount
Remainder of 2021	\$ —
2022	450,000
2023	—
2024	500,000
2025	—
Thereafter	500,000
Total	\$ 1,450,000

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

Note 10. Commitments and Contingencies***Purchase Commitments***

Under the Company's manufacturing relationships with its foundry partners, cancellation of outstanding purchase orders is allowed but requires payment of all costs and expenses incurred through the date of cancellation. As of May 2, 2020, these foundries had incurred approximately \$199.6 million of manufacturing costs and expenses relating to the Company's outstanding purchase orders.

Contingencies and Legal Proceedings

The Company currently is, and may from time to time become, a party to claims, lawsuits, governmental inquiries, inspections or investigations and other legal proceedings (collectively, "Legal Matters") arising in the course of its business. Such Legal Matters, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

The Company is currently unable to predict the final outcome of its pending Legal Matters and therefore cannot determine the likelihood of loss or estimate a range of possible loss, except with respect to amounts where it has determined a loss is both probable and estimable and has made an accrual. The Company evaluates, at least on a quarterly basis, developments in its Legal Matters that could affect the amount of any accrual, as well as any developments that would result in a loss contingency to become both probable and reasonably estimable. The ultimate outcome of any Legal Matter involves judgments, estimates and inherent uncertainties. An unfavorable outcome in a Legal Matter, particularly in a patent dispute, could require the Company to pay damages or could prevent the Company from selling some of its products in certain jurisdictions. While the Company cannot predict with certainty the results of the Legal Matters in which it is currently involved, the Company does not expect that the ultimate costs to resolve these Legal Matters will individually or in the aggregate have a material adverse effect on its financial condition, however, there can be no assurance that the current or any future Legal Matters will be resolved in a manner that is not adverse to the Company's business, financial condition, results of operations or cash flows.

Indemnities, Commitments and Guarantees

During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities may include indemnities for general commercial obligations, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to directors and officers of the Company to the maximum extent permitted under the laws of Bermuda. In addition, the Company has contractual commitments to various customers, which could require the Company to incur costs to repair an epidemic defect with respect to its products outside of the normal warranty period if such defect were to occur. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Some of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments that the Company could be obligated to make. In general, the Company does not record any liability for these indemnities, commitments and guarantees in the accompanying condensed consolidated balance sheets as the amounts cannot be reasonably estimated and are not considered probable. The Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable and estimable.

Intellectual Property Indemnification

In addition to the above indemnities, the Company has agreed to indemnify certain customers for claims made against the Company's products where such claims allege infringement of third-party intellectual property rights, including, but not limited to, patents, registered trademarks, and/or copyrights. Under the aforementioned indemnification clauses, the Company may be obligated to defend the customer and pay for the damages awarded against the customer as well as the attorneys' fees and costs under an infringement claim. The Company's indemnification obligations generally do not expire after termination or expiration of the agreement containing the indemnification obligation. Generally, there are limits on and exceptions to the Company's potential liability for indemnification. Historically the Company has not made significant payments under these indemnification obligations and the Company cannot estimate the amount of potential future payments, if any, that it might be required to make as a result of these agreements. The maximum potential amount of any future payments that the Company could be required to make under these indemnification obligations could be significant.

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

Note 11. Income Tax

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period. The Company's quarterly tax provision, and estimate of its annual effective tax rate, is subject to variation due to several factors, including variability in accurately predicting our pre-tax income or loss and the mix of jurisdictions to which they relate, intercompany transactions, changes in tax laws, the applicability of special tax regimes, changes in how we do business, and acquisitions, as well as the integration of such acquisitions.

The Company's estimated effective tax rate for the year differs from the U.S. statutory rate of 21% primarily due to a substantial portion of its earnings being taxed at rates lower than the U.S. statutory rate. The Company's negative effective tax rate is the result of anticipated annual income tax expense attributed to certain jurisdictions which have pretax income. The Company's effective tax rate was adversely affected by pre-tax losses in certain non-U.S. tax jurisdictions that are benefited at tax rates that are lower than 21%. These losses significantly reduce the Company's pre-tax income without a corresponding reduction in its tax expense, and therefore increase its effective tax rate or in this case cause a negative effective tax rate.

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted into US federal law on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, and technical corrections from prior tax legislation for tax depreciation of certain qualified improvement property. The Company evaluated the provisions of the CARES Act and does not anticipate any material impact on its financial statements. The tax effects of other related foreign government assistance enacted into law this period are also not material to the Company this period.

The income tax expense of \$5.0 million for the three months ended May 2, 2020 includes a tax benefit from a net reduction in unrecognized tax benefits of \$4.6 million, offset by \$1.8 million in tax expense due on certain foreign undistributed earnings that were previously considered to be indefinitely reinvested.

The income tax expense of \$7.3 million for the three months ended May 4, 2019 included a tax benefit from a net reduction in unrecognized tax benefits of \$3.2 million, offset by \$9.9 million in tax expense on certain foreign undistributed earnings that were previously considered to be indefinitely reinvested.

It is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law in various jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these factors, it is reasonably possible that uncertain tax positions may decrease by as much as \$15.1 million from the lapse of statutes of limitation in various jurisdictions during the next 12 months. Government tax authorities from several non-U.S. jurisdictions are also examining the Company's tax returns. The Company believes that it has adequately provided for any reasonably foreseeable outcomes related to its tax audits and that any settlement will not have a material effect on its results at this time.

The Company operates under tax incentives in certain countries that may be extended and/or renewed if certain additional requirements are satisfied. The tax incentives are conditional upon meeting certain employment and investment thresholds. There were no cash tax benefits as a result of these tax incentives on foreign taxes for the three months ended May 2, 2020, but foreign taxes were decreased by \$0.1 million for the three months ended May 4, 2019. The benefit of the tax incentives on net income per share was less than \$0.01 per share for the three months ended May 4, 2019.

The Company's principal source of liquidity as of May 2, 2020 consisted of approximately \$667.5 million of cash and cash equivalents, of which approximately \$484.0 million was held by subsidiaries outside of Bermuda. The Company has not recognized a deferred tax liability on \$122.0 million of these assets as those amounts are deemed to be indefinitely reinvested. The Company plans to use such amounts to fund various activities outside of Bermuda, including working capital requirements, capital expenditures for expansion, funding of future acquisitions or other financing activities.

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

Note 12. Net Loss Per Share

The Company reports both basic net loss per share, which is based on the weighted-average number of common shares outstanding during the period, and diluted net loss per share, which is based on the weighted-average number of common shares outstanding and potentially dilutive shares outstanding during the period.

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Numerator:		
Net loss	\$ (113,033)	\$ (48,450)
Denominator:		
Weighted-average shares — basic	663,547	658,963
Effect of dilutive securities:		
Share-based awards	—	—
Weighted-average shares — diluted	663,547	658,963
Net loss per share:		
Basic	\$ (0.17)	\$ (0.07)
Diluted	\$ (0.17)	\$ (0.07)

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

Anti-dilutive potential shares are presented in the following table (in thousands):

	Three Months Ended	
	May 2, 2020	May 4, 2019
Weighted-average shares outstanding:		
Share-based awards	12,416	13,969

Anti-dilutive potential shares from share-based awards are excluded from the calculation of diluted earnings per share for all periods reported above because either their exercise price exceeded the average market price during the period or the share-based awards were determined to be anti-dilutive based on applying the treasury stock method. Anti-dilutive potential shares from share based awards are excluded from the calculation of diluted earnings per share for the three months ended May 2, 2020 and May 4, 2019 due to the net losses reported in those periods.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are subject to the "safe harbor" created by those sections. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results to differ materially from those implied by the forward-looking statements. Words such as "anticipates," "expects," "intends," "plans," "projects," "believes," "seeks," "estimates," "forecasts," "targets," "may," "can," "will," "would" and similar expressions identify such forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ materially from those predicted include, but are not limited to:

- the impact of the COVID-19 pandemic or other future pandemics, on the global economy and on our customers, suppliers, employees and business;
- our ability to define, design and develop products for the infrastructure and 5G market and to market and sell those products to infrastructure customers;
- the impact of international conflict, trade relations between the U.S. and other countries, and continued economic volatility in either domestic or foreign markets;
- the impact and costs associated with changes in international financial and regulatory conditions such as the addition of new trade restrictions, tariffs or embargos;
- our ability and the ability of our customers to successfully compete in the markets in which we serve;
- our ability and our customers' ability to develop new and enhanced products and the adoption of those products in the market;
- our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products;
- the risks associated with manufacturing and selling a majority of our products and our customers' products outside of the United States;
- the effects of transitioning to smaller geometry process technologies;
- our ability to implement our plans, forecasts and other expectations with respect to our acquisitions and to fully realize the anticipated synergies and cost savings in the time frame anticipated;
- our ability to scale our operations in response to changes in demand for existing or new products and services;
- our ability to limit costs related to defective products;
- our ability to recruit and retain experienced executive management as well as highly-skilled personnel;
- our ability to mitigate risks related to our information technology systems;
- our ability to protect our intellectual property, particularly outside of the U.S.;
- our ability to estimate customer demand and future sales accurately;
- our reliance on third-party distributors and manufacturers' representatives to sell our products;
- the impact of 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;
- our maintenance of an effective system of internal controls;
- our dependence upon the storage market, which is highly cyclical and intensely competitive;
- our ability to realize expected benefits from restructuring activities;
- our dependence on a small number of customers;
- severe financial hardship or bankruptcy of one or more of our major customers;
- the effects of any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures;
- risks associated with acquisition and consolidation activity in the semiconductor industry;
- decreases in our gross margin and results of operations in the future due to a number of factors;
- the impact of natural disasters and other catastrophic events; and
- the outcome of pending or future litigation and legal proceedings.

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

Overview

We are a leading supplier of infrastructure semiconductor solutions, spanning the data center core to network edge. We are a fabless semiconductor supplier of high-performance standard and semi-custom products with core strengths in developing and scaling complex System-on-a-Chip architectures integrating analog, mixed-signal and digital signal processing functionality. Leveraging leading intellectual property and deep system-level expertise as well as highly innovative security firmware, our solutions are empowering the data economy and enabling communications across 5G, cloud, automotive, industrial and artificial intelligence applications.

In the first quarter of fiscal 2021, our net revenue increased year over year by 5% from \$662.5 million net revenue in the first quarter fiscal 2020 compared with \$693.6 million in the first quarter of fiscal 2021. The increase was primarily due to increased sales of our networking products by 15%, partially offset by decreased sales of our storage products and other products by 7% and 3%, respectively.

We continue to monitor the outbreak of the novel coronavirus (COVID-19) on our business. While many of our offices around the world remain open to enable critical on-site business functions in accordance with local government guidelines, the majority of our employees have been working from home. While the COVID-19 outbreak did impact our business operations and practices in the first quarter of fiscal 2021, stronger market demand in our networking business partially offset these adverse impacts on our operating results, cash flows and financial position. The adverse impact from COVID-19 in the first quarter was primarily to our storage business due to disruptions in our supply chain as well as impacts on demand for our products due to supply chain disruptions at our customers. We expect COVID-19 to continue to impact our business and for a further discussion of the uncertainties and business risks associated with the COVID-19 pandemic, see Part II, Item 1A, “Risk Factors,” including but not limited to the risk detailed under the caption “*We face risks related to COVID-19 pandemic which could significantly disrupt our manufacturing, research and development, operations, sales and financial results.*”

We expect that the U.S. government's export restrictions on certain Chinese customers will continue to impact our revenue in fiscal year 2021.

Capital Return Program. We remain committed to delivering shareholder value through our share repurchase and dividend programs. On October 16, 2018, we announced that our Board of Directors authorized a \$700 million addition to the balance of our existing share repurchase program. Under the program authorized by our Board of Directors, we may repurchase shares in the open-market or through privately negotiated transactions. The extent to which we repurchase our shares and the timing of such repurchases will depend upon market conditions and other corporate considerations, as determined by our management team. The share repurchase program was temporarily suspended in late March 2020 to preserve cash during the COVID-19 pandemic. We will continue to evaluate business conditions to decide when we can restart the share repurchase program. As of May 2, 2020, there was \$564.5 million remaining available for future share repurchases of the authorization.

For the three months ended May 2, 2020, we repurchased 1.3 million shares of our common stock for \$25.2 million. As of May 2, 2020, a total of 308.1 million shares have been repurchased to date under our share repurchase programs for a total \$4.3 billion in cash. We returned \$65.0 million to stockholders in the three months ended May 2, 2020, including our repurchases of common stock and \$39.8 million of cash dividends.

Cash and Cash Equivalents. Our cash and cash equivalents were \$667.5 million at May 2, 2020, which was \$19.9 million higher than our balance at our fiscal year ended February 1, 2020 of \$647.6 million.

Sales and Customer Composition. Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. During the first quarter of fiscal 2021, there was no net revenue attributable to a customer, other than one distributor, whose revenues as a percentage of net revenue was 10% or greater of total net revenues. Net revenue attributable to significant customers whose revenue as a percentage of net revenue was 10% or greater of total net revenue is presented in the following table:

	Three Months Ended	
	May 2, 2020	May 4, 2019
End Customer:		
Cisco Systems	*	11 %
Western Digital	*	11 %
Distributor:		
Wintech	11 %	*

* Less than 10% of net revenue

We continuously monitor the creditworthiness of our distributors and believe these distributors' sales to diverse end customers and geographies further serve to mitigate our exposure to credit risk.

Most of our sales are made to customers located outside of the United States, primarily in Asia, and majority of our products are manufactured outside the United States. Sales shipped to customers with operations in Asia represented approximately 79% of our net revenue in the three months ended May 2, 2020, and approximately 80% of net revenue in the three months ended May 4, 2019, respectively. Because many manufacturers and manufacturing subcontractors of our customers are located in Asia, we expect that most of our net revenue will continue to be represented by sales to our customers in that region. For risks related to our global operations, see Part II, Item 1A, "Risk Factors," including but not limited to the risk detailed under the caption "*We face additional risks due to the extent of our global operations since a majority of our products, and those of our customers, are manufactured and sold outside of the United States. The occurrence of any or a combination of the additional risks described below would significantly and negatively impact our business and results of operations.*"

Historically, a relatively large portion of our sales have been made on the basis of purchase orders rather than long-term agreements. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. In addition, the development process for our products is long, which may cause us to experience a delay between the time we incur expenses and the time revenue is generated from these expenditures. We anticipate that the rate of new orders may vary significantly from quarter to quarter. For risks related to our sales cycle, see Part II, Item 1A, "Risk Factors," including but not limited to the risk detailed under the caption "*We are subject to order and shipment uncertainties. If we are unable to accurately predict customer demand, we may hold excess or obsolete inventory, which would reduce our gross margin. Conversely, we may have insufficient inventory, which would result in lost revenue opportunities and potential loss of market share as well as damaged customer relationships.*"

Critical Accounting Policies and Estimates

There have been no material changes during the three months ended May 2, 2020 to our critical accounting policies and estimates from the information provided in the "Critical Accounting Policies and Estimates" section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020.

Results of Operations

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

	Three Months Ended	
	May 2, 2020	May 4, 2019
Net revenue	100.0 %	100.0 %
Cost of goods sold	52.9	45.4
Gross profit	47.1	54.6
Operating expenses:		
Research and development	40.3	40.3
Selling, general and administrative	17.6	16.6
Restructuring related charges	3.1	0.9
Total operating expenses	61.0	57.8
Operating loss	(13.9)	(3.2)
Interest income	0.2	0.2
Interest expense	(2.4)	(3.2)
Other income (loss), net	0.5	—
Loss before income taxes	(15.6)	(6.2)
Provision for income taxes	0.7	1.1
Net loss	(16.3)%	(7.3)%

Three months ended May 2, 2020 and May 4, 2019

Net Revenue

	Three Months Ended		
	May 2, 2020	May 4, 2019	% Change
	(in thousands, except percentage)		
Net revenue	\$ 693,641	\$ 662,452	4.7 %

Our net revenue for the three months ended May 2, 2020 increased by \$31.2 million compared to net revenue for the three months ended May 4, 2019. This was primarily due to increased sales of our networking products by 15%, partially offset by decreased sales of our storage and other products by 7% and 3%, respectively, compared to the three months ended May 4, 2019. The increased sales of our networking products were primarily due to the acquisition of Aquantia and Avera, partially offset by the divestiture of the Wi-Fi Connectivity business in fiscal 2020. The decreased sales of our storage products was primarily due to the impact of COVID-19 on the supply chain.

In the three months ended May 2, 2020, unit shipments were 26% lower and average selling prices increased 25% compared to the three months ended May 4, 2019. This was primarily driven by the acquisition of Avera ASIC business characterized by higher average selling prices and divestiture of the Wi-Fi connectivity business, represented by higher unit shipments.

Cost of Goods Sold and Gross Profit

	Three Months Ended		% Change
	May 2, 2020	May 4, 2019	
	(in thousands, except percentage)		
Cost of goods sold	\$ 366,739	\$ 301,024	21.8 %
% of net revenue	52.9 %	45.4 %	
Gross profit	\$ 326,902	\$ 361,428	(9.6) %
% of net revenue	47.1 %	54.6 %	

Cost of goods sold as a percentage of net revenue was higher for the three months ended May 2, 2020 compared to the three months ended May 4, 2019, which primarily resulted from increased costs from amortization of acquired intangible assets, and the amortization of inventory fair value adjustment associated with the Aquantia and Avera acquisitions. As a result, gross margin for the three months ended May 2, 2020 decreased 7.5 percentage points compared to the three months ended May 4, 2019.

Research and Development

	Three Months Ended		% Change
	May 2, 2020	May 4, 2019	
	(in thousands, except percentage)		
Research and development	\$ 279,584	\$ 266,867	4.8 %
% of net revenue	40.3 %	40.3 %	

Research and development expenses increased by \$12.7 million in the three months ended May 2, 2020 compared to the three months ended May 4, 2019. The increase was primarily due to additional costs from our acquisitions of Aquantia and Avera, including \$6.7 million of higher employee personnel-related costs, \$5.9 million of higher engineering design expense, \$5.0 million of higher depreciation and amortization expense, \$2.4 million of increased integration costs, partially offset by increased non-recurring engineering credits of \$10.0 million recognized in the current period as well as the divestiture of our Wi-Fi Connectivity business in fiscal 2020.

Selling, general and administrative

	Three Months Ended		% Change
	May 2, 2020	May 4, 2019	
	(in thousands, except percentage)		
Selling, general and administrative	\$ 122,027	\$ 110,005	10.9 %
% of net revenue	17.6 %	16.6 %	

Selling, general and administrative expenses increased by \$12.0 million in the three months ended May 2, 2020 compared to the three months ended May 4, 2019. The increase was primarily due to additional costs associated with our acquisition of Aquantia and Avera, including \$6.5 million of higher intangible amortization expense and \$5.9 million of increased integration costs.

Restructuring Related Charges

	Three Months Ended		
	May 2, 2020	May 4, 2019	% Change
	(in thousands, except percentage)		
Restructuring related charges	\$ 21,287	\$ 5,682	274.6 %
% of net revenue	3.1 %	0.9 %	

We recognized \$21.3 million of total restructuring related charges in the three months ended May 2, 2020 as we continue to integrate our Aquantia and Avera acquisitions and evaluate our existing operations to increase operational efficiency, decrease costs and increase profitability. See “Note 5 - Restructuring and Other Related Charges” for further information.

Interest Income

	Three Months Ended		
	May 2, 2020	May 4, 2019	% Change
	(in thousands, except percentage)		
Interest income	\$ 1,058	\$ 1,268	(16.6)%
% of net revenue	0.2 %	0.2 %	

Interest income was relatively flat in the three months ended May 2, 2020 compared to the three months ended May 4, 2019.

Interest Expense

	Three Months Ended		
	May 2, 2020	May 4, 2019	% Change
	(in thousands, except percentage)		
Interest expense	\$ (16,830)	\$ (21,203)	(20.6)%
% of net revenue	(2.4)%	(3.2)%	

Interest expense decreased by \$4.4 million in the three months ended May 2, 2020 compared to the three months ended May 4, 2019. The decrease was primarily due to lower outstanding term loan balances.

Other Income (Loss), Net

	Three Months Ended		
	May 2, 2020	May 4, 2019	% Change
	(in thousands, except percentage)		
Other income (loss), net	\$ 3,754	\$ (116)	(3,336.2) %
% of net revenue	0.5 %	— %	

Other income (loss), net, changed by \$3.9 million in the three months ended May 2, 2020 compared to the three months ended May 4, 2019. The change was primarily due to income in the current period related to the divestiture of the Wi-Fi connectivity business in fiscal 2020.

Provision (benefit) for Income Taxes

	Three Months Ended		% Change
	May 2, 2020	May 4, 2019	
	(in thousands, except percentage)		
Provision (benefit) for income taxes	\$ 5,019	\$ 7,273	(31.0)%

Our income tax expense for the three months ended May 2, 2020 was \$5.0 million compared to a tax expense of \$7.3 million for the three months ended May 4, 2019. Our income tax expense for the three months ended May 2, 2020 differs from the same period in the prior year primarily due to a reduction of earnings of our non-U.S. subsidiaries that are subject to tax in the U.S. versus the prior period, combined with a decrease in non-US income taxes versus the prior period. The effective tax rate for the three months ended May 2, 2020 and May 4, 2019 differs from the statutory Federal rate of 21% primarily due to non-U.S. earnings that are taxed at a substantially lower tax rate.

Our provision for income taxes may be affected by changes in the geographic mix of earnings with different applicable tax rates, accruals related to contingent tax liabilities and period-to-period changes in such accruals, the results of income tax audits, the expiration of statutes of limitations, the implementation of tax planning strategies, tax rulings, court decisions, settlements with tax authorities and changes in tax laws. It is also possible that significant negative evidence may become available to reach a conclusion that a valuation allowance will be needed, and as such, we may recognize a valuation allowance in the next 12 months.

We also continuously evaluate realignment of our legal structure in response to guidelines and requirements in various international tax jurisdictions where we conduct business. Additionally, please see the information in “Item 1A: Risk Factors” under the caption “*Changes in existing taxation benefits, rules or practices may adversely affect our financial results.*”

Liquidity and Capital Resources

Our principal source of liquidity as of May 2, 2020 consisted of approximately \$667.5 million of cash and cash equivalents, of which approximately \$484.0 million was held by subsidiaries outside of Bermuda. We plan to use such amounts to fund various activities outside of Bermuda, including working capital requirements, capital expenditures for expansion, funding of future acquisitions or other financing activities.

In June 2018, we executed debt agreements to obtain a \$900 million term loan and \$1.0 billion of senior unsecured notes in order to fund the Cavium acquisition. In addition, we executed a debt agreement in June 2018 to obtain a \$500 million Revolving Credit Facility. See “Note 9 - Debt” for additional information.

We believe that our existing cash, cash equivalents, together with cash generated from operations, and funds from our Revolving Credit Facility will be sufficient to cover our working capital needs, capital expenditures, investment requirements and any declared dividends, repurchase of our common stock and commitments for at least the next twelve months. Our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects and increases in operating expenses, all of which are subject to uncertainty.

To the extent that our existing cash and cash equivalents, together with cash generated by operations, and funds available under our Revolving Credit Facility are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may also acquire additional businesses, purchase assets or enter into other strategic arrangements in the future, which could also require us to seek debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

Future payment of a regular quarterly cash dividend on our common shares and our planned repurchases of common stock will be subject to, among other things, the best interests of us and our shareholders, our results of operations, cash balances and future cash requirements, financial condition, developments in ongoing litigation, statutory requirements under Bermuda law, market conditions and other factors that our board of directors may deem relevant. Our dividend payments and repurchases of common stock may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares at all or in any particular amounts. Our share repurchase program was temporarily suspended in late March 2020 to preserve cash during the COVID-19 pandemic. We will continue to evaluate business conditions to decide when we can restart the share repurchase program.

Cash Flows from Operating Activities

Net cash flow provided by operating activities for the three months ended May 2, 2020 was \$175.6 million. We had a net loss of \$113.0 million adjusted for the following non-cash items: amortization of acquired intangible assets of \$112.9 million, share-based compensation expense of \$59.7 million, depreciation and amortization of \$50.5 million, amortization of inventory fair value adjustment associated with the Aquantia and Avera acquisition of \$17.3 million, deferred income tax expense of \$2.4 million, and \$11.5 million net loss from other non-cash items. Cash inflow from working capital of \$34.5 million for the three months ended May 2, 2020 was primarily driven by a decrease in inventory and accounts receivable partially off set by a decrease in accrued employee compensation. The decrease in inventory is due to improved supply chain management. The decrease in accounts receivables is due to stable collections. The decrease in accrued employee compensation is due to our annual bonus payment in the current period.

Net cash flow provided by operating activities for the three months ended May 4, 2019 was \$165.8 million. We had net loss of \$48.5 million, adjusted for the following non-cash items: depreciation and amortization of \$38.7 million, share-based compensation expense of \$58.6 million, amortization of acquired intangible assets of \$79.7 million, deferred income tax expense of \$4.4 million and \$12.6 million net loss from other non-cash items. Cash inflow from working capital of \$20.3 million for the three months ended May 4, 2019 was primarily driven by a decrease in accounts receivable and inventories and an increase in accrued employee compensation, slightly offset by a decrease in accrued liabilities and other non-current liabilities. The decrease in accounts receivable and inventories was driven primarily by collection of payments during the quarter as well as lower inventory in response to lower sales. The increase in accrued employee compensation is due to increases in employee stock purchase plan accruals and accrued salaries. The decrease in accrued liabilities and other non-current liabilities is due to decreases in accrued rebates and income tax payable, as well as decreases due to severance payments.

Cash Flows from Investing Activities

For the three months ended May 2, 2020, net cash used in investing activities of \$38.4 million was primarily driven by purchases of property and equipment of \$35.3 million, and purchases of technology licenses of \$3.7 million.

Net cash used in investing activities was \$21.0 million for the three months ended May 4, 2019, primarily driven by purchases of property and equipment of \$19.2 million and purchases of technology licenses of \$1.5 million.

Cash Flows from Financing Activities

For the three months ended May 2, 2020, net cash used in financing activities of \$117.3 million was primarily attributable to \$39.8 million for payment of our quarterly dividends, \$31.5 million tax withholding payments on behalf of employees for net share settlements, \$25.2 million for repurchases of our common stock and \$23.8 million payments for technology license obligations. These outflows were partially offset by proceeds of \$5.5 million from employee stock plans.

For the three months ended May 4, 2019, net cash used in financing activities of \$155.3 million was primarily attributable to \$50.0 million repayment of debt, \$48.0 million for repurchases of our common stock, \$39.5 million for payment of our quarterly dividends, \$28.8 million tax withholding payments on behalf of employees for net share settlements, and \$15.3 million payments for technology license obligations. These outflows were partially offset by proceeds of \$31.1 million from employee stock plans.

Contractual Obligations and Commitments

We presented our contractual obligations at February 1, 2020 in our Annual Report on Form 10-K for the fiscal year then ended. There have been no material changes outside the ordinary course of business in those obligations during the three months ended May 2, 2020.

Indemnification Obligations

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. With our outstanding debt, we are exposed to various forms of market risk, including the potential losses arising from adverse changes in interest rates on our outstanding Term Loan and Revolving Credit Facility. See “Note 9 - Debt” for further information. A hypothetical increase or decrease in the interest rate by 1 percentage point would result in an increase or decrease in annual interest expense by approximately \$4.6 million.

We currently carry debt that relies on the LIBOR as the benchmark rate, with the Term Loan maturing on July 6, 2021. LIBOR is expected to be phased out as a benchmark rate by the end of 2021. We expect our debt to continue to use LIBOR until the rate is no longer available or a relevant governmental authority makes a public statement that LIBOR will no longer be available after a certain date. To the extent LIBOR ceases to exist, we may need to renegotiate our credit agreements that utilize LIBOR as a factor in determining the interest rate. Currently, there is not a firm timeframe for this change. This update currently has no foreseeable impact on our unaudited condensed consolidated financial statements; however, it may have an effect in the future.

We maintain an investment policy that requires minimum credit ratings, diversification of credit risk and limits the long-term interest rate risk by requiring effective maturities of generally less than five years. We invest our excess cash primarily in highly liquid debt instruments of the U.S. government and its agencies, money market mutual funds, corporate debt securities and municipal debt securities that are classified as available-for-sale and time deposits. These investments are recorded on our condensed consolidated balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income (loss) in the unaudited condensed consolidated statement of shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. There were no investments on hand at May 2, 2020, aside from cash and cash equivalents.

Foreign Currency Exchange Risk. All of our sales and the majority of our expenses are denominated in U.S. dollars. Since we operate in many countries, a percentage of our international operational expenses are denominated in foreign currencies and exchange volatility could positively or negatively impact those operating costs. Increases in the value of the U.S. dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the U.S. dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Additionally, we may hold certain assets and liabilities, including potential tax liabilities, in local currency on our consolidated balance sheet. These tax liabilities would be settled in local currency. Therefore, foreign exchange gains and losses from remeasuring the tax liabilities are recorded to interest and other income, net. We do not believe that foreign exchange volatility has a material impact on our current business or results of operations. However, fluctuations in currency exchange rates could have a greater effect on our business or results of operations in the future to the extent our expenses increasingly become denominated in foreign currencies.

We may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. However, we may choose not to hedge certain foreign exchange exposures for a variety of reasons, including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures.

To provide an assessment of the foreign currency exchange risk associated with our foreign currency exposures within operating expense, we performed a sensitivity analysis to determine the impact that an adverse change in exchange rates would have on our financial statements. If the U.S. dollar weakened by 10%, our operating expense could increase by approximately 2%.

Item 4. Controls and Procedures

Management’s Evaluation of Disclosure Controls and Procedures

Management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of May 2, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended May 2, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitation on Effectiveness of Controls

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The information under the caption “Contingencies” as set forth in “Note 10 – Commitments and Contingencies” of our Notes to Unaudited Condensed Consolidated Financial Statements, included in Part I, Item 1, is incorporated herein by reference. For additional discussion of certain risks associated with legal proceedings, see Part II, Item 1A, “Risk Factors,” immediately below.

Item 1A. *Risk Factors*

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

SUMMARY OF FACTORS THAT MAY AFFECT OUR FUTURE RESULTS

Our financial condition and results of operations may vary from quarter to quarter, which may cause the price of our common shares to decline.

Our quarterly results of operations have fluctuated in the past and could do so in the future. Because our results of operations are difficult to predict, you should not rely on quarterly comparisons of our results of operations as an indication of our future performance. Fluctuations in our results of operations may be due to a number of factors, including, but not limited to, those listed below and those identified throughout this “Risk Factors” section:

- the impact of the COVID-19 pandemic or other future pandemics, on the global economy and on our customers, suppliers, employees and business;
- changes in general economic conditions, such as the impact of Brexit on the economy in the E.U., political conditions, such as the recent tariffs and trade restrictions with China and other foreign nations, and specific conditions in the end markets we address, including the continuing volatility in the technology sector and semiconductor industry;
- the ability of our customers, particularly in jurisdictions such as China that may be subject to trade restrictions (including the need to obtain export licenses) to develop their own solutions or acquire fully developed solutions from third-parties;
- the effects of any future acquisitions, divestitures or significant investments;
- the highly competitive nature of the end markets we serve, particularly within the semiconductor and infrastructure industries;
- our dependence on a few customers for a significant portion of our revenue;
- our ability to maintain a competitive cost structure for our manufacturing and assembly and test processes and our reliance on third parties to produce our products;
- our ability to realize anticipated synergies in connection with our acquisitions and our loss of synergies in connection with our divestitures;
- any current and future litigation and regulatory investigations that could result in substantial costs and a diversion of management’s attention and resources that are needed to successfully maintain and grow our business;
- cancellations, rescheduling or deferrals of significant customer orders or shipments, as well as the ability of our customers to manage inventory;

- gain or loss of a design win or key customer;
- seasonality or volatility related to sales into the infrastructure market;
- failure to qualify our products or our suppliers' manufacturing lines;
- our ability to develop and introduce new and enhanced products in a timely and effective manner, as well as our ability to anticipate and adapt to changes in technology;
- failure to protect our intellectual property, particularly outside the U.S.;
- impact of a significant natural disaster, including earthquakes, fires, floods and tsunamis, particularly in certain regions in which we operate or own buildings, such as Santa Clara, California, and where our third party suppliers operate, such as Taiwan and elsewhere in the Pacific Rim;
- our ability to attract, retain and motivate a highly skilled workforce, especially managerial, engineering, sales and marketing personnel;
- severe financial hardship or bankruptcy of one or more of our major customers; and
- failure of our customers to agree to pay for NRE (non-recurring engineering) costs or failure to pay enough to cover the costs we incur in connection with NREs.

Due to fluctuations in our quarterly results of operations and other factors, the price at which our common shares will trade is likely to continue to be highly volatile. Accordingly, you may not be able to resell your common shares at or above the price you paid. In future periods, our stock price could decline if, amongst other factors, our revenue or operating results are below our estimates or the estimates or expectations of securities analysts and investors. Our stock is traded on the Nasdaq stock exchange under the ticker symbol "MRVL". As a result of stock price volatility, we may be subject to securities class action litigation. Any litigation could result in substantial costs and a diversion of management's attention and resources that are needed to successfully maintain and grow our business.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH THE CORONAVIRUS (COVID-19) PANDEMIC

We face risks related to the COVID-19 pandemic which could significantly disrupt and adversely impact our manufacturing, research and development, operations, sales and financial results.

Our business has been, and will continue to be, adversely impacted by the effects of the COVID-19 pandemic. In addition to global macroeconomic effects, the COVID-19 pandemic and related adverse public health measures have caused disruption to our global operations and sales. Our third-party manufacturers, suppliers, third-party distributors, sub-contractors and customers have been, and are expected to continue to be, disrupted by worker absenteeism, quarantines and restrictions on their employees' ability to work; office and factory closures; disruptions to ports and other shipping infrastructure; border closures; and other travel or health-related restrictions. Depending on the magnitude of such effects on our manufacturing, assembling, and testing activities or the operations of our suppliers, third-party distributors, or sub-contractors, our supply chain, manufacturing and product shipments will be delayed, which could adversely affect our business, operations and customer relationships.

In addition to operational and customer impacts, the COVID-19 pandemic has had and is expected to continue to have a significant impact on the economies and financial markets of many countries including an economic downturn, which may affect demand for our products and impact our operating results in both the near and long term. There can be no assurance that any decreases in sales resulting from the COVID-19 pandemic will be offset by increased sales in subsequent periods.

We have experienced and expect to continue to experience disruptions to our business operations resulting from work from home, quarantines, self-isolations, or other movement and restrictions on the ability of our employees to perform their jobs and such disruptions could impact our ability to develop and design our products in a timely manner or meet required milestones or customer commitments. See the Risk Factor entitled *“If we are unable to develop and introduce new and enhanced products that achieve market acceptance in a timely and cost-effective manner, our results of operations and competitive position will be harmed.”* These disruptions may also impact our ability to win in time sensitive competitive bidding selection processes. See the Risk Factor entitled *“We rely on our customers to design our products into their systems, and the nature of the design process requires us to incur expenses prior to customer commitments to use our products or recognizing revenues associated with those expenses which may adversely affect our financial results.”*

Due to uncertainty regarding the severity and duration of the COVID-19 pandemic and related public health measures and macroeconomic impacts, at this time we are unable to predict the full impact of the COVID-19 pandemic on our business, financial condition, operating results and cash flows.

The impact of the COVID-19 pandemic can also exacerbate other risks discussed below in this Item 1A "Risk Factors" section.

WE OPERATE GLOBALLY AND ARE SUBJECT TO SIGNIFICANT RISKS IN MANY JURISDICTIONS

Adverse changes in the political and economic policies of the U.S. government in connection with trade with China have reduced the demand for our products and damaged our business.

Regulatory activity, such as enforcement of U.S. export control and sanctions laws, and the imposition of tariffs and export regulations, have in the past and may continue to materially limit our ability to make sales to our significant customers in China, which has in the past and may continue to harm our results of operations, reputation and financial condition. For example, the recent U.S. government export restrictions on a number of Chinese customers, such as Huawei Technologies Co. Ltd., and others have dampened demand for our products, adding to the already challenging macroeconomic environment. Moreover, concerns that U.S. companies may not be reliable suppliers as a result of these and other actions has caused, and may in the future cause, our customers to replace our products in favor of products from other suppliers. In addition, there may be indirect impacts to our business that we cannot easily quantify such as the fact that some of our other customers' products which use our solutions, such as hard disk drives, may also be impacted by export restrictions. Customers in China may also choose to develop indigenous solutions, as replacements for products that are subject to U.S. export controls. If export restrictions related to Chinese customers are sustained for a long period of time, or if other export restrictions were to be imposed as a result of current trade tensions such as restrictions on trade with other countries, it could have an adverse impact on our revenues and results of operations.

We typically sell products to customers in China pursuant to purchase orders rather than long term purchase commitments. Customers in China can generally cancel or defer purchase orders on short notice without incurring a penalty and, therefore, they may be more likely to do so while the tariffs and trade restrictions are in effect. See also, risk Factor entitled *“We are subject to order and shipment uncertainties. If we are unable to accurately predict customer demand, we may hold excess or obsolete inventory, which would reduce our gross margin. Conversely, we may have insufficient inventory, which would result in lost revenue opportunities and potential loss of market share as well as damaged customer relationships.”* In addition, customers in China that may be subject to trade restrictions or tariffs, may develop their own products or solutions instead of purchasing from us or they may acquire products or solutions from our competitors or other third-party sources that are not be subject to the U.S. tariffs and trade restrictions.

Changes to U.S. or foreign tax, trade policy, tariff and import/export regulations may have a material adverse effect on our business, financial condition and results of operations.

Changes in U.S. or foreign international tax, social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories or countries where we currently sell our products or conduct our business have in the past and could in the future adversely affect our business. The U.S. presidential administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on imports into the U.S., economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the U.S. and other countries where we conduct our business. The new tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries, and certain foreign governments have instituted or are considering imposing trade sanctions on certain U.S. goods. The U.S. presidential administration has indicated a focus on policy reforms that discourage corporations from outsourcing manufacturing and production activities to foreign jurisdictions, including through tariffs or penalties on goods manufactured outside the U.S., which may require us to change the way we conduct business. These changes in U.S. and foreign laws and policies have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products, and as a result, could have a material adverse effect on our business, financial condition and results of operations. See also, *“Adverse changes in the political and economic policies of the U.S. government in connection with trade with China have reduced the demand for our products and damaged our business”* and *“Changes in existing taxation benefits, rules or practices may adversely affect our financial results.”*

Uncertainty surrounding the effect of Brexit, including changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union, as well as new and proposed changes relating to Brexit affecting tax laws and trade policy in the U.S. and elsewhere may adversely impact our operations.

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

A substantial portion of our business is conducted outside of the United States and, as a result, we are subject to foreign business, political and economic risks. Most of our products are manufactured outside of the United States. Our current qualified integrated circuit foundries are located in the same region within Taiwan, and our primary assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located outside of the United States, primarily in Asia, which further exposes us to foreign risks. Sales shipped to customers with operations in Asia represented approximately 79% and 80% of our net revenue in the three months ended May 2, 2020 and May 4, 2019, respectively.

We also have substantial operations outside of the United States. These operations are directly influenced by the political and economic conditions of the region in which they are located and, with respect to Israel, possible military hostilities periodically affecting the region that could affect our operations there. We anticipate that our manufacturing, assembly, testing and sales outside of the United States will continue to account for a substantial portion of our operations and revenue in future periods.

Accordingly, we are subject to risks associated with international operations, including:

- the rise or spread of global pandemics or actual or threatened public health emergencies such as the COVID-19 pandemic on our operations, employees, customers and suppliers;
- political, social and economic instability, including wars, terrorism, political unrest, boycotts, curtailment of trade and other business restrictions;
- volatile global economic conditions, including downturns in which some competitors may become more aggressive in their pricing practices, which would adversely impact our gross margin;
- compliance with domestic and foreign export and import regulations, including pending changes thereto, and difficulties in obtaining and complying with domestic and foreign export, import and other governmental approvals, permits and licenses;
- local laws and practices that favor local companies, including business practices in which we are prohibited from engaging by the Foreign Corrupt Practices Act and other anti-corruption laws and regulations;

- difficulties in staffing and managing foreign operations;
- natural disasters, including earthquakes, fires, tsunamis and floods;
- trade restrictions, higher tariffs, worsening trade relationship between the United States and China, or changes in cross border taxation, particularly in light of the tariffs imposed by the Trump administration;
- transportation delays;
- difficulties of managing distributors;
- less effective protection of intellectual property than is afforded to us in the United States or other developed countries;
- inadequate local infrastructure; and
- exposure to local banking, currency control and other financial-related risks.

As a result of having global operations, the sudden disruption of the supply chain and/or disruption of the manufacture of our customer's products caused by events outside of our control could impact our results of operations by impairing our ability to timely and efficiently deliver our products.

Moreover, the international nature of our business subjects us to risk associated with the fluctuation of the U.S. dollar versus foreign currencies. Decreases in the value of the U.S. dollar versus currencies in jurisdictions where we have large fixed costs, or where our third-party manufacturers have significant costs, will increase the cost of such operations which could harm our results of operations.

CHANGES IN PRODUCT DEMAND CAN ADVERSELY AFFECT OUR FINANCIAL RESULTS

Unfavorable or uncertain conditions in the 5G infrastructure market may cause fluctuations in our rate of revenue growth or financial results.

Markets for 5G infrastructure may not develop in the manner or in the time periods we anticipate. If domestic and global economic conditions worsen, particularly in light of the impacts of the COVID-19 pandemic and potential global recession resulting therefrom, overall spending on 5G infrastructure may be reduced, which would adversely impact demand for our products in these markets. In addition, unfavorable developments with evolving laws and regulations worldwide related to 5G or 5G suppliers may limit global adoption, impede our strategy, and negatively impact our long-term expectations in this area. Even if the 5G infrastructure market develops in the manner or in the time periods we anticipate, if we do not have timely, competitively priced, market-accepted products available to meet our customers' planned roll-out of 5G wireless communication systems, we may miss a significant opportunity and our business, financial condition, results of operations and cash flows could be materially and adversely affected. See also, *"Our sales are concentrated in a few large customers. If we lose or experience a significant reduction in sales to any of these key customers, if any of these key customers experience a significant decline in market share, or if any of these customers experience significant financial difficulties, our revenue may decrease substantially and our results of operations and financial condition may be harmed."* for additional risks related to export restrictions that may impact a customer in the 5G infrastructure market.

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

We receive a significant amount of our revenue from a limited number of customers. Net revenue from our two largest customers represented 18% and 22% of our net revenue for the three months ended May 2, 2020 and May 4, 2019, respectively. Sales to our largest customers have fluctuated significantly from period to period and year to year and will likely continue to fluctuate in the future, primarily due to the timing and number of design wins with each customer, the continued diversification of our customer base as we expand into new markets, and natural disasters or other issues that may divert a customer's operations. The loss of any of our large customers or a significant reduction in sales we make to them would likely harm our financial condition and results of operations. To the extent one or more of our large customers experience significant financial difficulty, bankruptcy or insolvency, this could have a material adverse effect on our sales and our ability to collect on receivables, which could harm our financial condition and results of operations.

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

- a significant portion of our sales are made on a purchase order basis, which allows our customers to cancel, change or delay product purchase commitments with relatively short notice to us;
- customers may purchase integrated circuits from our competitors;
- customers may discontinue sales or lose market share in the markets for which they purchase our products;
- customers, particularly in jurisdictions such as China that may be subject to trade restrictions or tariffs, may develop their own solutions or acquire fully developed solutions from third-parties;
- customers may be subject to severe business disruptions, including, but not limited to, those driven by financial instability, actual or threatened pandemics or public health emergencies or other global or regional macroeconomic developments; or
- customers may consolidate (for example, Western Digital acquired SanDisk in 2017, and Toshiba Corporation sold control of a portion of its semiconductor business in 2018), which could lead to changing demand for our products, replacement of our products by the merged entity with those of our competitors and cancellation of orders.

We are subject to order and shipment uncertainties. If we are unable to accurately predict customer demand, we may hold excess or obsolete inventory, which would reduce our gross margin. Conversely, we may have insufficient inventory, which would result in lost revenue opportunities and potential loss of market share as well as damaged customer relationships.

We typically sell products pursuant to purchase orders rather than long-term purchase commitments. Customers can generally cancel or defer purchase orders on short notice without incurring a significant penalty. Due to their inability to predict demand or other reasons, some of our customers may accumulate excess inventories and, as a consequence, defer purchase of our products. We cannot accurately predict what or how many products our customers will need in the future. Anticipating demand is difficult because our customers face unpredictable demand for their own products and are increasingly focused more on cash preservation and tighter inventory management. In addition, as an increasing number of our chips are being incorporated into consumer products, we anticipate greater fluctuations in demand for our products, which makes it more difficult to forecast customer demand.

We place orders with our suppliers based on forecasts of customer demand and, in some instances, may establish buffer inventories to accommodate anticipated demand. Our forecasts are based on multiple assumptions, each of which may introduce error into our estimates. For example, our ability to accurately forecast customer demand may be impaired by the delays inherent in our customer's product development processes, which may include extensive qualification and testing of components included in their products, including ours. In many cases, they design their products to use components from multiple suppliers. This creates the risk that our customers may decide to cancel or change product plans for products incorporating our integrated circuits prior to completion, which makes it even more difficult to forecast customer demand.

Our products are incorporated into complex devices and systems, which may create supply chain cross-dependencies. Due to cross dependencies, any supply chain disruptions could negatively impact the demand for our products in the short term. We have a limited ability to predict the timing of a supply chain correction. In addition, the market share of our customers could be adversely impacted on a long-term basis due to any continued supply chain disruption, which could negatively affect our results of operations.

If we overestimate customer demand, our excess or obsolete inventory may increase significantly, which would reduce our gross margin and adversely affect our financial results. The risk of obsolescence and/or excess inventory is heightened for devices designed for consumer electronics due to the rapidly changing market for these types of products. Conversely, if we underestimate customer demand or if insufficient manufacturing capacity is available, we would miss revenue opportunities and potentially lose market share and damage our customer relationships. In addition, any future significant cancellations or deferrals of product orders or the return of previously sold products could materially and adversely affect our profit margins, increase product obsolescence and restrict our ability to fund our operations.

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

The semiconductor industry, and specifically the storage, networking and infrastructure markets, is extremely competitive. We currently compete with a number of large domestic and international companies in the business of designing integrated circuits and related applications, some of which have greater financial, technical and management resources than us. Our efforts to introduce new products into markets with entrenched competitors will expose us to additional competitive pressures. For example, we are facing, and expect we will continue to face, significant competition in the infrastructure, networking and SSD storage markets. Additionally, customer expectations and requirements have been evolving rapidly. For example, customers now expect us to provide turnkey solutions and commit to future roadmaps that have technical risks.

Some of our competitors may be better situated to meet changing customer needs and secure design wins. Increasing competition in the markets in which we operate may negatively impact our revenue and gross margins. For example, competitors with greater financial resources may be able to offer lower prices than us, or they may offer additional products, services or other incentives that we may not be able to match.

We also may experience discriminatory or anti-competitive practices by our competitors that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business. In addition, some of these competitors may use their market power to dissuade our customers from purchasing from us. For example, certain U.S. and E.U. regulators are currently investigating whether a competitor may have abused its dominant market position to harm competition by forcing customers to deal with it exclusively, bundling its various semiconductors with other products, or by distorting the market by using illegal rebates.

In addition, many of our competitors operate and maintain their own fabrication facilities and have longer operating histories, greater name recognition, larger customer bases, and greater sales, marketing and distribution resources than we do.

In addition, the semiconductor industry has experienced increased consolidation over the past several years. For example, Microchip Technology acquired Microsemi in May 2018 and ON Semiconductor purchased Quantenna Communications, Inc. in June 2019, NVIDIA Corporation acquired Mellanox Technologies on April 27, 2020 and Infineon acquired Cypress Semiconductors on April 16, 2020. Consolidation among our competitors could lead to a changing competitive landscape, capabilities and market share, which could put us at a competitive disadvantage and harm our results of operations.

A significant portion of our revenue comes from the storage industry, which experiences rapid technological change, is subject to industry consolidation, is facing increased competition from alternative technologies and is highly cyclical.

We depend on a few customers for our SSD controllers and as such, the loss of any SSD controller customer or a significant reduction in sales we make to them may harm our financial condition and results of operations. SSD customers have, and may in the future develop their own controllers, which could pose a challenge to our market share in the SSD space and adversely affect our revenues in the storage business.

Furthermore, future changes in the nature of information storage products and personal computing devices could reduce demand for traditional HDDs. For example, products using alternative technologies, such as SSD and other storage technologies are a source of competition to manufacturers of HDDs. Although we offer SSD controllers, leveraging our technology in hard drives, we cannot ensure that our overall business will not be adversely affected if demand for traditional HDDs decreases.

Manufacturers tend to order more components than they may need during growth periods, and sharply reduce orders for components during periods of contraction. Rapid technological changes in the industry often result in shifts in market share among the industry's participants. If the HDD and SSD manufacturers using our products do not retain or increase their market share, our sales may decrease.

In addition, the storage industry has experienced significant consolidation. Consolidation among our customers will lead to changing demand for our products, replacement of our products by the merged entity with those of our competitors and cancellation of orders, each of which could harm our results of operations. If we are unable to leverage our technology and customer relationships, we may not capitalize on the increased opportunities for our products within the combined company.

This industry has historically been cyclical, with periods of increased demand and rapid growth followed by periods of oversupply and subsequent contraction. These cycles may affect us because some of our largest customers participate in this industry.

As a result, the average selling price of each of our products usually declines as individual products mature and competitors enter the market.

Our gross margin and results of operations may be adversely affected in the future by a number of factors, including decreases in average selling prices of products over time and shifts in our product mix.

The products we develop and sell are primarily used for high-volume applications. As a result, the prices of those products have historically decreased rapidly. In addition, our more recently introduced products tend to have higher associated costs because of initial overall development and production expenses. Therefore, over time, we may not be able to maintain or improve our gross margins. Our financial results could suffer if we are unable to offset any reductions in our average selling prices by other cost reductions through efficiencies, introduction of higher margin products and other means.

To attract new customers or retain existing customers, we may offer certain price concessions to certain customers, which could cause our average selling prices and gross margins to decline. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or by our competitors and other factors. We expect that we will continue to have to reduce prices of existing products in the future. Moreover, because of the wide price differences across the markets we serve, the mix and types of performance capabilities of our products sold may affect the average selling prices of our products and have a substantial impact on our revenue and gross margin. We may enter new markets in which a significant amount of competition exists, and this may require us to sell our products with lower gross margins than we earn in our established businesses. If we are successful in growing revenue in these markets, our overall gross margin may decline. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover the fixed costs and investments associated with a particular product, and as a result may harm our financial results.

Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs as rapidly as companies that operate their own facilities and our costs may even increase, which could also reduce our gross margins. Our gross margin could also be impacted by increased cost (including those caused by tariffs), loss of cost savings or dilution of savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand or if the financial health of either contract manufacturers or suppliers deteriorates as well as excess inventory and inventory holding and obsolescence charges.

Entry into new markets, such as markets with different business models, as a result of our acquisitions may reduce our gross margin and operating margin. For example, the Avera business uses an ASIC model to offer end-to-end solutions for IP, design team, Fab & packaging to deliver a tested, yielded product to customers. This business model tends to have a lower gross margin. In addition, the costs related to this type of business model typically include significant NRE (non-recurring engineering) costs that customers pay based on the completion of milestones. Our operating margin may decline if our customers do not agree to pay for NREs or if they do not pay enough to cover the costs we incur in connection with NREs. In addition, our operating margin may decline if we are unable to sell products in sufficient volumes to cover the development costs that we have incurred.

WE ARE VULNERABLE TO PRODUCT DEVELOPMENT AND MANUFACTURING-RELATED RISKS

We may experience increased actual and opportunity costs as a result of our transition to smaller geometry process technologies.

In order to remain competitive, we have transitioned, and expect to continue to transition, our semiconductor products to increasingly smaller line width geometries. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies. We also evaluate the costs of migrating to smaller geometry process technologies including both actual costs such as increased mask costs and wafer costs and increased costs related to EDA tools and the opportunity costs related to the technologies we choose to forego. These transitions are imperative for us to be competitive with the rest of the industry and to target some of our product development in high growth areas to these advanced nodes, which has resulted in significant initial design and development costs.

We have been, and may continue to be, dependent on our relationships with our foundry subcontractors to transition to smaller geometry processes successfully. We cannot ensure that the foundries we use will be able to effectively manage any future transitions. If we or any of our foundry subcontractors experience significant delays in a future transition or fail to efficiently implement a transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations.

As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third-party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, if at all. Moreover, even if we are able to achieve higher levels of design integration, such integration may have a short-term adverse impact on our results of operations, as we may reduce our revenue by integrating the functionality of multiple chips into a single chip.

We rely on our customers to design our products into their systems, and the nature of the design process requires us to incur expenses prior to customer commitments to use our products or recognizing revenues associated with those expenses which may adversely affect our financial results.

One of our primary focuses is on winning competitive bid selection processes, known as “design wins,” to develop products for use in our customers’ products. We devote significant time and resources in working with our customers’ system designers to understand their future needs and to provide products that we believe will meet those needs and these bid selection processes can be lengthy. If a customer’s system designer initially chooses a competitor’s product, it becomes significantly more difficult for us to sell our products for use in that system because changing suppliers can involve significant cost, time, effort and risk for our customers. Thus, our failure to win a competitive bid can result in our foregoing revenues from a given customer’s product line for the life of that product. In addition, design opportunities may be infrequent or may be delayed. Our ability to compete in the future will depend, in large part, on our ability to design products to ensure compliance with our customers’ and potential customers’ specifications. We expect to invest significant time and resources and to incur significant expenses to design our products to ensure compliance with relevant specifications.

We often incur significant expenditures in the development of a new product without any assurance that our customers’ system designers will select our product for use in their applications. We often are required to anticipate which product designs will generate demand in advance of our customers expressly indicating a need for that particular design. Even if our customers’ system designers select our products, a substantial period of time will elapse before we generate revenues related to the significant expenses we have incurred.

The reasons for this delay generally include the following elements of our product sales and development cycle timeline and related influences:

- our customers usually require a comprehensive technical evaluation of our products before they incorporate them into their designs,
- it can take from six months to three years from the time our products are selected to commence commercial shipments; and

- our customers may experience changed market conditions or product development issues. The resources devoted to product development and sales and marketing may not generate material revenue for us, and from time to time, we may need to write off excess and obsolete inventory if we have produced product in anticipation of expected demand. We may spend resources on the development of products that our customers may not adopt. If we incur significant expenses and investments in inventory in the future that we are not able to recover, and we are not able to compensate for those expenses, our operating results could be adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions but still hold higher cost products in inventory, our operating results would be harmed.

Additionally, even if system designers use our products in their systems, we cannot assure you that these systems will be commercially successful or that we will receive significant revenue from the sales of our products for those systems. As a result, we may be unable to accurately forecast the volume and timing of our orders and revenues associated with any new product introductions.

Additionally, failure of our customers to agree to pay for NRE (non-recurring engineering) costs or failure to pay enough to cover the costs we incur in connection with NREs may harm our financial results. See also, “*Research and Development*” under 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 results of operations and competitive position will be harmed.

Our future success will depend on our ability to develop and introduce new products and enhancements to our existing products that address customer requirements, in a timely and cost-effective manner and are competitive as to a variety of factors. For example, for our products addressing the 5G market, we must successfully identify customer requirements and design, develop and produce products on time that compete effectively as to price, functionality and performance. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, and increasing demand for higher levels of integration and smaller process geometries. In addition, the development of new silicon devices is highly complex and, due to supply chain cross-dependencies and other issues, we may experience delays in completing the development, production and introduction of our new products. See also, “*We may be unable to protect our intellectual property, which would negatively affect our ability to compete.*”

Our ability to adapt to changes and to anticipate future standards, and the rate of adoption and acceptance of those standards, will be a significant factor in maintaining or improving our competitive position and prospects for growth. We may also have to incur substantial unanticipated costs to comply with these new standards. Our success will also depend on the ability of our customers to develop new products and enhance existing products for the markets they serve and to introduce and promote those products successfully and in a timely manner. Even if we and our customers introduce new and enhanced products to the market, those products may not achieve market acceptance.

We rely on independent foundries and subcontractors for the manufacture, assembly and testing of our integrated circuit products, and the failure of any of these third-party vendors to deliver products or otherwise perform as requested could damage our relationships with our customers, decrease our sales and limit our ability to grow our business.

We do not have our own manufacturing or assembly facilities and have very limited in-house testing facilities. Therefore, we currently rely on several third-party foundries to produce our integrated circuit products. We also currently rely on several third-party assembly and test subcontractors to assemble, package and test our products. This exposes us to a variety of risks, including the following:

Regional Concentration

Substantially all of our products are manufactured by third-party foundries located in Taiwan, and other sources are located in China, Germany, South Korea, Singapore and the United States. In addition, substantially all of our third-party assembly and testing facilities are located in China, Malaysia, Singapore and Taiwan. Because of the geographic concentration of these third-party foundries, as well as our assembly and test subcontractors, we are exposed to the risk that their operations may be disrupted by regional disasters including, for example, earthquakes (particularly in Taiwan and elsewhere in the Pacific Rim close to fault lines), tsunamis or typhoons, or by pandemics or other actual or threatened public health emergencies such as the COVID-19 pandemic, or by political, social or economic instability. In the case of such an event, our revenue, cost of goods sold and results of operations would be negatively impacted. In addition, there are limited numbers of alternative foundries and identifying and implementing alternative manufacturing facilities would be time consuming. As a result, if we needed to implement alternate manufacturing facilities, we could experience significant expenses and delays in product shipments, which could harm our results of operations.

No Guarantee of Capacity or Supply

The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. When demand is strong, availability of foundry capacity may be constrained or not available, and with limited exceptions, our vendors are not obligated to perform services or supply products to us for any specific period, in any specific quantities, or at any specific price, except as may be provided in a particular purchase order. We place our orders on the basis of our customers' purchase orders or our forecast of customer demand, and the foundries can allocate capacity to the production of other companies' products and reduce deliveries to us on short notice. It is possible that foundry customers that are larger and better financed than we are or that have long-term agreements with our main foundries may induce our foundries to reallocate capacity to those customers. This reallocation could impair our ability to secure the supply of components that we need. In particular, as we and others in our industry transition to smaller geometries, our manufacturing partners may be supply constrained or may charge premiums for these advanced technologies, which may harm our business or results of operations. See also, "*We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration, which may result in reduced manufacturing yields, delays in product deliveries and increased expenses.*" Moreover, if any of our third-party foundry suppliers are unable to secure necessary raw materials from their suppliers, lose benefits under material agreements, experience power outages, lack sufficient capacity to manufacture our products, encounter financial difficulties or suffer any other disruption or reduction in efficiency, we may encounter supply delays or disruptions, which could harm our business or results of operations.

While we attempt to create multiple sources for our products, most of our products are not manufactured at more than one foundry at any given time, and our products typically are designed to be manufactured in a specific process at only one of these foundries. Accordingly, if one of our foundries is unable to provide us with components as needed, it would be difficult for us to transition the manufacture of our products to other foundries, and we could experience significant delays in securing sufficient supplies of those components. This could result in a material decline in our revenue, net income and cash flow.

In order to secure sufficient foundry capacity when demand is high and to mitigate the risks described in the foregoing paragraph, we may enter into various arrangements with suppliers that could be costly and harm our results of operations, such as nonrefundable deposits with or loans to foundries in exchange for capacity commitments, or contracts that commit us to purchase specified quantities of integrated circuits over extended periods. We may not be able to make any such arrangement in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility, and not be on terms favorable to us. Moreover, if we are able to secure foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

Uncertain Yields and Quality

The fabrication of integrated circuits is a complex and technically demanding process. Our technology is transitioning from planar to FINFET transistors. This transition may result in longer qualification cycles and lower yields. Our foundries have from time to time experienced manufacturing defects and lower manufacturing yields, which are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance. In addition, we may face lower manufacturing yields and reduced quality in the process of ramping up and diversifying our manufacturing partners. Poor yields from our foundries, or defects, integration issues or other performance problems with our products could cause us significant customer relations and business reputation problems, harm our financial performance and result in financial or other damages to our customers. Our customers could also seek damages in connection with product liability claims, which would likely be time consuming and costly to defend. In addition, defects could result in significant costs. See also, “*Costs related to defective products could have a material adverse effect on us.*”

To the extent that we rely on outside suppliers to manufacture or assemble and test our products, we may have a reduced ability to directly control product delivery schedules and quality assurance, which could result in product shortages or quality assurance problems that could delay shipments or increase costs.

Commodity Prices

We are also subject to risk from fluctuating market prices of certain commodity raw materials, including gold and copper, which are incorporated into our end products or used by our suppliers to manufacture our end products. Supplies for such commodities may from time to time become restricted, or general market factors and conditions may affect pricing of such commodities.

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

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

- loss of or delay in market acceptance of our products;
- material recall and replacement costs;
- delay in revenue recognition or loss of revenue;
- writing down the inventory of defective products;
- the diversion of the attention of our engineering personnel from product development efforts;
- our having to defend against litigation related to defective products or related property damage or personal injury; and
- damage to our reputation in the industry that could adversely affect our relationships with our customers.

In addition, the process of identifying a recalled product in devices that have been widely distributed may be lengthy and require significant resources. We may have difficulty identifying the end customers of the defective products in the field, which may cause us to incur significant replacement costs, contract damage claims from our customers and further reputational harm. Any of these problems could materially and adversely affect our results of operations.

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

We rely on third-party distributors and manufacturers’ representatives and the failure of these distributors and manufacturers’ representatives to perform as expected could reduce our future sales.

From time to time, we enter into relationships with distributors and manufacturers’ representatives to sell our products, and we are unable to predict the extent to which these partners will be successful in marketing and selling our products. Moreover, many of our distributors and manufacturers’ representatives also market and sell competing products, and may terminate their relationships with us at any time. Our future performance will also depend, in part, on our ability to attract additional distributors or manufacturers’ representatives that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. If we cannot retain or attract quality distributors or manufacturers’ representatives, our sales and results of operations will be harmed.

CHANGES IN OUR EFFECTIVE TAX RATE MAY REDUCE OUR NET INCOME

Changes in existing taxation benefits, rules or practices may adversely affect our financial results.

Changes in existing taxation benefits, rules or practices may also have a significant effect on our reported results. Both the U.S. Congress and the G-20 (Group of Twenty Finance Ministers and Central Bank Governors) may consider legislation affecting the taxation of foreign corporations and such legislation if enacted might adversely affect our future tax liabilities and have a material impact on our results of operations. For example, the Tax Cuts and Jobs Act (“2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax.

In addition, in prior years, we have entered into agreements in certain foreign jurisdictions that if certain criteria are met, the foreign jurisdiction will provide a more favorable tax rate than their current statutory rate. For example, we have obtained an undertaking from the Minister of Finance of Bermuda that in the event Bermuda enacts legislation imposing tax computed on profits, income, or capital asset, gain or appreciation, then the imposition of any such taxes will not apply to us until March 31, 2035. Additionally, our Singapore subsidiary qualifies for the Development and Expansion Incentive until June 2024. Furthermore, under the Israeli Encouragement law of “approved or benefited enterprise,” our subsidiary in Israel, Marvell Israel (M.I.S.L) Ltd., is entitled to, and has certain existing programs that qualify as, approved and benefited tax programs that include reduced tax rates and exemption of certain income through fiscal 2027. Moreover, receipt of past and future benefits under tax agreements may depend on our ability to fulfill commitments regarding employment of personnel or performance of specified activities in the applicable jurisdiction. Changes in our business plans, including divestitures, could result in termination of an agreement or loss of benefits thereunder. If any of our tax agreements in any of these foreign jurisdictions were terminated, our results of operations would be harmed.

The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Sharing Project, and issued in 2015, and is expected to continue to issue, guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in some of the countries in which we do business. We can provide no assurance that changes in tax laws and additional investigations as a result of this project would not have an adverse tax impact on our international operations. In addition, the European Union (“EU”) has initiated its own measures along similar lines. In December 2017, the EU identified certain jurisdictions (including Bermuda and Cayman Islands) which it considered had a tax system that facilitated offshore structuring by attracting profits without commensurate economic activity. In order to avoid EU “blacklisting”, both Bermuda and Cayman Islands introduced new legislation in December 2018, which came into force on January 1, 2019. These new laws require Bermuda and Cayman companies carrying on one or more “relevant activity” (including: banking, insurance, fund management, financing, leasing, headquarters, shipping, distribution and service center, intellectual property or holding company) to maintain a substantial economic presence in Bermuda in order to comply with the economic substance requirements. There is no experience yet as to how the Bermuda and Cayman Islands authorities will interpret and enforce these new rules. To the extent that we are required to maintain more of a presence in Bermuda or the Cayman Islands, such requirements will increase our costs either directly in those locations or indirectly as a result of increased costs related to moving our operations to other jurisdictions.

If the Company transfers its domicile or a significant portion of its assets from Bermuda to another jurisdiction, like we did when we completed an intra-entity transfer of the majority of our intellectual property to a subsidiary in Singapore on December 31, 2019, the Company's taxes may increase and its earnings after taxes may decrease. In addition, the tax impact to the Company in connection with an intra-entity intellectual property transfer depends on the fair value determination of the intellectual property rights which determination requires management to make significant estimates and to apply complex tax regulations in multiple jurisdictions. Local tax authorities may challenge the fair value determinations made by the Company which could adversely impact the tax benefits we expect to realize as a result of the transfer.

Our profitability and effective tax rate could be impacted by unexpected changes to our statutory income tax rates or income tax liabilities. Such changes might include changes in tax law, changes to our geographic mix of earnings, changes in the valuation of deferred tax assets and liabilities, changes in our supply chain and changes due to audit assessments. In particular, the tax benefits associated with our transfer of intellectual property to Singapore are sensitive to future profitability and taxable income in Singapore, audit assessments and changes in applicable tax law.

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

If we were classified as a "passive foreign investment company" or "PFIC" under section 1297 of the Internal Revenue Code, of 1986, as amended (the "Code"), for any taxable year during which a U.S. holder holds ordinary shares, such U.S. holder generally would be taxed at ordinary income tax rates on any gain realized on the sale or exchange of the ordinary shares and on any "excess distributions" (including constructive distributions) received on the ordinary shares. Such U.S. holder could also be subject to a special interest charge with respect to any such gain or excess distribution.

We would be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which either (i) at least 75% of our gross income is passive income or (ii) on average, the percentage of our assets that produce passive income or are held for the production of passive income is at least 50% (determined on an average gross value basis). We were not classified as a PFIC for fiscal year 2018 or in any prior taxable year. Whether we will, in fact, be classified as a PFIC for any subsequent taxable year depends on our assets and income over the course of the relevant taxable year and, as a result, cannot be predicted with certainty. In particular, because the total value of our assets for purposes of the asset test will be calculated based upon the market price of our ordinary shares, a significant and sustained decline in the market price of our ordinary shares and corresponding market capitalization relative to our passive assets could result in our being classified as a PFIC. There can be no assurance that we will not be classified as a PFIC in the future or the Internal Revenue Service will not challenge our determination concerning PFIC status for any prior period.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH OUR STRATEGIC TRANSACTIONS

Recent or potential future acquisitions, strategic investments, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business.

Our long-term strategy may include identifying and acquiring, investing in or merging with suitable candidates on acceptable terms, or divesting of certain business lines or activities. In particular, over time, we may acquire, make investments in, or merge with providers of product offerings that complement our business or may terminate such activities.

On May 6, 2019, we entered into a definitive merger agreement to acquire all outstanding shares of Aquantia Corp. common stock for \$13.25 per share in cash. On September 19, 2019, we completed the acquisition of Aquantia for total merger consideration in the amount of \$502.2 million.

On May 20, 2019, we entered into a definitive agreement to purchase Avera Semiconductor, the Application Specific Integrated Circuit (ASIC) business of GlobalFoundries ("Avera"). On November 5, 2019, we completed the acquisition. Total purchase consideration consisted of cash consideration paid to GlobalFoundries of \$593.5 million, net of final working capital adjustments. An additional \$90 million in cash will be paid if certain business conditions are satisfied by the third quarter of our fiscal 2021. GlobalFoundries and the Company have disagreed whether the necessary conditions have been satisfied and have been discussing resolution of the matter.

On May 29, 2019, we entered into an Asset Purchase Agreement with NXP USA, Inc. ("NXP") pursuant to which we agreed to sell to NXP certain assets related to our Wi-Fi connectivity business for \$1.76 billion in cash at closing, subject to working capital and other customary adjustments. In addition, we agreed to license certain intellectual property to NXP in connection with the transaction and to provide certain temporary transition services following completion of the transaction. On December 6, 2019, we completed the transaction.

Mergers, acquisitions and divestitures include a number of risks and present financial, managerial and operational challenges, including but not limited to:

- diversion of management attention from running our existing business;
- increased expenses, including, but not limited to, legal, administrative and compensation expenses related to newly hired or terminated employees;
- key personnel of an acquired company may decide not to work for us;
- increased costs to integrate or, in the case of a divestiture, separate the technology, personnel, customer base and business practices of the acquired or divested business or assets;
- assuming the legal obligations of the acquired company, including potential exposure to material liabilities not discovered in the due diligence process or assuming indemnity obligations in connection with divestitures;
- ineffective or inadequate control, procedures and policies at the acquired company may negatively impact our results of operations;
- potential adverse effects on reported operating results due to possible write-down of goodwill and other intangible assets associated with acquisitions;
- burdensome conditions required to obtain regulatory approvals;
- potential damage to relationships with customers, suppliers, partners or employees;
- loss of synergies, in the case of divestitures;
- reduction of potential benefits of a transaction in the event of a long delay between signing and closing;
- reduction of our cash in the case of acquisitions for which we are paying cash consideration and share dilution if we are using our shares as consideration; and
- unavailability of acquisition financing on reasonable terms or at all.

Any acquired business, technology, service or product could significantly under-perform relative to our expectations and may not achieve the benefits we expect on a timely basis or at all. Given that our resources are limited, our decision to pursue a transaction has opportunity costs; accordingly, if we pursue a particular transaction, we may need to forgo the prospect of entering into other transactions that could help us achieve our strategic objectives.

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

If we do enter into agreements with respect to acquisitions, divestitures, or other transactions, these transactions, or parts of these transactions, may fail to be completed due to factors such as:

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

If we fail to complete a transaction, we may nonetheless have incurred significant expenses in connection with such transaction. Failure to complete a pending transaction may result in negative publicity and a negative perception of us in the investment community. For all these reasons, our pursuit of an acquisition, investment, divestiture, merger or joint venture could cause our actual results to differ materially from those anticipated.

Recent or potential future acquisitions involve a number of risks, including, among others, those associated with our use of a significant portion of our cash and other financial risks and integration risks.

We used a significant portion of our cash and incurred substantial indebtedness in connection with the financing of our acquisition of Cavium, which was completed in fiscal year 2019 (the “Cavium acquisition”). In fiscal year 2020, we used cash and indebtedness to finance our acquisition of Aquantia and indebtedness to finance our acquisition of Avera (collectively, the “Acquisitions”). As of December 11, 2019, the Company repaid the entire amount of the indebtedness related to the Aquantia and Avera acquisitions. Our use of cash in the acquisitions reduced our liquidity and may have (i) limited our flexibility in responding to other business opportunities and (ii) increased our vulnerability to adverse economic and industry conditions. In connection with our Cavium acquisition, see the Risk Factor entitled “Our indebtedness could adversely affect our financial condition and our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or our industry.” for risks related to our use of debt to finance these acquisitions.

The benefits we expect to realize from our Acquisitions will depend, in part, on our ability to integrate the businesses successfully and efficiently. See also the Risk Factor entitled “*Any potential future acquisitions, strategic investments, divestitures, mergers or joint ventures may subject us to significant risks, any of which could harm our business.*” If we are unable to successfully integrate the businesses in connection with our Acquisitions with that of the Company, the combined company’s business, results of operations, financial condition or cash flows could be harmed. The challenges in integrating the operations of the companies include, among others:

- difficulties in fully achieving anticipated cost savings, synergies, business opportunities and growth prospects from combining the businesses;
- difficulties entering new markets or manufacturing in new geographies where we have no or limited direct prior experience;
- difficulties in the integration of operations and systems;
- difficulties in maintaining the Company's culture and in the assimilation or retention of employees;
- difficulties in the integration of new business models;
- difficulties in absorbing the costs of new businesses that require additional regulatory compliance; and
- difficulties in managing the expanded operations of a significantly larger and more complex company.

Any of the above could harm the combined company and thus decrease the benefits we expect to receive from the acquisitions.

WE MUST ATTRACT, RETAIN AND MOTIVATE KEY EMPLOYEES

We depend on highly skilled personnel to support our business operations. If we are unable to retain and motivate our current personnel or attract additional qualified personnel, our ability to develop and successfully market our products could be harmed.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering, sales and marketing personnel. The competition for qualified technical personnel with significant experience in the design, development, manufacturing, marketing and sales of integrated circuits is intense, both in the Silicon Valley where our U.S. operations are based and in global markets in which we operate. Our inability to attract and retain qualified personnel, including hardware and software engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell, our products. Our ability to attract and retain qualified personnel also depends on how well we maintain a strong workplace culture that is attractive to employees. Changes to United States immigration policies that restrict our ability to attract and retain technical personnel may negatively affect our research and development efforts.

We typically do not enter into employment agreements with any of our key technical personnel and the loss of such personnel could harm our business, as their knowledge of our business and industry would be extremely difficult to replace. The impact on employee morale experienced in connection with our restructuring efforts in fiscal 2017 and 2018 and in connection with our recent acquisitions and divestiture, could make it more difficult for us to add to our workforce when needed due to speculation regarding our future restructuring activities. In addition, as a result of our acquisitions and divestiture, our current and prospective employees may experience uncertainty about their futures that may impair our ability to retain, recruit or motivate key management, engineering, technical and other personnel.

Beginning in fiscal 2017, we made several changes to our senior leadership team, including to our Chief Executive Officer, Chief Financial Officer, and Chief Operations Officer, among others. In May 2019, our Chief Technology Officer retired from the Company. Our EVP Worldwide Sales and Marketing left the Company in December 2019 and in his place we have a new Senior Vice President of Worldwide Sales. The effectiveness of the new leaders in these roles, impact on employee morale, and any further transition as a result of these changes, could have a significant impact on our results of operations.

WE ARE SUBJECT TO IP RISKS AND RISKS ASSOCIATED WITH LITIGATION AND REGULATORY PROCEEDINGS

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

Under Bermuda law, our articles of association and bye-laws and certain indemnification agreements to which we are a party, we have an obligation to indemnify, or we have otherwise agreed to indemnify, certain of our current and former directors and officers with respect to past, current and future investigations and litigation. For example, we incurred significant indemnification expenses in connection with the Audit Committee's independent investigation completed in March 2016 and related shareholder litigation and government investigations. In connection with some of these matters, we were required to, or we otherwise agreed to, advance, and have advanced, legal fees and related expenses to certain of our current and former directors and officers. Further, in the event the directors and officers are ultimately determined not to be entitled to indemnification, we may not be able to recover any amounts we previously advanced to them.

We cannot provide any assurances that future indemnification claims, including the cost of fees, penalties or other expenses, will not exceed the limits of our insurance policies, that such claims are covered by the terms of our insurance policies or that our insurance carrier will be able to cover our claims. Additionally, to the extent there is coverage of these claims, the insurers also may seek to deny or limit coverage in some or all of these matters.

Furthermore, the insurers could become insolvent and unable to fulfill their obligation to defend, pay or reimburse us for insured claims. Accordingly, we cannot be sure that claims will not arise that are in excess of the limits of our insurance or that are not covered by the terms of our insurance policy. Due to these coverage limitations, we may incur significant unreimbursed costs to satisfy our indemnification obligations, which may have a material adverse effect on our financial condition, results of operations or cash flows.

We may be unable to protect our intellectual property, which would negatively affect our ability to compete.

We believe one of our key competitive advantages results from the collection of proprietary technologies we have developed and acquired since our inception, and the protection of our intellectual property rights is, and will continue to be, important to the success of our business. If we fail to protect these intellectual property rights, competitors could sell products based on technology that we have developed, which could harm our competitive position and decrease our revenue.

We rely on a combination of patents, copyrights, trademarks, trade secrets, contractual provisions, confidentiality agreements, licenses and other methods, to protect our proprietary technologies. We also enter into confidentiality or license agreements with our employees, consultants and business partners, and control access to and distribution of our documentation and other proprietary information. Notwithstanding these agreements, we have experienced disputes with employees regarding ownership of intellectual property in the past. To the extent that any third party has a claim to ownership of any relevant technologies used in our products, we may not be able to recognize the full revenue stream from such relevant technologies.

We have been issued a significant number of U.S. and foreign patents and have a significant number of pending U.S. and foreign patent applications. However, a patent may not be issued as a result of any applications or, if issued, claims allowed may not be sufficiently broad to protect our technology. In addition, it is possible that existing or future patents may be challenged, invalidated or circumvented. We may also be required to license some of our patents to others including competitors as a result of our participation in and contribution to development of industry standards. Despite our efforts, unauthorized parties may attempt to copy or otherwise obtain and use our products or proprietary technology. Monitoring unauthorized use of our technology is difficult, and the steps that we have taken may not prevent unauthorized use of our technology, particularly in jurisdictions where the laws may not protect our proprietary rights as fully as in the United States or other developed countries. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours, which would adversely impact our business and results of operations. We have implemented security systems with the intent of maintaining the physical security of our facilities and protecting our confidential information including our intellectual property. Despite our efforts, we may be subject to breach of these security systems and controls which may result in unauthorized access to our facilities and labs and/or unauthorized use or theft of the confidential information and intellectual property we are trying to protect. If we fail to protect these intellectual property rights, competitors could sell products based on technology that we have developed, which could harm our competitive position and decrease our revenue.

Certain of our software, as well as that of our customers, may be derived from so-called “open source” software that is generally made available to the public by its authors and/or other third parties. Open source software is made available under licenses that impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public and/or license such derivative works under a particular type of license, rather than the forms of license we customarily use to protect our intellectual property. While we believe we have complied with our obligations under the various applicable licenses for open source software, in the event that the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public and/or stop distribution of that work if the license is terminated which could adversely impact our business and results of operations.

We must comply with a variety of existing and future laws and regulations that could impose substantial costs on us and may adversely affect our business.

We are subject to laws and regulations worldwide, which may differ among jurisdictions, affecting our operations in areas including, but not limited to: intellectual property ownership and infringement; tax; import and export requirements; anti-corruption; foreign exchange controls and cash repatriation restrictions; data privacy requirements; competition; advertising; employment; product regulations; environment, health and safety requirements; and consumer laws. For example, government export regulations apply to the encryption or other features contained in some of our products. If we fail to continue to receive licenses or otherwise comply with these regulations, we may be unable to manufacture the affected products at foreign foundries or ship these products to certain customers, or we may incur penalties or fines. In addition, we are subject to various industry requirements restricting the presence of certain substances in electronic products. Although our management systems are designed to maintain compliance, we cannot assure you that we have been or will be at all times in compliance with such laws and regulations. If we violate or fail to comply with any of them, a range of consequences could result, including fines, import/export restrictions, sales limitations, criminal and civil liabilities or other sanctions. The costs of complying with these laws (including the costs of any investigations, auditing and monitoring) could adversely affect our current or future business.

Our product or manufacturing standards could also be impacted by new or revised environmental rules and regulations or other social initiatives. For instance, we make disclosures relating to the sourcing of certain minerals from the Democratic Republic of Congo and adjoining countries. Those rules, or similar social initiatives that may be adopted in other jurisdictions, could adversely affect our costs, the availability of minerals used in our products and our relationships with customers and suppliers.

In connection with some of our acquisitions, we have been subject to regulatory conditions imposed by the Committee on Foreign Investment in the United States (CFIUS) where we have agreed to implement certain cyber security, physical security and training measures and supply agreements to protect national security. A portion of the business we acquired in the Avera acquisition requires facility security clearances under the National Industrial Security Program. The National Industrial Security Program requires that a corporation maintaining a facility security clearance be effectively insulated from foreign ownership, control or influence (“FOCI”). Because we are organized in Bermuda, we have entered into agreements with the U.S. Department of Defense with respect to FOCI mitigation arrangements that relate to our operation of the portion of the Avera business involving facility clearances. These measures and arrangements may materially and adversely affect our operating results due to the increased cost of compliance with these measures. If we fail to comply with our obligations under these agreements, our ability to operate our business may be adversely affected.

Primarily as a result of our acquisition of Avera, we are now a party to certain contracts with the U.S. government. Our contracts with government entities are subject to various procurement regulations and other requirements relating to their formation, administration and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause. Any of these risks related to contracting with governmental entities could adversely impact our future sales and operating results.

We have been named as a party to several legal proceedings and may be named in additional ones in the future, including litigation involving our patents and other intellectual property, which could subject us to liability, require us to indemnify our customers, require us to obtain or renew licenses, require us to stop selling our products or force us to redesign our products.

We are currently, and have been in the past, named as a party to several lawsuits, government inquiries or investigations and other legal proceedings (referred to as “litigation”), and we may be named in additional ones in the future. Please see “Note 10 - Commitments and Contingencies” of our Notes to the Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q for a more detailed description of material litigation matters in which we may be currently engaged. In particular, litigation involving patents and other intellectual property is widespread in the high-technology industry and is particularly prevalent in the semiconductor industry, where a number of companies and other entities aggressively bring numerous infringement claims to assert their patent portfolios. The amount of damages alleged in intellectual property infringement claims can often be very significant. See also, *“We may be unable to protect our intellectual property, which would negatively affect our ability to compete.”*

From time to time, our subsidiaries and customers receive, and may continue to receive in the future, standards-based or other types of infringement claims, as well as claims against us and our subsidiaries’ proprietary technologies. These claims could result in litigation and/or claims for indemnification, which, in turn, could subject us to significant liability for damages, attorneys’ fees and costs. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, offering for sale, making, having made or exporting products or using technology that contains the allegedly infringing intellectual property;
- limit or restrict the type of work that employees involved in such litigation may perform for us;
- pay substantial damages and/or license fees and/or royalties to the party claiming infringement or other license violations that could adversely impact our liquidity or operating results;
- attempt to obtain or renew licenses to the relevant intellectual property, which licenses may not be available on reasonable terms or at all; and
- attempt to redesign those products that contain the allegedly infringing intellectual property.

Under certain circumstances, we have contractual and other legal obligations to indemnify and to incur legal expenses for current and former directors and officers. See also, *“Our indemnification obligations and limitations of our director and officer liability insurance may have a material adverse effect on our financial condition, results of operations and cash flows.”* Additionally, from time to time, we have agreed to indemnify select customers for claims alleging infringement of third-party intellectual property rights, including, but not limited to, patents, registered trademarks and/or copyrights. If we are required to make a significant payment under any of our indemnification obligations, our results of operations may be harmed.

The ultimate outcome of litigation could have a material adverse effect on our business and the trading price for our securities. Litigation may be time consuming, expensive, and disruptive to normal business operations, and the outcome of litigation is difficult to predict. Litigation, regardless of the outcome, may result in significant expenditures, diversion of our management’s time and attention from the operation of our business and damage to our reputation or relationship with third parties, which could materially and adversely affect our business, financial condition, results of operations, cash flows and stock price.

WE ARE SUBJECT TO RISKS RELATED TO OUR DEBT OBLIGATIONS

Our indebtedness could adversely affect our financial condition and our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or our industry.

On July 6, 2018, in connection with our acquisition of Cavium, we incurred substantial indebtedness pursuant to a Credit Agreement. The Credit Agreement provides for a \$900.0 million Term Loan. The Term Loan will mature on July 6, 2021. As of May 2, 2020, the outstanding principal balance of the Term Loan amounted to \$450 million. See “Note 9 - Debt” for discussion of the debt financing in the Notes to Consolidated Financial Statements set forth in Part II, Item 8 of the Annual Report on Form 10-K.

In addition to the loans under the credit agreements, on June 22, 2018, we completed a public offering of (i) \$500.0 million aggregate principal amount of the Company’s 4.200% Senior Notes due 2023 (the “2023 Notes”) and (ii) \$500.0 million aggregate principal amount of the Company’s 4.875% Senior Notes due 2028 (the “2028 Notes” and, together with the 2023 Notes, the “Senior Notes”). We are obligated to pay interest on the Senior Notes on June 22 and December 22 of each year, beginning on December 22, 2018. The 2023 Notes will mature on June 22, 2023 and the 2028 Notes will mature on June 22, 2028.

Our indebtedness could have important consequences to us including:

- increasing our vulnerability to adverse general economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, execution of our business strategy, acquisitions and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in the economy and the semiconductor industry;
- placing us at a competitive disadvantage compared to our competitors with less indebtedness;
- exposing us to interest rate risk to the extent of our variable rate indebtedness; and
- making it more difficult to borrow additional funds in the future to fund growth, acquisitions, working capital, capital expenditures and other purposes.

Although the credit agreements contain restrictions on our ability to incur additional indebtedness and the indenture under which the Senior Notes were issued contains restrictions on creating liens and entering into certain sale-leaseback transactions, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness, liens or sale-leaseback transactions incurred in compliance with these restrictions could be substantial.

The credit agreements and the Senior Notes contain customary events of default upon the occurrence of which, after any applicable grace period, the lenders would have the ability to immediately declare the loans due and payable in whole or in part. In such event, we may not have sufficient available cash to repay such debt at the time it becomes due, or be able to refinance such debt on acceptable terms or at all. Any of the foregoing could materially and adversely affect our financial condition and results of operations.

We may not be able to access cash or to incur additional indebtedness if the COVID-19 pandemic causes the closure of banks for an extended period of time or if there is a sudden increase in requests for indebtedness at one time by many potential borrowers which could overwhelm the banking industry.

Adverse changes to our debt ratings could negatively affect our ability to raise additional capital.

We receive debt ratings from the major credit rating agencies in the United States. Factors that may impact our credit ratings include debt levels, planned asset purchases or sales and near-term and long-term production growth opportunities. Liquidity, asset quality, cost structure, reserve mix and commodity pricing levels could also be considered by the rating agencies. The applicable margins with respect to the Term Loan will vary based on the applicable public ratings assigned to the collateralized, long-term indebtedness for borrowed money by Moody's Investors Service, Inc., Standard & Poor's Financial Services LLC, Fitch's and any successor to each such rating agency business. A ratings downgrade could adversely impact our ability to access debt markets in the future and increase the cost of current or future debt and may adversely affect our share price.

The Credit Agreements and the indenture under which the Senior Notes were issued impose restrictions on our business.

The credit agreements and the indenture for the Senior Notes each contains a number of covenants imposing restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. The restrictions, among other things, restrict our ability and our subsidiaries' ability to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, pay dividends, transfer or sell assets and make restricted payments. These restrictions are subject to a number of limitations and exceptions set forth in the credit agreements and the indenture for the Senior Notes. Our ability to meet the liquidity covenant or the leverage ratio set forth in the credit agreements may be affected by events beyond our control.

The foregoing restrictions could limit our ability to plan for, or react to, changes in market conditions or our capital needs. We do not know whether we will be granted waivers under, or amendments to, our credit agreements or to the Senior Notes if for any reason we are unable to meet these requirements, or whether we will be able to refinance our indebtedness on terms acceptable to us, or at all.

We may be unable to generate the cash flow to service our debt obligations.

We may not be able to generate sufficient cash flow to enable us to service our indebtedness, including the Senior Notes, or to make anticipated capital expenditures. Our ability to pay our expenses and satisfy our debt obligations, refinance our debt obligations and fund planned capital expenditures will depend on our future performance, which will be affected by general economic, financial competitive, legislative, regulatory and other factors beyond our control. If we are unable to generate sufficient cash flow from operations or to borrow sufficient funds in the future to service our debt, we may be required to sell assets, reduce capital expenditures, refinance all or a portion of our existing debt (including the Senior Notes) or obtain additional financing. We cannot assure you that we will be able to refinance our debt, sell assets or borrow more money on terms acceptable to us, if at all. If we cannot make scheduled payments on our debt, we will be in default and holders of our debt could declare all outstanding principal and interest to be due and payable, and we could be forced into bankruptcy or liquidation. In addition, a material default on our indebtedness could suspend our eligibility to register securities using certain registration statement forms under SEC guidelines that permit incorporation by reference of substantial information regarding us, potentially hindering our ability to raise capital through the issuance of our securities and increasing our costs of registration.

We may, under certain circumstances, be required to repurchase the Senior Notes at the option of the holder.

We will be required to repurchase the Senior Notes at the option of each holder upon the occurrence of a change of control repurchase event as defined in the indenture for the Senior Notes. However, we may not have sufficient funds to repurchase the notes in cash at the time of any change of control repurchase event. Our failure to repurchase the Senior Notes upon a change of control repurchase event would be an event of default under the indenture for the Senior Notes and could cause a cross-default or acceleration under certain future agreements governing our other indebtedness. The repayment obligations under the Senior Notes may have the effect of discouraging, delaying or preventing a takeover of our company. If we were required to pay the Senior Notes prior to their scheduled maturity, it could have a significant negative impact on our cash and liquidity and could impact our ability to invest financial resources in other strategic initiatives.

WE ARE SUBJECT TO CYBERSECURITY RISKS

Cybersecurity risks could adversely affect our business and disrupt our operations.

We depend heavily on our technology infrastructure and maintain and rely upon certain critical information systems for the effective operation of our business. We routinely collect and store sensitive data in our information systems, including intellectual property and other proprietary information about our business and that of our customers, suppliers and business partners. These information technology systems are subject to damage or interruption from a number of potential sources, including, but not limited to, natural disasters, destructive or inadequate code, malware, power failures, cyber-attacks, internal malfeasance or other events. Cyber-attacks on us may include viruses and worms, phishing attacks, and denial-of-service attacks. In addition, we may be the target of email scams that attempt to acquire personal information or company assets.

We have implemented processes for systems under our control intended to mitigate risks; however, we can provide no guarantee that those risk mitigation measures will be effective. While we have historically been successful in defending against cyber-attacks and breaches, given the frequency of cyber-attacks and resulting breaches reported by other businesses and governments, it is likely we will experience one or more breaches of some extent in the future. We have incurred and may in the future incur significant costs in order to implement, maintain and/or update security systems we feel are necessary to protect our information systems, or we may miscalculate the level of investment necessary to protect our systems adequately. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures.

The Company's business also requires it to share confidential information with suppliers and other third parties. Although the Company takes steps to secure confidential information that is provided to third parties, such measures may not always be effective and data breaches, losses or other unauthorized access to or releases of confidential information may occur and could materially adversely affect the Company's reputation, financial condition and operating results and could result in liability or penalties under data privacy laws.

To the extent that any system failure, accident or security breach results in material disruptions or interruptions to our operations or the theft, loss or disclosure of, or damage to our data or confidential information, including our intellectual property, our reputation, business, results of operations and/or financial condition could be materially adversely affected.

WE ARE SUBJECT TO RISKS RELATED TO OUR ASSETS

We are exposed to potential impairment charges on certain assets.

We had approximately \$5.3 billion of goodwill and \$2.7 billion of acquired intangible assets on our unaudited condensed consolidated balance sheet as of May 2, 2020. Under generally accepted accounting principles in the United States, we are required to review our intangible assets including goodwill for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We perform an assessment of goodwill for impairment annually on the last business day of our fiscal fourth quarter and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. When testing goodwill for impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value or we may determine to proceed directly to the quantitative impairment test.

Factors we consider important in the qualitative assessment which could trigger a goodwill impairment review include: significant underperformance relative to historical or projected future operating results; significant changes in the manner of our use of the acquired assets or the strategy for our overall business; significant negative industry or economic trends; a significant decline in our stock price for a sustained period; and a significant change in our market capitalization relative to our net book value.

We assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Circumstances which could trigger a review include, but are not limited to the following: significant decreases in the market price of the asset; significant adverse changes in the business climate or legal factors; accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

We have determined that our business operates as a single operating segment with two primary components (Storage and Networking), which we have concluded can be aggregated into a single reporting unit for purposes of testing goodwill impairment. The fair value of the reporting unit is determined by taking our market capitalization as determined through quoted market prices and as adjusted for a control premium and other relevant factors. If our fair value declines to below our carrying value, we could incur significant goodwill impairment charges, which could negatively impact our financial results. If in the future a change in our organizational structure results in more than one reporting unit, we will be required to allocate our goodwill and perform an assessment of goodwill for impairment in each reporting unit. As a result, we could have an impairment of goodwill in one or more of such future reporting units.

In addition, from time to time, we have made investments in private companies. If the companies that we invest in are unable to execute their plans and succeed in their respective markets, we may not benefit from such investments, and we could potentially lose the amounts we invest. We evaluate our investment portfolio on a regular basis to determine if impairments have occurred. If the operations of any businesses that we have acquired declines significantly, we could incur significant intangible asset impairment charges. Impairment charges could have a material impact on our results of operations in any period.

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

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

We are subject to the risks of owning real property.

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

- the possibility of environmental contamination and the costs associated with remediating any environmental problems;
- adverse changes in the value of these properties due to interest rate changes, changes in the neighborhood in which the property is located, or other factors;
- the possible need for structural improvements in order to comply with zoning, seismic and other legal or regulatory requirements;
- the potential disruption of our business and operations arising from or connected with a relocation due to moving to or renovating the facility;
- increased cash commitments for improvements to the buildings or the property, or both;
- increased operating expenses for the buildings or the property, or both;
- possible disputes with third parties related to the buildings or the property, or both;
- failure to achieve expected cost savings due to extended non-occupancy of a vacated property intended to be leased; and
- the risk of financial loss in excess of amounts covered by insurance, or uninsured risks, such as the loss caused by damage to the buildings as a result of earthquakes, floods and/or other natural disasters.

WE MAY HAVE FLUCTUATIONS IN THE AMOUNT OR PAYMENT OF OUR DIVIDENDS OR IN THE AMOUNT OR FREQUENCY OF OUR STOCK REPURCHASES

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

In May 2012, we declared our first quarterly cash dividend and in October 2018, we announced that our board of directors had authorized a \$700 million addition to our previously existing \$1 billion share repurchase program. An aggregate of \$1.1 billion of shares have been repurchased under that program as of May 2, 2020. Future payment of a regular quarterly cash dividend on our common shares and future share repurchases will be subject to, among other things: the best interests of our company and our shareholders; our results of operations, cash balances and future cash requirements; financial condition; developments in ongoing litigation; statutory requirements under Bermuda law; market conditions; and other factors that our Board of Directors may deem relevant. Our dividend payments or share repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares in any particular amounts or at all. A reduction in, a delay of, or elimination of our dividend payments or share repurchases could have a negative effect on our share price. During the first quarter of fiscal year 2021, we temporarily suspended our repurchase program midway through the quarter in order to strengthen our liquidity and increase our cash balance during the uncertain environment resulting from the COVID-19 pandemic. Although share repurchases were temporarily suspended during part of the first quarter of fiscal year 2021, as of May 2, 2020, there was \$564.5 million remaining available for future share repurchases of the authorization.

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

There were no sales of unregistered equity securities during the three months ended May 2, 2020.

Issuer Purchases of Equity Securities

The following table presents details of our share repurchases during the three months ended May 2, 2020 (in thousands, except per share data):

Period (1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)
February 2, 2020 - February 29, 2020	—	\$ —	—	\$ 589,710
March 1, 2020 - March 28, 2020	1,251	\$ 20.14	1,251	\$ 564,508
March 29, 2020 - May 2, 2020	—	\$ —	—	\$ 564,508
Total	1,251	\$ 20.14	1,251	\$ 564,508

- (1) The monthly periods presented above for the three months ended May 2, 2020, are based on our fiscal accounting periods which follow a quarterly 4-4-5 week fiscal accounting period.
- (2) On November 17, 2016, we announced that our Board of Directors had authorized a \$1 billion share repurchase plan. On October 16, 2018, we announced that our Board of Directors authorized a \$700 million addition to the balance of our existing share repurchase plan. Our existing share repurchase program had approximately \$304 million of repurchase authority remaining as of October 16, 2018 prior to the approval addition. We intend to effect share repurchases in accordance with the conditions of Rule 10b-18 under the Exchange Act, but may also make repurchases in the open market outside of Rule 10b-18 or in privately negotiated transactions. The share repurchase program will be subject to market conditions and other factors and does not obligate us to repurchase any dollar amount or number of our common shares and the repurchase program may be extended, modified, suspended or discontinued at any time. Our share repurchase program was temporarily suspended in late March 2020 to preserve cash during the COVID-19 pandemic.

Item 6. Exhibits

Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
10.1#	Summary of Fiscal 2021 Compensation Arrangements				Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer				Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer				Filed herewith
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Principal Executive Officer				Filed herewith
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Principal Financial Officer				Filed herewith
101.INS	Inline XBRL Instance Document				Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document				Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Document				Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				Filed herewith
104	The cover page for this Form 10-Q, formatted in Inline XBRL (included in Exhibit 101)				Filed herewith
#	Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.				
*	The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.				

SIGNATURES

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

MARVELL TECHNOLOGY GROUP LTD.

Date: May 29, 2020

By: /s/ JEAN HU

Jean Hu

Chief Financial Officer

(Principal Financial Officer)

Compensation Arrangements for FY 2021**Named Executive Officers****Marvell Technology Group Ltd.**

Note: The following summary of compensation arrangements does not include all previously-reported compensation arrangements or awards granted under previously-disclosed incentive plans. Disclosures with respect to compensation for Named Executive Officers for the 2020 fiscal year were included in the Company's definitive proxy statement for the Company's 2020 Annual Meeting of Stockholders filed with the SEC on May 28, 2020, and additional disclosures with respect to compensation for Named Executive Officers for the 2021 fiscal year will be included in the Company's definitive proxy statement for the Company's 2021 Annual Meeting of Stockholders.

<i>Name</i>	<i>Title</i>	<i>Salary (\$)</i>	<i>Incentive Target (% of salary)</i>
Matthew Murphy	President and Chief Executive Officer	950,000	150
Jean Hu	Chief Financial Officer	550,000	100
Raghib Hussain	EVP, Networking and Processor Group and Chief Strategy Officer	575,000	100
Mitchell Gaynor	Chief Administration and Legal Officer and Secretary	520,000	90
Dan Christman	EVP, Storage Business Group	460,000	90

Annual Incentive Plan for Fiscal Year 2021 ("AIP")

The AIP is a cash incentive program that is designed to provide additional focus on the achievement of company goals, align target total cash compensation with actual Company performance, provide competitive total cash targets to attract and retain executive talent, and reward our executives for the achievement of Company goals. Under the AIP the Company's executive officers are eligible to earn cash incentives based upon the achievement of pre-established performance goals. Total incentive opportunities will be based on achievement of semi-annual targets but will be paid annually. Incentive targets were changed for fiscal year 2021 to semi-annual targets as a result of the uncertainty in market conditions caused by the Novel Coronavirus (COVID-19). Incentive payouts may range between 0% and 200% of the target incentive opportunity.

Under the AIP, in order for an executive officer to be eligible to receive a cash incentive, the Company has to meet a threshold non-GAAP earnings-per-share goal. For these purposes, earnings-per-share (as well as the non-GAAP measures below) may be adjusted by the Executive Compensation Committee by excluding (in its sole discretion) among other items: M&A/divestiture expense, litigation expense, expenses related to the Coronavirus, equity compensation expense, restructuring costs, and other non-recurring or unusual expenses. If the threshold performance goal is not met, no incentives will be payable under the AIP.

If the Company's threshold performance goal is met, the AIP provides for potential payouts based on the following metrics:

- revenue (30%),
- non-GAAP gross margin (30%), and

- non-GAAP operating income margin (40%).

If the Company fails to achieve the threshold level for any of the above Company performance goals, no payout is awarded for that goal.

Payouts for the President and Chief Executive Officer and Chief Financial Officer will be based solely on the above Company performance goals. Payouts for the other executive officers may be based 80% on Company performance goals and 20% on individual performance goals, provided that no overachievement on the 20% individual component will be permitted unless the Company achieves at least 100% of the Company's performance goals. Nevertheless, in its discretion, the Executive Compensation Committee may reduce the individual component for any executive officer (and increase the component based on Company performance) if it determines doing so would be appropriate in the circumstances.

The Executive Compensation Committee determined that the combined application of all the metrics would make achievement difficult to meet at target and very difficult to meet at maximum payout.

CERTIFICATION

I, Matthew J. Murphy, 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 the 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 control 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: May 29, 2020

By: /s/ Matthew J. Murphy

Matthew J. Murphy
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Jean Hu, 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 the 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 control 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: May 29, 2020

By: /s/ Jean Hu

Jean Hu
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Matthew J. Murphy, the Principal Executive Officer of Marvell Technology Group Ltd. (the “Registrant”), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

- (i) the Quarterly Report of the Registrant on Form 10-Q for the fiscal quarter ended May 2, 2020 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 29, 2020

By: /s/ Matthew J. Murphy

Matthew J. Murphy
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Jean Hu, the Principal Financial Officer of Marvell Technology Group Ltd. (the “Registrant”), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

- (i) the Quarterly Report of the Registrant on Form 10-Q for the fiscal quarter ended May 2, 2020 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 29, 2020

By: /s/ Jean Hu

Jean Hu
Chief Financial Officer
(Principal Financial Officer)