

MARVELL TECHNOLOGY GROUP LTD

Form 10-Q

August 31, 2017

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 July 29, 2017

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 77-0481679

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) 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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Emerging growth company ☐

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. ☐

The number of common shares of the registrant outstanding as of August 24, 2017 was 495.8 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)

	July 29, 2017	January 28, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$630,501	\$814,092
Short-term investments	943,006	854,268
Accounts receivable, net	371,697	335,384
Inventories	175,355	170,842
Prepaid expenses and other current assets	46,491	58,771
Assets held for sale	41,896	57,077
Total current assets	2,208,946	2,290,434
Property and equipment, net	235,354	243,397
Goodwill and acquired intangible assets, net	1,994,743	1,996,880
Other non-current assets	148,407	117,939
Total assets	\$4,587,450	\$4,648,650

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable	\$153,862	\$143,484
Accrued liabilities	106,351	143,491
Accrued employee compensation	131,272	139,647
Deferred income	70,063	63,976
Liabilities held for sale	1,015	5,818
Total current liabilities	462,563	496,416
Non-current income taxes payable	55,714	60,646
Other non-current liabilities	95,076	63,937
Total liabilities	613,353	620,999
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Common shares, \$0.002 par value	991	1,012
Additional paid-in capital	2,752,541	3,016,775
Accumulated other comprehensive income	899	23
Retained earnings	1,219,666	1,009,841
Total shareholders' equity	3,974,097	4,027,651

Total liabilities and shareholders' equity      \$4,587,450    \$4,648,650

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		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net revenue	\$604,750	\$597,346	\$1,177,459	\$1,110,979
Cost of goods sold	239,572	270,427	466,770	510,360
Gross profit	365,178	326,919	710,689	600,619
Operating expenses:				
Research and development	180,871	207,943	368,967	427,351
Selling, general and administrative	55,659	67,896	110,763	131,964
Restructuring related charges	4,285	721	5,171	5,162
Total operating expenses	240,815	276,560	484,901	564,477
Operating income from continuing operations	124,363	50,359	225,788	36,142
Interest and other income, net	7,188	6,284	10,521	7,772
Income from continuing operations before income taxes	131,551	56,643	236,309	43,914
Provision (benefit) for income taxes	(3,899 )	(5,823 )	1,267	(11,260 )
Income from continuing operations, net of tax	135,450	62,466	235,042	55,174
Income (loss) from discontinued operations, net of tax	29,809	(11,161 )	36,838	(26,548 )
Net income	\$165,259	\$51,305	\$271,880	\$28,626
Net income (loss) per share - Basic:				
Continuing operations	\$0.27	\$0.12	\$0.47	\$0.11
Discontinued operations	\$0.06	\$(0.02 )	\$0.07	\$(0.05 )
Net income per share - basic	\$0.33	\$0.10	\$0.54	\$0.06
Net income (loss) per share - Diluted:				
Continuing operations	\$0.26	\$0.12	\$0.46	\$0.11
Discontinued operations	\$0.06	\$(0.02 )	\$0.07	\$(0.05 )
Net income per share - diluted	\$0.32	\$0.10	\$0.53	\$0.06
Weighted average shares:				
Basic	500,817	511,235	502,303	510,014
Diluted	510,309	514,314	513,951	513,669
Cash dividends declared per share	\$0.06	\$0.06	\$0.12	\$0.12

See accompanying notes to unaudited condensed consolidated financial statements

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MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net income	\$ 165,259	\$ 51,305	\$ 271,880	\$ 28,626
Other comprehensive income (loss), net of tax:				
Net change in unrealized gain (loss) on marketable securities	556	1,976	(117	) 4,409
Net change in unrealized gain (loss) on cash flow hedges	(765	) (183	) 993	401
Net change in pension liability	1,272	—	—	—
Other comprehensive income, net of tax	1,063	1,793	876	4,810
Comprehensive income, net of tax	\$ 166,322	\$ 53,098	\$ 272,756	\$ 33,436

See accompanying notes to unaudited condensed consolidated financial statements

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## MARVELL TECHNOLOGY GROUP LTD.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended	
	July 29, 2017	July 30, 2016
Cash flows from operating activities:		
Net income	\$271,880	\$28,626
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,186	53,980
Share-based compensation	46,439	61,649
Amortization and write-off of acquired intangible assets	2,136	5,892
Deferred income taxes	2,791	(2,423 )
Excess tax benefits from share-based compensation	—	(5 )
Gain on sale of businesses	(47,464 )	—
Other	(1,886 )	2,975
Changes in assets and liabilities:		
Accounts receivable	(36,313 )	(25,383 )
Inventories	(14,712 )	7,234
Prepaid expenses and other assets	8,882	(6,612 )
Accounts payable	3,968	40,359
Accrued liabilities and other non-current liabilities	(33,418 )	(30,243 )
Carnegie Mellon University accrued litigation settlement	—	(736,000 )
Accrued employee compensation	(8,375 )	(15,118 )
Deferred income	1,284	16,327
Net cash provided by (used in) operating activities	236,398	(598,742 )
Cash flows from investing activities:		
Purchases of available-for-sale securities	(376,227 )	(203,723 )
Sales of available-for-sale securities	116,700	340,095
Maturities of available-for-sale securities	169,611	146,470
Purchase of time deposits	(150,000 )	(125,000 )
Maturities of time deposits	150,000	—
Return of investment from privately-held companies	2,388	—
Purchases of technology licenses	(1,701 )	(8,045 )
Purchases of property and equipment	(14,046 )	(24,377 )
Net proceeds from sale of businesses	72,229	—
Net cash provided by (used in) investing activities	(31,046 )	125,420
Cash flows from financing activities:		
Repurchases of common stock	(387,558 )	—
Proceeds from employee stock plans	97,811	559
Minimum tax withholding paid on behalf of employees for net share settlement	(24,814 )	(15,382 )
Dividend payments to shareholders	(60,086 )	(61,136 )
Payments on technology license obligations	(14,296 )	(10,152 )
Excess tax benefits on share-based compensation	—	5
Net cash used in financing activities	(388,943 )	(86,106 )
Net decrease in cash and cash equivalents	(183,591 )	(559,428 )
Cash and cash equivalents at beginning of period	814,092	1,278,180

Cash and cash equivalents at end of period	\$630,501	\$718,752
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See accompanying notes to unaudited condensed consolidated financial statements

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. 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 and six months ended July 29, 2017, 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 2017 audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017. 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. The Company's financial results for prior periods presented herein have been recast to reflect certain businesses that were classified as discontinued operations during the fourth quarter of fiscal year 2017 and second quarter of fiscal year 2018. See Note 3. Discontinued Operations for additional information. Certain prior year amounts have been reclassified to conform to current year presentation. These amounts were not material to any of the periods presented.

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 2017 had a 52-week year. Fiscal 2018 is a 53-week year.

During the first fiscal quarter of 2018, the Company recorded certain out-of-period adjustments of \$4.7 million related to revenue-related accruals and \$3.2 million related to other expenses. The net effect of these out-of-period adjustments resulted in a \$7.9 million increase in income from continuing operations for the six months ended July 29, 2017 and an increase in earnings per share from continuing operations of \$0.02 per share, as well as contributing to the increase in revenue and gross margin for the six months ended July 29, 2017.

Note 2. Recent Accounting Pronouncements

Accounting Pronouncements Not Yet Effective

In May 2014, the FASB issued a new accounting standard on the recognition of revenue from contracts with customers that will supersede nearly all existing revenue recognition guidance under GAAP. The new standard will require an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for certain costs to obtain or fulfill a contract with a customer, and provides for additional disclosures with respect to revenue and cash flows arising from contracts with customers. Public entities are required to apply the amendments on either a full or modified retrospective basis for annual periods beginning after December 15, 2017 and for interim periods within those annual periods. This update will be effective for the Company beginning in the first quarter of fiscal year 2019. The Company plans to adopt the standard on a modified retrospective basis, with the cumulative



effect recognized at adoption.

The Company's initial assessment has identified a change in revenue recognition timing on our component sales made to distributors. The Company expects to recognize revenue when the Company transfers control to the distributor rather than deferring recognition until the distributor sells the components. Other changes may be identified as the Company continues its implementation planning process. On the date of initial adoption, the Company will remove the deferred income on component sales made to distributors through a cumulative adjustment to retained earnings.

To date, the Company has completed the assessment phase of its revenue project and is currently in the implementation, planning, design and development phase, identifying systems and process changes necessary to enable compliance with the new standard. The Company will continue to monitor relevant elements and finalize its evaluation of any changes to its accounting policies and disclosures.

In January 2016, the FASB issued an accounting standard update that changes the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2019, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In February 2016, the FASB issued a new standard on the accounting for leases, which requires a lessee to record a right-of-use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than twelve months. The standard also expands the required quantitative and qualitative disclosures for lease arrangements. The standard is effective for the Company beginning in the first quarter of fiscal year 2020. The Company is currently evaluating the effect this new guidance will have on its consolidated financial statements.

In June 2016, the 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 in current GAAP 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 standard is effective for the Company beginning in the first quarter of fiscal year 2021. The Company does not expect the adoption of this guidance will have a material effect on its consolidated financial statements.

In August 2016, the FASB issued an accounting standards update to add or clarify guidance on the classification of certain cash receipts and cash payments in the statement of cash flows. The amendments in the update provide guidance on eight specific cash flow issues and is effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted, including adoption in an interim period. The amendments to the guidance should be applied using a retrospective transition method for each period presented and, if it is impracticable to apply all of the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements.

In October 2016, the FASB issued new guidance that simplifies the accounting for the income tax effects of intra-entity transfers and will require companies to recognize the income tax effects of intra-entity transfers of assets other than inventory when the transfer occurs. Previous guidance required companies to defer the income tax effects of intra-entity transfers of assets until the asset had been sold to an outside party or otherwise recognized. The guidance is effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In November 2016, the FASB issued new guidance that requires entities to include in their cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. As a result, companies will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In January 2017, the FASB issued an accounting standards update that revises the definition of a business. The amendments provide a more robust framework for determining when a set of assets and activities is a business. The update is intended to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The guidance is effective for annual and interim periods beginning after December

15, 2018. Early adoption is permitted for certain transactions, as specifically described in the guidance. The Company is evaluating the effect this new guidance will have on its consolidated financial statements.

In May 2017, the FASB issued an accounting standards update that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Unless the changes in terms or conditions meet all three criteria outlined in the guidance, modification accounting should be applied. The three criteria relate to changes in the terms and conditions that affect the fair value, vesting conditions, or classification of a share-based payment award. The amendment is effective for the Company beginning in the first quarter of fiscal year 2019. Early adoption is permitted. The guidance is required to be applied prospectively to an award modified on or after the adoption date. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

Note 3. Discontinued Operations

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In November 2016, the Company announced a plan to restructure its operations to refocus its research and development, increase operational efficiency and improve profitability. As part of those actions, the Company began an active program to locate buyers for several businesses. The Company concluded that the divestitures of these businesses represented a strategic shift that has a major effect on the Company's operations and financial results. These businesses were deemed not to align with the Company's core business.

In February 2017, the Company entered into an agreement to sell the assets of one of these businesses, the Broadband operations. The transaction closed on April 4, 2017. Based on the terms of the agreement, the Company received sale consideration of \$23 million in cash proceeds. The divestiture resulted in a pre-tax gain on sale of \$8.2 million, which is included within income from discontinued operations in the consolidated statements of operations.

In May 2017, the Company sold the assets of a second business, the LTE thin-modem operations. The transaction closed on May 18, 2017. Based on the terms of the agreement, the Company received sale consideration of \$52.9 million. The divestiture resulted in a pre-tax gain on sale of \$34.0 million, which is included within income from discontinued operations in the consolidated statements of operations. The Company has classified this business as discontinued operations for all periods presented in its consolidated financial statements starting with the filing of this Form 10-Q for the three and six months ended July 29, 2017.

In June 2017, the Company entered into an agreement to sell the assets of a third business, the Multimedia operations. This business continues to be presented as discontinued operations in the consolidated statements of operations as of July 29, 2017. The transaction is expected to close in the third quarter of fiscal 2018.

The following table presents a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operations to the total assets and liabilities of the disposal group classified as held for sale that are presented separately in the consolidated balance sheets (in thousands):

	July 29, 2017	January 28, 2017
Assets held for sale:		
Inventory	\$ 16,609	\$ 9,281
Property and equipment, net	2,797	5,270
Goodwill	20,775	36,636
Acquired intangible assets, net	—	3,799
Other	1,715	1,490
Assets held for sale for discontinued operations	41,896	56,476
Other assets held for sale	—	601
Total assets of the disposal group classified as held for sale	\$ 41,896	\$ 57,077
Liabilities held for sale:		
Deferred income	\$ 1,015	\$ 5,818

The following table presents a reconciliation of the major financial lines constituting the results of operations for discontinued operations to the net income (loss) from discontinued operations presented separately in the consolidated statements of operations (in thousands):



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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Three Months Ended		Six Months Ended	
	July 29, July 30, 2017 2016		July 29, July 30, 2017 2016	
Net revenue	\$32,994	\$29,057	\$72,020	\$56,247
Operating costs and expenses:				
Cost of goods sold	16,870	17,182	36,978	36,460
Research and development	14,555	20,948	32,169	41,998
Selling, general and administrative	910	1,782	2,642	3,549
Operating costs and expenses	32,335	39,912	71,789	82,007
Income (loss) from discontinued operations before income taxes	659	(10,855 )	231	(25,760 )
Gain from sale of a business	34,032	—	42,187	—
Provision for income taxes	4,882	306	5,580	788
Income (loss) from discontinued operations, net of tax	\$29,809	\$(11,161 )	\$36,838	\$(26,548)

The Company has elected not to report separately discontinued operations in its consolidated statements of cash flows since its effect is not material. Non-cash operating amounts reported for discontinued operations include share-based compensation expense of \$1.1 million and \$3.3 million for the three and six months ended July 29, 2017 and \$4.1 million and \$7.1 million for the three and six months ended July 30, 2016, respectively. Depreciation, amortization and capital expenditures are not material. The proceeds from sale of the LTE thin-modem business of \$49.2 million and proceeds from sale of the Broadband business of \$23.0 million are classified in investing activities for the six months ended July 29, 2017, and the gain on sale of such business is presented in operating activities. Due to the Company's transfer pricing arrangements, the Company generates income in most jurisdictions in which it operates, regardless of a loss that may exist on a consolidated basis. In addition, the Company recognized a tax expense of \$4.6 million on the sale of its LTE thin-modem business for the three and six month period ended July 29, 2017. As such, the Company has reflected a tax expense of \$4.9 million and \$5.6 million for the three and six months ended July 29, 2017 and \$0.3 million and \$0.8 million for the three and six months ended July 30, 2016, respectively, attributable to discontinued operations.

## Note 4. Restructuring Related Charges

In November 2016, the Company announced a restructuring plan intended to refocus its research and development, increase operational efficiency and improve profitability. As a continuation of such plan, the Company recorded restructuring related charges of \$4.3 million and \$5.2 million in the three and six months ended July 29, 2017. The following table presents details of charges recorded by the Company related to the restructuring actions described below (in thousands):

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Three Months Ended July 29, 2017		Six Months Ended July 29, 2017	
	July 30, 2016		July 30, 2016	
Restructuring related charges:				
Severance and related costs	\$3,628	\$ 15	\$5,836	\$15
Facilities and related costs	841	846	442	4,477
Other exit-related costs	40	—	420	—
	4,509	861	6,698	4,492
Release of reserves:				
Severance	(194 )	—	(911 )	(86 )
Facilities and related costs	—	—	—	—
Other exit-related	(100 )	(269 )	(170 )	(269 )
	(294 )	(269 )	(1,081 )	(355 )
Impairment and write-off of assets:				
Technology license	—	—	174	—
Equipment and other	70	129	(620 )	1,025
	70	129	(446 )	1,025
Restructuring related charges	\$4,285	\$ 721	\$5,171	\$5,162

The Company is on track to complete activities related to the restructuring plan as previously announced.

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):

	November 2016 & Other Prior Restructuring SeveranceFacilities Other and Relatedand Related Exit-Related Costs Costs Costs			Total
Balance at January 28, 2017	\$17,000	\$ 2,474	\$ 4,625	\$24,099
Restructuring charges	11,921	442	420	12,783
Net cash payments	(20,049 )	(1,287 )	(4,122 )	(25,458 )
Release of reserves	(911 )	(70 )	(100 )	(1,081 )
Balance at July 29, 2017	\$7,961	\$ 1,559	\$ 823	\$10,343

The remaining accrued severance represents termination benefits determined to have been established under a substantive ongoing benefit arrangement for which payment was considered probable due to the timing of notification to certain additional employee groups, and is expected to be paid in the third quarter of fiscal 2018. Severance charges of \$5.4 million and \$6.1 million in the three and six months ended July 29, 2017, respectively, relate to discontinued operations and have been included in income (loss) from discontinued operations, net of tax, in the Company's condensed consolidated statements of operations. The accrued balance at July 29, 2017 for facilities and related costs includes remaining payments under lease obligations related to vacated space that are expected to be paid through fiscal 2020. Other exit-related costs are expected to be paid in the third quarter of fiscal 2018.

Note 5. Supplemental Financial Information (in thousands)  
Consolidated Balance Sheets





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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	July 29,	January 28,
	2017	2017

## Inventories:

Work-in-process \$ 126,730 \$ 109,362

Finished goods 48,625 61,480

Total inventories \$ 175,355 \$ 170,842

Inventory held by third-party logistics providers is recorded as consigned inventory on the Company's unaudited condensed consolidated balance sheet. The amount of inventory held at third-party logistics providers was \$16.7 million and \$26.5 million at July 29, 2017 and January 28, 2017, respectively.

	July 29,	January 28,
	2017	2017
Property and equipment, net:		
Machinery and equipment	\$518,940	\$578,248
Buildings and building improvements	194,399	194,290
Computer software	93,724	99,186
Land	53,373	53,373
Leasehold improvements	45,847	49,004
Furniture and fixtures	23,064	23,903
Construction in progress	16,269	11,240
	945,616	1,009,244
Less: Accumulated depreciation and amortization	(710,262 )	(765,847 )
Total property and equipment, net	\$235,354	\$243,397

Current accrued liabilities are comprised of the following at July 29, 2017 and January 28, 2017, respectively:

	July 29,	January 28,
	2017	2017
Accrued liabilities:		
Technology license obligations	\$24,421	\$21,905
Accrued royalties	16,646	17,349
Accrued rebates	16,250	26,095
Accrued legal related expenses	13,483	7,727
Unsettled investment trades	3,666	15,371
Restructuring liability	4,970	23,150
Other	26,915	31,894
Total accrued liabilities	\$106,351	\$143,491

Unsettled investment trades represent the accrual to address the timing difference between trade date and cash settlement date.

	July 29,	January 28,
	2017	2017
Deferred income:		
Deferred revenue	\$94,039	\$87,968

Deferred cost of goods sold	(23,976 )	(23,992 )
Deferred income	\$70,063	\$ 63,976

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	July 29, 2017	January 28, 2017
Other non-current liabilities:		
Deferred tax liabilities	\$52,593	\$ 38,777
Technology license obligations	39,592	14,949
Long-term accrued employee compensation	1,287	4,075
Other	1,604	6,136
Other non-current liabilities	\$95,076	\$ 63,937

Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income (loss) by components are presented in the following tables (in thousands):

	Unrealized Gain (Loss) on Marketable Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance at January 28, 2017	\$ (801 )	\$ 824	\$ 23
Other comprehensive income (loss) before reclassifications	(146 )	2,341	2,195
Amounts reclassified from accumulated other comprehensive income (loss)	29	(1,348 )	(1,319)
Other comprehensive income (loss)	(117 )	993	876
Balance at July 29, 2017	\$ (918 )	\$ 1,817	\$ 899

	Unrealized Gain (Loss) on Marketable Securities	Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance at January 30, 2016	\$ (656 )	\$ (139 )	\$(795 )
Other comprehensive income before reclassifications	4,471	788	5,259
Amounts reclassified from accumulated other comprehensive income	(62 )	(387 )	(449 )
Other comprehensive income	4,409	401	4,810
Balance at July 30, 2016	\$ 3,753	\$ 262	\$4,015

The amounts reclassified from accumulated other comprehensive income (loss) by components are presented in the following table (in thousands):

	Three Months Ended		Six Months Ended	
Affected Line Item in the Statements of Operations:	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Interest and other income, net:				
Available-for-sale securities:				
Marketable securities	\$ 12	\$ 178	\$(29 )	\$ 62
Operating costs and expenses:				
Cash flow hedges:				
Research and development	1,003	390	1,074	339
Selling, general and administrative	265	54	274	48

Total	\$ 1,280	\$ 622	\$1,319	\$ 449
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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Interest and other income, net:				
Interest income	\$ 3,830	\$ 3,193	\$7,342	\$6,635
Net realized gain (loss) on investments	(53 )	261	(28 )	425
Currency remeasurement gain (loss)	(467 )	2,958	(557 )	1,017
Other income (expense)	3,958	(31 )	3,895	(90 )
Interest expense	(80 )	(97 )	(131 )	(215 )
	\$ 7,188	\$ 6,284	\$10,521	\$7,772

## Share Repurchase Program

The Company repurchased 23.6 million of its common shares for \$386.1 million during the six months ended July 29, 2017. There were no shares repurchased during the six months ended July 30, 2016. The repurchased shares were retired immediately after the repurchases were completed.

As of July 29, 2017, a total of 278.5 million shares have been repurchased to date under the Company's share repurchase program for a total \$3.6 billion in cash and there was \$498.0 million remaining available for future share repurchases.

Subsequent to the end of the quarter, the Company repurchased an additional 0.5 million of its common shares for \$8.8 million at an average price per share of \$17.43.

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Note 6. Investments

The following tables summarize the Company's investments (in thousands):

	July 29, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale:				
U.S. government and agency debt	\$209,351	\$ 84	\$ (287 )	\$209,148
Foreign government and agency debt	7,846	—	(17 )	7,829
Municipal debt securities	20,965	13	(5 )	20,973
Corporate debt securities	465,001	869	(269 )	465,601
Equity securities	59,389	—	(1,310 )	58,079
Asset backed securities	31,373	22	(19 )	31,376
Held-to-maturity:				
Time deposits	150,000	—	—	150,000
Total investments	\$943,925	\$ 988	\$ (1,907 )	\$943,006

	January 28, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale:				
U.S. government and agency debt	\$185,584	\$ 86	\$ (283 )	\$185,387
Foreign government and agency debt	13,425	—	(50 )	13,375
Municipal debt securities	27,916	4	(49 )	27,871
Corporate debt securities	432,603	281	(776 )	432,108
Asset backed securities	45,541	33	(47 )	45,527
Held-to-maturity:				
Time deposits	150,000	—	—	150,000
Total short-term investments	855,069	404	(1,205 )	854,268
Long-term investments:				
Available-for-sale:				
Auction rate securities	4,615	—	—	4,615
Long-term investments	4,615	—	—	4,615
Total investments	\$859,684	\$ 404	\$ (1,205 )	\$858,883

Gross realized gains and gross realized losses on sales of available-for-sale securities are presented in the following tables (in thousands):

Three Months Ended		Six Months Ended	
July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016

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Gross realized gains	\$ 16	\$ 280	\$85	\$ 668
Gross realized losses	(69 )	(19 )	(113 )	(243 )
Total net realized gains (losses)	\$ (53 )	\$ 261	\$(28)	\$ 425

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The contractual maturities of available-for-sale securities are presented in the following tables (in thousands):

	July 29, 2017		January 28, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$482,883	\$482,877	\$423,151	\$423,058
Due between one and five years	401,653	402,050	423,669	422,995
Due over five years	—	—	12,864	12,830
	\$884,536	\$884,927	\$859,684	\$858,883

For individual securities that have been in a continuous unrealized loss position, the fair value and gross unrealized loss for these securities aggregated by investment category and length of time in an unrealized position are presented in the following tables (in thousands):

	July 29, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agency debt	\$106,164	\$(287)	\$—	\$—	\$106,164	\$(287)
Foreign government and agency debt	7,829	(17)	—	—	7,829	(17)
Municipal debt securities	7,256	(4)	1,249	(1)	8,505	(5)
Corporate debt securities	123,358	(261)	2,217	(8)	125,575	(269)
Equity securities	58,079	(1,310)	—	—	58,079	(1,310)
Asset backed securities	12,962	(19)	—	—	12,962	(19)
Total securities	\$315,648	\$(1,898)	\$3,466	\$(9)	\$319,114	\$(1,907)

	January 28, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government and agency debt	\$94,064	\$(283)	\$—	\$—	\$94,064	\$(283)
Foreign government and agency debt	11,875	(48)	1,499	(2)	13,374	(50)
Municipal debt securities	17,450	(47)	1,248	(2)	18,698	(49)
Corporate debt securities	199,382	(751)	16,063	(25)	215,445	(776)
Asset backed securities	16,754	(47)	—	—	16,754	(47)
Total securities	\$339,525	\$(1,176)	\$18,810	\$(29)	\$358,335	\$(1,205)

As of July 29, 2017, for fixed income securities that were in unrealized loss positions, the Company has determined that (i) it does not have the intent to sell these investments, and (ii) it is not more likely than not that it will be required to sell any of these investments before recovery of the amortized cost basis. In addition, as of July 29, 2017, the Company anticipates that it will recover the amortized cost basis of such fixed income securities and has determined that no other-than-temporary impairments associated with credit losses were required to be recognized during the three months ended July 29, 2017.

The Company has evaluated its equity securities as of July 29, 2017 and has determined that there were no other-than-temporary impairments in such securities with unrealized loss positions. This determination was based on



several factors, including the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

Note 7. Derivative Financial Instruments

The Company manages some of its foreign currency exchange rate risk through the purchase of foreign currency exchange contracts that hedge against the short-term effect of currency fluctuations. The Company's policy is to enter into

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

foreign currency forward contracts with maturities less than 12 months that mitigate the effect of rate fluctuations on certain local currency denominated operating expenses. All derivative instruments are recorded at fair value in either prepaid expenses and other current assets or accrued liabilities. The Company reports cash flows from derivative instruments in cash flows from operating activities. The Company uses quoted prices to value its derivative instruments.

The notional amounts of outstanding forward contracts were as follows (in thousands):

Buy Contracts
July 29, 2017    January 28, 2017
Israeli shekel \$21,121    \$ 63,523

Cash Flow Hedges. The Company designates and documents its foreign currency forward exchange contracts as cash flow hedges for certain operating expenses. The Company evaluates and calculates the effectiveness of each hedge at least quarterly. The effective change is recorded in accumulated other comprehensive income and is subsequently reclassified to operating expense when the hedged expense is recognized. Ineffectiveness is recorded in interest and other income, net.

The following table provides information about gains (losses) associated with the Company's derivative financial instruments (in thousands):

	Location of Gains (Losses) in Statement of Operations	Amount of Gains (Losses) in Statement of Operations			
		Three Months Ended		Six Months Ended	
		July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Derivatives designated as cash flow hedges:					
Forward contracts:	Research and development	\$ 1,251	\$ 265	\$ 1,726	\$ 451
	Selling, general and administrative	331	37	394	63
		\$ 1,582	\$ 302	\$ 2,120	\$ 514

The portion of gains (losses) excluded from the assessment of hedge effectiveness is included in interest and other income, net, and these amounts were not material in the three and six months ended July 29, 2017 and July 30, 2016. The Company did not have hedge ineffectiveness from derivative financial instruments in the three and six months ended July 29, 2017 and July 30, 2016. No cash flow hedges were terminated as a result of forecasted transactions that did not occur.

## 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, equity securities, and U.S. government and agency debt securities, which are valued primarily using quoted market prices in active markets for identical assets. The Company's Level 2 assets include its marketable investments in time deposits, foreign government and agency debt, municipal debt securities, corporate debt securities and asset backed securities as the market inputs used to value these instruments consist of market yields, reported trades and broker/dealer quotes, which are

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

corroborated with observable market data. 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 Company's investments in auction rate securities were classified as Level 3 assets because there were no active markets for the auction rate securities and consequently the Company was unable to obtain independent valuations from market sources. Therefore, the auction rate securities were valued using a discounted cash flow model. In the three months ended July 29, 2017, the auction rate securities were sold.

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 July 29, 2017			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	\$14,579	\$—	\$—	—\$14,579
Time deposits	—	36,030	—	36,030
U.S. government and agency debt	19,492	—	—	19,492
Municipal debt securities	—	7,290	—	7,290
Corporate debt securities	—	57,441	—	57,441
Short-term investments:				
Time deposits	—	150,000	—	150,000
U.S. government and agency debt	209,148	—	—	209,148
Foreign government and agency debt	—	7,829	—	7,829
Municipal debt securities	—	20,973	—	20,973
Corporate debt securities	—	465,601	—	465,601
Equity securities	58,079	—	—	58,079
Asset backed securities	—	31,376	—	31,376
Prepaid expenses and other current assets:				
Foreign currency forward contracts	—	1,651	—	1,651
Other non-current assets:				
Severance pay fund	—	827	—	827
Total assets	\$301,298	\$779,018	\$—	—\$1,080,316

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fair Value Measurements at January 28, 2017				
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis:				
Assets				
Cash equivalents:				
Money market funds	\$36,122	\$—	\$—	\$36,122
Time deposits	—	67,000	—	67,000
U.S. government and agency debt	17,497	—	—	17,497
Foreign government and agency debt	—	1,500	—	1,500
Corporate debt securities	—	31,280	—	31,280
Municipal debt securities	—	8,740	—	8,740
Short-term investments:				
Time deposits	—	150,000	—	150,000
U.S. government and agency debt	185,387	—	—	185,387
Corporate debt securities	—	432,108	—	432,108
Foreign government and agency debt	—	13,375	—	13,375
Municipal debt securities	—	27,871	—	27,871
Asset backed securities	—	45,527	—	45,527
Prepaid expenses and other current assets:				
Foreign currency forward contracts	—	735	—	735
Long-term investments:				
Auction rate securities	—	—	4,615	4,615
Other non-current assets:				
Severance pay fund	—	736	—	736
Total assets	\$239,006	\$778,872	\$4,615	\$1,022,493
Liabilities				
Accrued liabilities:				
Foreign currency forward contracts	\$—	\$58	\$—	\$58

The following table summarizes the change in fair value for Level 3 assets (in thousands):

	Six Months Ended	
	July 29, 2017	July 30, 2016
Beginning balance	\$4,615	\$11,296
Sales and redemptions	(4,550)	(2,413)
Realized gain (loss)	(65)	91
Ending balance	\$—	\$8,974

## Note 9. 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 July 29, 2017, these foundries had incurred approximately \$185.3 million of manufacturing costs and expenses relating to the Company's outstanding purchase orders.

Intellectual Property Indemnification

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 under an infringement claim, as well as the customer's attorneys' fees and costs. 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. Although historically the Company has not made significant payments under these indemnification obligations, 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.

Contingencies and Legal Proceedings

The Company and certain of its subsidiaries are currently parties to various legal proceedings, including those noted in this section. The legal proceedings and claims described below could result in substantial costs and could divert the attention and resources of the Company's management. The Company is also engaged in other legal proceedings and claims not described below, which arise in the ordinary course of its business. The Company is currently unable to predict the final outcome of these lawsuits 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 where it has made an accrual. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation, particularly patent litigation, could require the Company to pay damages, one-time license fees or ongoing royalty payments, and could prevent the Company from manufacturing or selling some of its products or limit or restrict the type of work that employees involved in such litigation may perform for the Company, any of which could adversely affect financial results in future periods. There can be no assurance that these matters will be resolved in a manner that is not adverse to the Company's business, financial condition, results of operations or cash flows.

**Luna Litigation and Consolidated Cases.** On September 11, 2015, Daniel Luna filed an action asserting putative class action claims on behalf of the Company's shareholders in the United States District Court for the Southern District of New York ("S.D. of New York"). This action was consolidated with two additional, nearly identical complaints subsequently filed by Philip Limbacher and Jim Farno. The complaints asserted violations of federal securities laws based on allegations that the Company and certain of its officers and directors (Sehat Sutardja, Michael Rashkin, and Sukhi Nagesh) made, caused to be made, or failed to correct false and/or misleading statements in the Company's press releases and public filings. The complaints request damages in unspecified amounts, costs and fees of bringing the action, and other unspecified relief.

On November 18, 2015, the S.D. of New York granted the Company's motion to transfer the consolidated cases to the N.D. of California. On December 21, 2015, the N.D. of California granted the Company's motion to deem the consolidated cases related to the Saratoga litigation, discussed below. On February 8, 2016, the N.D. of California granted an unopposed motion to appoint Plumbers and Pipefitters National Pension Fund as Lead Plaintiff. On March 19, 2016, Lead Plaintiff filed a consolidated amended complaint. On April 29, 2016, Marvell and each of the individual defendants each filed motions to dismiss. The hearing on the motions to dismiss took place on July 29, 2016 and the court took the matter under submission. On October 12, 2016, the Court granted Defendants' motions to dismiss with leave to amend and granted lead plaintiff 30 days to file an amended complaint. The parties agreed that the plaintiffs would file and serve an amended complaint by November 28, 2016. Plaintiffs filed and served the amended complaint on November 28, 2016. The Initial Case Management Conference took place on January 12, 2017. Marvell and co-defendants filed separate Motions to Dismiss on January 17, 2017. A hearing on the Motion to Dismiss took place on May 4, 2017, and on May 17, 2017, the Court granted the Motion to Dismiss as to Rashkin and Nagesh and denied the Motion to Dismiss as to Sutardja and Marvell. At a Case Management Conference on June 1,

2017, the Court set a deadline of December 29, 2017 for the conclusion of fact discovery and confirmed a trial date of March 5, 2018.

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 intellectual property indemnities to the Company's customers in connection with the sales of its products, indemnities for liabilities associated with the infringement of other parties' technology based upon the Company's products, 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 that could require the Company to incur



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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 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 the loss is both estimable and probable.

Note 10. 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 pre-tax income (or loss) and the mix of jurisdictions to which they relate, changes in how the Company does business, and tax law developments. The Company's estimated effective tax rate for the year differs from the U.S. statutory rate primarily due to the benefit of a substantial portion of its earnings being taxed at rates lower than the U.S. statutory rate.

The income tax benefit for the three months ended July 29, 2017 included a tax benefit of \$8.9 million from a net reduction in unrecognized tax benefits, offset by current income tax expense of \$4.4 million and an expense of \$0.5 million related to other discrete items recorded in the quarter. The net reduction in unrecognized tax benefits arose from the release of \$9.5 million due to the expiration of the statute of limitations in certain non-US jurisdictions, which was partially offset by penalties and interest of \$0.6 million accrued on the outstanding unrecognized tax benefit balance. The income tax expense for the six months ended July 29, 2017 included current income tax expense of \$7.9 million and expense of \$1.2 million related to other discrete items, offset by a tax benefit of \$7.9 million from a net reduction in unrecognized tax benefits. The net reduction in unrecognized tax benefits arose from the release of \$9.8 million due to expiration of the statute of limitations in certain non-U.S. jurisdictions, which was partially offset by penalties and interest of \$1.3 million accrued on the outstanding unrecognized tax benefit balance and the accrual of \$0.6 million for changes in prior year tax positions.

The income tax benefit for the three months ended July 30, 2016 included a tax benefit of \$12.7 million from a net reduction in unrecognized tax benefits, offset by current income tax expense of \$6.6 million and an expense of \$0.3 million related to other discrete items recorded in the quarter. The net reduction in unrecognized tax benefits arose from the release of \$13.8 million due to expiration of the statute of limitations in certain non-US jurisdictions, which was partially offset by penalties and interest of \$0.8 million accrued on the outstanding unrecognized tax benefit balance and the accrual of an additional \$0.3 million for a prior year tax position. The income tax benefit for the six months ended July 30, 2016 included a tax benefit of \$12.5 million from a net reduction in unrecognized tax benefits and a deferred tax benefit of \$2.5 million for the portion of a payment to the Company's former Chief Executive Officer that became deductible after his departure from the Company in April 2016, offset by current income tax expense of \$3.4 million and an expense of \$0.4 million related to other discrete items. The net reduction in unrecognized tax benefits arose from the release of \$14.3 million due to expiration of the statute of limitations in certain non-U.S. jurisdictions, which was partially offset by penalties and interest of \$1.5 million accrued on the outstanding unrecognized tax benefit balance and the accrual of an additional \$0.3 million for a prior year tax position.

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, uncertain tax positions may decrease by as much as \$7.6 million from the lapse of statutes of limitation in various jurisdictions during the next twelve 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 if certain additional requirements are satisfied. The tax incentives are conditional upon meeting certain employment and investment thresholds. The impact of these tax incentives decreased foreign taxes by \$0.8 million and \$1.5 million for the three and six months ended July 29, 2017, respectively, and \$1.3 million and \$2.2 million for the three and six months ended July 30, 2016, respectively. The benefit of

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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the tax incentives on net income per share was less than \$0.01 per share for both the three and six months ended July 29, 2017 and July 30, 2016.

The Company's principal source of liquidity as of July 29, 2017 consisted of approximately \$1.6 billion of cash, cash equivalents and short-term investments, of which approximately \$960 million was held by foreign subsidiaries (outside Bermuda). Approximately \$600 million of this amount held by foreign subsidiaries is related to undistributed earnings that have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel and the United States. 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. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, the Company would incur a tax expense of approximately \$180 million.

## Note 11. Net Income Per Share

The Company reports both basic net income per share, which is based on the weighted average number of common shares outstanding during the period, and diluted net income 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 income per share are presented in the following table (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Numerator:				
Income from continuing operations	\$135,450	\$62,466	\$235,042	\$55,174
Income (loss) from discontinued operations	29,809	(11,161 )	36,838	(26,548 )
Net income	\$165,259	\$51,305	\$271,880	\$28,626
Denominator:				
Weighted average shares — basic	500,817	511,235	502,303	510,014
Effect of dilutive securities:				
Share-based awards	9,492	3,079	11,648	3,655
Weighted average shares — diluted	510,309	514,314	513,951	513,669
Income from continuing operations per share:				
Basic	\$0.27	\$0.12	\$0.47	\$0.11
Diluted	\$0.26	\$0.12	\$0.46	\$0.11
Income (loss) from discontinued operations per share:				
Basic	\$0.06	\$(0.02 )	\$0.07	\$(0.05 )
Diluted	\$0.06	\$(0.02 )	\$0.07	\$(0.05 )
Net income per share:				
Basic	\$0.33	\$0.10	\$0.54	\$0.06
Diluted	\$0.32	\$0.10	\$0.53	\$0.06

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):



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## MARVELL TECHNOLOGY GROUP LTD.

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Weighted average shares outstanding:				
Share-based awards	2,770	38,873	7,301	38,264

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.

## 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," "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:

- our ability to successfully restructure our operations with our anticipated amounts of costs and savings;
- our dependence upon the storage, networking and connectivity markets, which are highly cyclical and intensely competitive;
- the outcome of pending or future litigation and legal and regulatory proceedings;
- our dependence on a small number of customers;
- severe financial hardship or bankruptcy of one or more of our major customers;
- our ability and the ability of our customers to successfully compete in the markets in which we serve;
- our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products;
- our ability and our customers' ability to develop new and enhanced products and the adoption of those products in the market;
- decreases in our gross margin and results of operations in the future due to a number of factors;
- our ability to estimate customer demand and future sales accurately;
- our ability to scale our operations in response to changes in demand for existing or new products and services;
- the impact of international conflict and continued economic volatility in either domestic or foreign markets;
- the effects of transitioning to smaller geometry process technologies;
- the risks associated with manufacturing and selling a majority of our products and our customers' products outside of the United States;
- risks associated with acquisition and consolidation activity in the semiconductor industry;
- the impact of any change in the income tax laws in jurisdictions where we operate and the loss of any beneficial tax treatment that we currently enjoy;
- the effects of any potential acquisitions or investments;
- our ability to protect our intellectual property;
- the impact and costs associated with changes in international financial and regulatory conditions; and

our maintenance of an effective system of internal controls.

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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 fabless semiconductor provider of high-performance, application-specific standard products. Our core strength of expertise is the development of complex System-on-a-Chip (“SoC”) devices, leveraging our technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and standalone integrated circuits. We also develop integrated hardware platforms along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution. Our broad product portfolio includes devices for storage, networking and connectivity.

In the second quarter of fiscal 2018, we saw net revenue increase year over year by 1% from \$597.3 million net revenue in the second quarter fiscal 2017 compared with \$604.8 million in the second quarter of fiscal 2018. The increase was primarily due to a 13% increase in our storage product sales, offset in part by reduction in other sales. Our net revenue for the six months ended July 29, 2017 increased by \$66.5 million compared to net revenue for the six months ended July 30, 2016. This increase was primarily due to increased sales of our storage products by 19%. This growth was offset by a decline in legacy applications.

As discussed in Note 1, during the first fiscal quarter of 2018, we recorded certain out-of-period adjustments of \$4.7 million related to revenue-related accruals and \$3.2 million related to other expenses. The net effect of these out-of-period adjustments resulted in a \$7.9 million increase in income from continuing operations from the six months ended July 29, 2017 and an increase in earnings per share from continuing operations of \$0.02 per share, as well as contributing to the increase in revenue and gross margin for six months ended July 29, 2017.

**Restructuring.** In November 2016, we announced a restructuring plan intended to refocus our research and development, increase operational efficiency and improve profitability. As a continuation of such plan, we recorded restructuring related charges of \$4.3 million and \$5.2 million in the three and six months ended July 29, 2017, respectively. In addition, during the first half of fiscal 2018, we received proceeds of \$72.2 million and recognized a gain on sale of \$42.2 million from the sale of our Broadband and LTE thin-modem businesses. The Broadband and LTE thin-modem businesses were two of three businesses we had classified as discontinued operations. We continue our efforts to complete the divestiture of one other business, which is currently classified as discontinued operations. Unless noted otherwise, our discussion under Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, refers to our continuing operations.

**Capital Return Program.** Our financial position is strong and we remain committed to delivering shareholder value through our share repurchase and dividend programs. For the six months ended July 29, 2017, we repurchased 23.6 million shares of our common stock for \$386.1 million. As of July 29, 2017, a total of 278.5 million shares have been repurchased to date under the Company’s share repurchase program for a total \$3.6 billion in cash and there was \$498.0 million remaining available for future share repurchases. We returned \$447.6 million to stockholders in the six months ended July 29, 2017, including our repurchases of common stock and \$60.1 million of cash dividends.

**Cash and Short Term Investments.** Our total cash, cash equivalents and short-term investments were \$1.6 billion at July 29, 2017, which remained relatively consistent with our balance at our fiscal year ended January 28, 2017.

Sales and Customer Composition. Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. 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:



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	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
End Customer:				
Western Digital*	21.8 %	18.3 %	21.8 %	19.4 %
Toshiba	15.1 %	13.6 %	14.2 %	12.9 %
Seagate	9.8 %	8.8 %	10.1 %	9.4 %
Cisco	10.6 %	10.0 %	10.0 %	10.1 %
Sony	**	10.0 %	**	**
Distributor:				
Wintech	**	10.4 %	**	10.0 %

The percentage of net revenue reported for Western Digital in the three and six months ended July 29, 2017 and \* July 30, 2016 includes net revenue of HGST and Sandisk which became subsidiaries of Western Digital in late fiscal 2016.

\*\*Less than 10% of net revenue

We continuously monitor the creditworthiness of our major customers and distributors and believe the 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 all of our products are manufactured outside the United States. Sales shipped to customers with operations in Asia represented approximately 95% of our net revenue in both the three and six months ended July 29, 2017, respectively and approximately 94% of net revenue in both the three and six months ended July 30, 2016, 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 cycles, 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 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 January 28, 2017.

### 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:

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	Three Months Ended		Six Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	39.6	45.3	39.6	45.9
Gross profit	60.4	54.7	60.4	54.1
Operating expenses:				
Research and development	29.9	34.8	31.3	38.4
Selling, general and administrative	9.2	11.4	9.4	11.9
Restructuring related charges	0.7	0.1	0.5	0.5
Total operating expenses	39.8	46.3	41.2	50.8
Operating income from continuing operations	20.6	8.4	19.2	3.3
Interest and other income, net	1.2	1.1	0.9	0.7
Income from continuing operations before income taxes	21.8	9.5	20.1	4.0
Provision (benefit) for income taxes	(0.6 )	(1.0 )	0.1	(1.0 )
Income from continuing operations, net of tax	22.4 %	10.5 %	20.0 %	5.0 %

Three and six months ended July 29, 2017 and July 30, 2016

## Net Revenue

	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands, except percentage)					
Net revenue	\$604,750	\$597,346	1.2 %	\$1,177,459	\$1,110,979	6.0 %

Our net revenue for the three months ended July 29, 2017 increased by \$7.4 million compared to net revenue for the three months ended July 30, 2016. This increase was primarily due to increased sales of our storage products by 13% driven by strong growth in sales of SSD products. This increase was offset by decreased sales of our other products, which were down 35% compared to the three months ended July 30, 2016.

Our net revenue for the six months ended July 29, 2017 increased by \$66.5 million compared to net revenue for the six months ended July 30, 2016. This increase was primarily due to increased sales of our storage products by 19% driven by strong growth in sales of HDD and SSD products and increased sales of our connectivity products by 5%. This growth was offset by a decline in other products. Net revenue for the six months ended July 29, 2017 included a one-time benefit of \$4.7 million from a reduction in revenue-related accruals described in Note 1 of our unaudited condensed consolidated financial statements.

In the three months ended July 29, 2017, unit shipments were 2% lower and average selling prices increased 4% compared to the three months ended July 30, 2016. In the six months ended July 29, 2017, unit shipments were 1% higher and average selling prices increased 5% compared to the six months ended July 30, 2016.

## Cost of Goods Sold and Gross Profit

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	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands, except percentage)					
Cost of goods sold	\$239,572	\$270,427	(11.4)%	\$466,770	\$510,360	(8.5 )%
% of net revenue	39.6	% 45.3	%	39.6	% 45.9	%
Gross profit	\$365,178	\$326,919	11.7 %	\$710,689	\$600,619	18.3 %
% of net revenue	60.4	% 54.7	%	60.4	% 54.1	%

The cost of goods sold as a percentage of net revenue was lower for the three and six months ended July 29, 2017 due to improved margins primarily as a result of a shift in the mix of our product sales to higher margin products combined with an increase in rebates, offset by higher tapeout costs. As a result, gross margin for the three and six months ended July 29, 2017 increased 5.7% and 6.3%, respectively, compared to the three and six months ended July 30, 2016. Our cost of goods sold as a percentage of net revenue may fluctuate in future periods due to, among other things: changes in the mix of products sold; the timing of production ramps of new products; increased pricing pressures from our customers and competitors; charges for obsolete or potentially excess inventory; changes in the costs charged by our foundry, assembly and test subcontractors; product warranty costs; changes in commodity prices such as gold; and the margin profiles of our new product introductions.

## Research and Development

	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands, except percentage)					
Research and development	\$180,871	\$207,943	(13.0)%	\$368,967	\$427,351	(13.7)%
% of net revenue	29.9	% 34.8	%	31.3	% 38.4	%

Research and development expenses decreased by \$27.1 million in the three months ended July 29, 2017 compared to the three months ended July 30, 2016. The decrease was primarily attributable to \$20.4 million of lower personnel-related costs and a \$3.7 million reduction in depreciation and amortization expense. These reductions are primarily attributable to the results of the restructuring actions announced in November 2016.

Research and development expenses decreased by \$58.4 million in the six months ended July 29, 2017 compared to the six months ended July 30, 2016. The decrease was primarily attributable to \$44.2 million of lower personnel-related costs, an \$8.0 million reduction in depreciation and amortization expense. These reductions are primarily attributable to the results of the restructuring actions announced in November 2016.

## Selling, general and administrative

	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands, except percentage)					
Selling, general and administrative	\$55,659	\$67,896	(18.0)%	\$110,763	\$131,964	(16.1)%
% of net revenue	9.2	% 11.4	%	9.4	% 11.9	%

Selling, general and administrative expense decreased by \$12.2 million in the three months ended July 29, 2017 compared to the three months ended July 30, 2016. The decrease was primarily due to a decrease in professional services, including audit and tax fees of \$8.8 million and a decrease in legal expenses of \$5.8 million. These decreases were partially offset by a \$2.2 million increase in personnel-related costs.

Selling, general and administrative expense decreased by \$21.2 million in the six months ended July 29, 2017 compared to the six months ended July 30, 2016. The decrease was primarily due to a decrease in legal expenses of \$14.7 million, \$12.7 million related to professional services, including audit and tax fees, and \$2.6 million of facilities expenses. These decreases were partially offset by a \$14.0 million increase in personnel-related costs.

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## Restructuring Related Charges

	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands)					
Restructuring related charges	\$4,285	\$721	494.3 %	\$5,171	\$5,162	0.2 %
% of net revenue	0.7	% 0.1	%	0.5	% 0.5	%

We recorded total restructuring charges and other related charges of \$4.3 million and \$5.2 million in the three and six months ended July 29, 2017, respectively. The charges primarily arose from activities related to the restructuring plan we announced in November 2016 to refocus our research and development, increase operational efficiency and improve profitability. The charges for the six months ended July 29, 2017 included \$6.7 million of severance and other exit-related costs offset by \$1.1 million release of reserve. See "Note 4 – Restructuring Related Charges" for further information.

## Interest and Other Income, Net

	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands, except percentage)					
Interest and other income, net	\$7,188	\$6,284	14.4 %	\$10,521	\$7,772	35.4 %
% of net revenue	1.2	% 1.1	%	0.9	% 0.7	%

Interest and other income, net, increased by \$0.9 million and \$2.7 million in the three and six months ended July 29, 2017, respectively, compared to the three and six months ended July 30, 2016. The increase is primarily due to a \$5.1 million gain from sale of a business related to restructuring divestiture activity, offset by a \$2.0 million foreign currency loss related to the revaluation of foreign currency denominated tax liabilities.

## Provision (benefit) for Income Taxes

	Three Months Ended			Six Months Ended		
	July 29, 2017	July 30, 2016	% Change	July 29, 2017	July 30, 2016	% Change
	(in thousands, except percentage)					
Provision (benefit) for income taxes	\$(3,899)	\$(5,823)	(33.0)%	\$1,267	\$(11,260)	(111.3)%

Our income tax benefit for the three months ended July 29, 2017 was \$3.9 million compared to a tax benefit of \$5.8 million for the three months ended July 30, 2016. Our income tax benefit for the three months ended July 29, 2017 differs from the same period in the prior year primarily due to the magnitude of the unrecognized tax benefit released in the current period of \$9.5 million versus the prior period of \$13.8 million, offset by lower tax expense on continuing operations in the current period of \$4.4 million versus the prior period of \$6.6 million. The effective tax rate for the three months ended July 29, 2017 and July 30, 2016 differs from the statutory federal rate of 35% primarily due to the benefit of a substantial portion of our earnings being taxed at rates lower than the U.S. statutory rate, as well as the reversal of unrecognized tax benefit liabilities in certain non-U.S. jurisdictions.

Our income tax expense for the six months ended July 29, 2017 was \$1.3 million compared to a tax benefit of \$11.3 million for the six months ended July 30, 2016. Our income tax provision for the six months ended July 29, 2017 differs from the same period in the prior year primarily due to the magnitude of the unrecognized tax benefit released in the current period of \$9.8 million versus the prior period of \$14.3 million, as well as the recognition of a discrete tax benefit in the amount of \$2.5 million related to compensation paid to the Company's former Chief Executive Officer that became deductible after his departure from the Company in April 2016. This was offset by higher tax expense on continuing operations in the current period of \$7.9 million versus the prior period of \$3.4 million. The effective tax rate for the six months ended July 29, 2017 and July 30, 2016 differs from the statutory federal rate of 35% primarily due to the benefit of a substantial portion of our earnings being taxed at rates lower than the U.S. statutory rate, as well as the reversal of unrecognized tax benefit liabilities in certain non-U.S. jurisdictions.

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Our provision for incomes taxes may be affected by changes in the geographic mix of earnings with different applicable tax rates, changes in the realizability of deferred tax assets and liabilities, 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. For discussion of tax related risks, see Part II, Item 1A, "Risk Factors," including the risk detailed 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 July 29, 2017 consisted of approximately \$1.6 billion of cash, cash equivalents and short-term investments, of which approximately \$960 million was held by foreign subsidiaries (outside Bermuda). Approximately \$600 million of this amount held by foreign subsidiaries is related to undistributed earnings that have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel and the United States. We have 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. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, we would incur a tax expense of approximately \$180 million.

We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, 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, which are all subject to uncertainty. In addition, we are named as defendants in several litigation actions and an unfavorable outcome in any current litigation matter could have a material adverse effect on our liquidity, cash flows and results of operations. For a discussion of litigation related risks, see Part II, Item 1A, "Risk Factors," including the risk detailed under the caption "We have been named as 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 out products or force us to redesign our products." To the extent that our existing cash, cash equivalents and short-term investments and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may 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 the 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 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.

### Cash Flows from Operating Activities

Net cash flow provided by operating activities for the six months ended July 29, 2017 was \$236.4 million. We had net income of \$271.9 million, adjusted for the following non-cash items: depreciation and amortization of \$41.2 million, share-based compensation expense of \$46.4 million, and \$47.5 million of gain from sale of our Broadband and LTE thin-modem businesses. Cash outflow from working capital of \$78.7 million for the six months ended July 29, 2017 was primarily driven by increases in accounts receivable and inventory and a decrease in accrued liabilities. This outflow was offset by an increase in accounts payable. The increase in accounts receivable was driven primarily by



the increase in revenue. The increase in inventory is associated with the build up of inventory related to our networking and storage products in preparation for next quarter's demand. The decrease in accrued liabilities was driven by a reduction of accruals for restructuring expenses and rebates, offset by an increase related to technology licenses. The increase in accounts payable was due to additional amounts owed for assembly and test services.

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Net cash outflows from operations for the six months ended July 30, 2016 of \$598.7 million were due to \$28.6 million of net income adjusted for \$122.1 million of non-cash items and changes in working capital of \$749.4 million. The cash outflow from working capital for the six months ended July 30, 2016 was primarily driven by the decrease in the CMU accrued litigation settlement that was fully paid in the six months ended July 30, 2016. The effect on such decreases in working capital was partially offset by the cash inflow to working capital from decreases in accounts receivable due to lower sales, decrease in prepaid expenses and other assets due to receipt of \$53.7 million cash for unsettled trades of available-for-sale securities, and inventories, combined with an increase in accounts payable.

### Cash Flows from Investing Activities

Net cash used in investing activities was \$31.0 million for the six months ended July 29, 2017 compared to net cash generated from investing activities of \$125.4 million for the six months ended July 30, 2016. For the six months ended July 29, 2017, net cash used in investing activities of \$31.0 million was primarily driven by purchases of available-for-sale securities of \$376.2 million offset by sales and maturities of available-for-sale securities of \$286.3 million and net proceeds of \$72.2 million from the sale of our Broadband and LTE thin-modem businesses.

For the six months ended July 30, 2016, net cash generated from investing activities of \$125.4 million was primarily driven by sales and maturities of available-for-sale securities of \$486.6 million. This increase was partially offset by payments of \$203.7 million for the purchase of available-for-sale securities and \$125.0 million for the purchase of time deposits.

### Cash Flows from Financing Activities

For the six months ended July 29, 2017, net cash used in financing activities of \$388.9 million was primarily attributable to \$387.6 million for repurchases of our common stock, \$60.1 million for payment of our quarterly dividends and \$24.8 million minimum tax withholding payments on behalf of employees for net share settlements. These outflows were partially offset by proceeds of \$97.8 million from employee stock plans.

For the six months ended July 30, 2016, net cash used in financing activities of \$86.1 million was primarily attributable to payments of our quarterly dividends of \$61.1 million and \$15.4 million minimum tax withholding payments on behalf of employees for net share settlements and \$10.2 million on technology license obligations.

### Contractual Obligations

We presented our contractual obligations at January 28, 2017 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 six months ended July 29, 2017.

### Indemnification Obligations

See “Note 9 – 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.** Our interest rate risk relates primarily to our fixed income short-term investment portfolio as we did not have any outstanding debt as of July 29, 2017. We generally invest our excess cash in highly liquid and highly rated debt instruments of the U.S. government and agencies, municipalities, corporations, and such other investments as asset backed securities and time deposits. These investments are recorded on our 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 consolidated statements of shareholders’ equity.

Based on investment positions as of July 29, 2017, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$5.1 million decline in the fair market value of the portfolio. Due to our positive cash flow from operations, the relatively short-term nature of our investment portfolio and our ability to hold investments to maturity, such change in fair market value would likely not have resulted in any significant cash flow impact.

**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, we pay certain payroll and other operating expenses in local currencies and these expenses may be higher or lower in U.S. dollar terms. Our operations in Israel represent a large portion of our total

foreign currency exposure and we may enter into hedging transactions that are typically less than 12 months in duration to help mitigate some of the volatility to these forecasted cash flows. Additionally, we may hold certain assets and liabilities, including potential tax

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liabilities, in local currency on our consolidated balance sheet. These tax liabilities would be settled in local currency. We may choose not to hedge certain foreign exchange balance sheet and cash flow exposures due to immateriality, offsetting exposures, certainty of the timing of the assets or liabilities realized as cash flows, prohibitive economic cost of hedging a particular currency, and limited availability of appropriate hedging instruments. There is also a risk that our customers may be negatively impacted in their ability to purchase our products priced in U.S. dollars when there has been significant volatility in foreign currency exchange rates. We do not enter into derivative financial instruments for trading or speculative purposes.

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 less than 5%. We expect our hedges of foreign currency exposures to be highly effective and offset a significant portion of the short-term impact of changes in exchange rates on the hedged portion of our exposures.

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) as of July 29, 2017. 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 our disclosure controls and procedures were not effective as of July 29, 2017 due to material weaknesses described below.

Notwithstanding the material weaknesses in our internal controls over financial reporting as of July 29, 2017, management has concluded that the condensed consolidated financial statements included in this Form 10-Q present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

### Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The Company continues to work toward remediating certain material weaknesses in our internal control over financial reporting that were initially identified and disclosed in our fiscal 2016 consolidated financial statements. Remediation of the following material weakness has not yet been completed:

(i) Sufficiency of Accounting and Finance Department Resources - The Company had insufficient finance and accounting department resources with appropriate knowledge, expertise and training commensurate with the Company's corporate structure and financial reporting requirements to effectively assess risk, design, operate and oversee internal controls over financial reporting. This lack of appropriate resources resulted in inconsistent expectations around the preparation, review and maintenance of documentation critical to the design and consistent execution of internal controls as well as a lack of segregation of duties in certain controls. Further, the lack of appropriate resources resulted in controls that relied upon information that did not have sufficiently precise controls around accuracy and completeness of that information and was therefore not reliable. These factors contributed to

deficiencies in the Company's financial reporting process due to a lack of precision in the review controls over certain information and assumptions impacting various financial reporting areas including those items that are nonrecurring in nature and therefore bear a greater degree of complexity given their infrequency. Additionally, they contributed to deficiencies in the Company's ability to identify, assess and monitor the appropriate accounting treatment of certain contractual arrangements.

(ii) Revenue Recognition - The Company's internal controls to identify, accumulate and assess the accounting impact of certain concessions or side agreements on whether the Company's revenue recognition criteria had been met were in certain instances not fully followed or were not effective. The Company's controls were not effective to ensure (a) consistent standards in the level of documentation of agreements required to support accurate recording of revenue transactions, and (b) that such documentation is retained, complete, and independently reviewed to ensure certain terms impacting revenue recognition were accurately reflected in the Company's books and records.

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As discussed in Item 9A of our Annual Report on Form 10-K for the period ended January 28, 2017, we made significant changes to our internal control over financial reporting during fiscal 2017 to remediate two of the four material weaknesses identified in fiscal 2016. Our management has worked, and continues to work, to strengthen our internal control over financial reporting. We are committed to ensuring that such controls are designed and operating effectively. The two remaining material weaknesses described above will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes to Internal Control over Financial Reporting

No changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended July 29, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations 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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information under the caption “Contingencies” as set forth in “Note 9 – 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, 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.

Factors That May Affect 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:

- changes in general economic and political conditions and specific conditions in the end markets we address, including the continuing volatility in the technology sector and semiconductor industry;
- the highly competitive nature of the end markets we serve, particularly within the semiconductor industry;
- our dependence on a few customers for a significant portion of our revenue;
- severe financial hardship or bankruptcy of one or more of our major customers;
- 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 successfully restructure our operations with our anticipated costs and savings;
- the effects of any potential acquisitions, divestitures or significant investments;
- any current and future litigation 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 in sales of consumer devices in which our products are incorporated;

failure to qualify our products or our suppliers' manufacturing lines;



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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;

impact of a significant natural disaster, including earthquakes, 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; and

our ability to attract and retain a highly skilled workforce, especially managerial, engineering, sales and marketing personnel.

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. From January 31, 2016 through July 29, 2017, our common shares traded as low as \$8.32 and as high as \$18.18 per share. 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. 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.

If we fail to appropriately scale our operations in response to changes in demand for our existing products or to the demand for new products requested by our customers, including efforts such as our restructuring announced in November 2016, our business and profitability could be materially and adversely affected.

To achieve our business objectives, it may be necessary from time to time for us to expand or contract our operations. For example, in November 2016, we announced a plan to restructure our operations to refocus our research and development, increase operational efficiency and improve profitability. We expect that the restructuring actions, which include discontinuing investment in specific research and development programs, streamlining engineering processes, and consolidating research and development sites, will eliminate approximately 900 positions worldwide. In addition, we are in the process of divesting certain businesses. These actions are expected to be fully executed by the end of October 2017.

Our ability to scale our workforce and operations in a sufficiently timely manner to respond effectively to changes in demand for our existing products, or to the demand for new products requested by our customers, is critical to our future success. While we expect to realize efficiencies from these actions, these activities might not produce the full efficiency and cost reduction benefits we expect. Further, such benefits might be realized later than expected, and the ongoing costs of implementing these measures might be greater than anticipated. If these measures are not successful or sustainable, we might undertake additional realignment and cost reduction efforts, which could result in future charges. In the event that we are unable to execute on our restructuring plan to the extent currently anticipated, our ability to meet competitive challenges or exploit key market opportunities could be materially and adversely affected.

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 37% and 32% of our net revenue for the three months ended July 29, 2017 and July 30, 2016, 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. For example, Toshiba Corporation has announced significant financial difficulties not directly related to their semiconductor business but which may have an adverse effect on its overall financial condition or result in a divestiture of the semiconductor portion of its business that purchases our products.

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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 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; or

- customers may consolidate (for example, Western Digital acquired SanDisk in 2017, and Toshiba Corporation has announced an intent to sell a portion of its semiconductor business), 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.

In addition, if regulatory activity, such as enforcement of U.S. export control and sanctions laws, were to materially limit our ability to make sales to any of our significant customers, it could harm our results of operations, reputation and financial condition.

Any 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. 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;

- 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;

- potential exposure to material liabilities not discovered in the due diligence process;

- potential adverse effects on reported operating results due to possible write-down of goodwill and other intangible assets associated with acquisitions;

- potential damage to customer relationships or loss of synergies in the case of divestitures; 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 from possible acquisitions. 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. 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.

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If we do enter into agreements with respect to acquisitions, divestitures, or other transactions, we may fail to complete them due to factors such as:

• failure to obtain regulatory or other approvals;

• IP disputes or other litigation; or

• difficulties obtaining financing for the transaction.

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.

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

The semiconductor industry, and specifically the storage, networking and connectivity markets, are 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 networking market. 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. 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. Furthermore, our current and potential competitors in the data communication and wireless markets have established or may establish financial and strategic relationships among themselves or with existing or potential customers or other third parties to increase the ability of their products to address the needs of customers. Accordingly, new competitors or alliances among these competitors may acquire significant market share, which would harm our business. While we continue to pursue similar strategic relationships, and currently have significant financial and technical resources, we cannot assure you that we will be able to continue to compete successfully against existing or new competitors, which would harm our results of operations. As the technology inflections happen, our competitors may get ahead of us and negatively impact our market share.

In addition, the semiconductor industry has experienced increased consolidation over the past several years. For example, Avago Technologies Limited (now Broadcom Limited (“Broadcom”)) acquired Broadcom Corporation in February 2016 and LSI Corporation in May 2014; Intel acquired Altera Corporation in December 2015; and NXP Semiconductors acquired Freescale Semiconductor, Ltd. in December 2015. 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 business is dependent on the HDD industry, which is highly cyclical, experiences rapid technological change, is subject to industry consolidation and is facing increased competition from alternative technologies.

The HDD industry is intensely competitive and technology inflections are happening rapidly. 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.

HDD 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 HDD industry often result in shifts in market share among the industry's participants. If the HDD manufacturers using our products do not retain or increase their market share, our sales may decrease.

In addition, the HDD industry has experienced significant consolidation. Consolidation among our customers 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, 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.

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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. Additionally, 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. Unlike in the HDD industry, SSD customers may develop their own controllers, which could pose a challenge to our market share in the SSD space.

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 in a timely and cost-effective manner. We sell products in markets that are characterized by rapid technological change, evolving industry standards, frequent new product introductions, short product life cycles and increasing demand for higher levels of integration and smaller process geometries. 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.

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.

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:



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### Regional Concentration

Substantially all of our products are manufactured by third-party foundries located in Taiwan, and other sources are located in China and Singapore. In addition, substantially all of our third-party assembly and testing facilities are located in China, 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 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 which is a new technology. 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

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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.

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

In order to remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify the manufacturing processes for our products and to redesign some products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes.

We are dependent on our relationships with our foundry subcontractors to transition to smaller geometry processes successfully. We cannot ensure that the foundries we use will be able to effectively manage the transition or that we will be able to maintain our existing foundry relationships or develop new ones. If we or any of our foundry subcontractors experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations.

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

Matters relating to or arising from our Audit Committee investigation, including regulatory proceedings, litigation matters and potential additional expenses, may adversely affect our business and results of operations.

As previously disclosed in our public filings, the Audit Committee of our Board of Directors completed an investigation that generally included a review of certain revenue recognized in the first and second quarters of fiscal 2016 and the fourth quarter of fiscal 2015, including transactions that would have, in the normal course of events and but for action by certain Marvell employees, been completed and recognized in a subsequent quarter (referred to internally as “pull-ins”), the accrual of a litigation reserve in the second quarter of fiscal 2016, and the stated belief by Marvell’s former Chairman and Chief Executive Officer of ownership of certain patent rights related to the Final-Level

Cache invention and his later assignment of associated patent rights to Marvell. In addition, we are also the subject of investigations by the Securities and Exchange Commission and the U.S. Attorney related to these matters. We are fully cooperating with the SEC and the U.S. Attorney with respect to those investigations.

To date, we have incurred significant expenses related to legal, accounting, and other professional services in connection with the investigations and related matters, and may continue to incur significant additional expenses with regard to these matters and related remediation efforts. The expenses incurred, and expected to be incurred, on the investigations, the impact of our delay in fiscal 2016 and the beginning of fiscal 2017 in meeting our periodic reports on the confidence of investors, employees and customers, and the diversion of the attention of the management team that has occurred, and is expected to continue, has adversely affected, and could continue to adversely affect, our business, financial condition and results of operations or cash flows.

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As a result of the matters reported above, we are exposed to greater risks associated with litigation, regulatory proceedings and government enforcement actions. In addition, securities class actions or other lawsuits have been filed against us, our directors and officers. One such action is likely to result in us incurring significant legal expenses during the remainder of fiscal 2018. Any future such investigations or additional lawsuits may adversely affect our business, financial condition, results of operations and cash flows.

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 current and future investigations and litigation, including the matters discussed in Part II-Item 1, “Legal Proceedings” of this Quarterly Report on Form 10-Q. In connection with some of these pending matters, we are required to, or we have otherwise agreed to, advance, and have advanced, legal fees and related expenses to certain of our current and former directors and officers and expect to continue to do so while these matters are pending. Certain of these obligations may not be “covered matters” under our directors’ and officers’ liability insurance, or there may be insufficient coverage available. Further, in the event the directors and officers are ultimately determined not to be entitled to indemnification, we may not be able to recover the amounts we previously advanced to them.

In addition, we have incurred significant expenses in connection with the Audit Committee’s independent investigation, the pending government investigations, and shareholder litigation, including a shareholder lawsuit that will likely subject us to significant legal expenses during fiscal 2018. We cannot provide any assurances that pending claims, or claims yet to arise, 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.

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.

We have experienced a significant transition at the executive management level in the last 12 months. If our new executive team is unable to engage and align mid-management or attract and retain the key talent needed for us to timely achieve our business objectives, our business and results of operations could be harmed.

In April 2016, our co-founders, Dr. Sehat Sutardja and Ms. Weili Dai, left the company. Shortly thereafter, our board of directors was reconstituted in connection with our agreement with Starboard Value LLC and the company's executive management team subsequently went through a significant transition, including the hiring of a new President and CEO, Chief Financial Officer, Chief Accounting Officer and Controller, Chief Operations Officer, Chief Technology Officer, Chief

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Administration and Legal Officer, Executive Vice President of Worldwide Sales and Marketing and the appointment of new leaders for our storage, and networking and connectivity groups and our corporate development organization. At the time of the filing of this Quarterly Report on Form 10-Q, our President and Chief Executive Officer has been employed by the company just over one year. While the individual members of our executive management team each have significant industry-related experience, they previously have not worked together as a group and it will take time for them to become an integrated management team. Delays in the integration of our management team could affect our ability to implement our business strategy, which could have a material adverse effect on our business and results of operations.

In addition, the marketplace for senior executive management candidates is very competitive and limited, particularly in the Silicon Valley where our U.S. operations are based. Our growth may be adversely impacted if we are unable to attract and retain such key employees. Turnover of senior management can adversely impact our stock price, our results of operations and our client relationships, and has made recruiting for future management positions more difficult. Competition for senior leadership may increase our compensation expenses, which may negatively affect our profitability.

We depend on highly skilled engineering and sales and marketing personnel to support our business operations. If we are unable to retain 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 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. 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. In addition, the impact on employee morale experienced in connection with our recent restructuring efforts, which eliminated approximately 900 jobs worldwide, could make it more difficult for us to add to our workforce when needed due to speculation regarding our future restructuring activities.

In addition, if recently introduced federal legislation relating to proposed changes to the H-1B and other visa programs is approved, such changes could negatively impact our ability to recruit and retain certain highly skilled technical personnel to support our product development teams, which could potentially increase our costs and harm our business and results of operations.

We rely upon the performance of our information technology systems to process, transmit, store and protect electronic information, and the failure of or security breaches of any critical information technology system may result in serious harm to our reputation, business, results of operations and/or financial condition.

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, viruses, destructive or inadequate code, malware, power failures, cyber-attacks, internal malfeasance or other events. 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. 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 may 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. 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 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,



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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 secret laws, 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. For instance, we have had a dispute with Dr. Sehat Sutardja, our former Chief Executive Officer and a former member of our board of directors, related to his stated belief of ownership of certain patent rights related to the Final-Level Cache invention and his later assignment of associated patent rights to Marvell. Our Audit Committee investigated this claim and concluded that the FLC invention was owned by the Company. 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.

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 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. For example, in fiscal 2012, many areas of Thailand sustained massive damage from flooding, which disrupted the global supply

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chain for HDDs. 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 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.

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. All of our products are manufactured outside of the United States. Our current qualified integrated circuit foundries are located in the same region within Taiwan, and our primary assembly and test subcontractors are located in the Pacific Rim region. In addition, many of our customers are located outside of the United States, primarily in Asia, which further exposes us to foreign risks. Sales shipped to customers with operations in Asia represented approximately 95% of our net revenue in the six months ended July 29, 2017, 94% of our net revenue in fiscal 2017 and 96% of net revenue in fiscal 2016.

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:

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;

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- natural disasters, including earthquakes, tsunamis and floods;
- trade restrictions, higher tariffs, or changes in cross border taxation, particularly in light of the prospect of changes in U.S. international trade policies following the recent U.S. presidential election;
- 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. For example, during fiscal 2012, the earthquake and tsunami that affected Japan disrupted the global supply chain for certain components important to our products, and the flooding in Thailand affected the supply chain and manufacturing of the products for a number of our customers.

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.

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 various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in electronic products and making producers of those products financially responsible for the collection, treatment, recycling and disposal of those products. In addition, we are also 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 complete 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.

We and our customers are also subject to various import and export laws and regulations. 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.

We are also subject to the "conflict mineral rules" promulgated by the SEC, which impose disclosure requirements on us regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries in our products and the procedures our manufacturer's use to prevent the sourcing of such conflict minerals. The ongoing implementation of these requirements could affect the sourcing, availability and pricing of minerals used in the manufacture of semiconductor devices, including our products. As a result, there may only be a limited pool of

suppliers who provide conflict-free metals, and we cannot assure you that we will be able to obtain products in sufficient quantities or at competitive prices, which could adversely affect our operations and product margins. Additionally, if we are unable to sufficiently source conflict-free metals, we may face difficulties in satisfying customers who may require that the products they purchase from us are conflict-free, which may harm our sales and operating results.

The costs of complying (including the costs of any investigations, auditing and monitoring) with these laws could adversely affect our current or future business. In addition, future regulations may become more stringent or costly and our compliance costs and potential liabilities could increase, which may harm our current or future business.

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

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Changes in existing taxation benefits, rules or practices may also have a significant effect on our reported results. For example, 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. Furthermore, 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 qualified for Pioneer status until it expired in June 2014. However, we re-negotiated with the Singapore government and in fiscal 2015, they extended the Development and Expansion Incentive until June 2019. Furthermore, under the Israeli Encouragement law of “approved or benefited enterprise,” two branches of our subsidiary in Israel, Marvell Israel (M.I.S.L) Ltd., are entitled to, and have 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. The European Commission has also conducted investigations in multiple countries focusing on whether local country tax rulings or tax legislation provides preferential tax treatment that violates European Union state aid rules and concluded that certain countries, including Ireland and Belgium, have provided illegal state aid in certain cases. We can provide no assurance that changes in tax laws and additional investigations would not have an adverse tax impact on our international operations.

In addition, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including reduction of the U.S. corporate tax rate, expansion of the U.S. tax base by eliminating certain deductions, implementation of a territorial tax system, and addition of a border adjustment mechanism, could have material consequences on the amount of tax we pay in the U.S. and thereby on our financial position and results of operations.

During fiscal 2016 and continuing into the first quarter of fiscal 2018, we identified material weaknesses in our internal controls over financial reporting. If we are unable to develop, implement and maintain effective internal controls in future periods, our consolidated financial statements could contain material misstatements which would cause us to issue a restatement thereof. A restatement of our consolidated financial statements could cause our investors to lose confidence in our reported financial information and lead to a decline in our stock price.

The Sarbanes-Oxley Act of 2002 and SEC rules require that management report on the effectiveness of our internal control over financial reporting and our disclosure controls and procedures. Among other things, management must conduct an assessment of internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Based on management’s assessment, we concluded that our internal controls over financial reporting were not effective as of July 29, 2017. The specific material weaknesses are described in Item 4 of this Quarterly Report on Form 10-Q.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial

statements would not be prevented or detected. As with any material weakness, if our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements. Any material misstatements could result in a restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Even when we have remediated our material weaknesses, any 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. Because of its inherent limitations, internal control over financial reporting will not necessarily prevent all error and all fraud. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. In addition, we may modify the design and operating effectiveness of our internal controls, which could affect the overall effectiveness or evaluation of the control system in the future by us or our independent registered public accounting



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firm. We cannot ensure that any design will succeed in achieving its stated goals under all potential future conditions, as controls may become inadequate due to changes in conditions or deterioration in the degree of compliance. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to provide reliable financial reports, or to detect and prevent fraud, which would harm our business.

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 have been 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 9 - Commitments and Contingencies” of our Notes to the Unaudited Condensed Consolidated Financial Statements set forth in Part I, Item I of this Quarterly Report on Form 10-Q for a more detailed description of material litigation matters in which we are 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 infringement claims, as well as claims against us and our subsidiaries’ proprietary technologies. Our subsidiaries and customers could face claims of infringement for certain patent licenses that have not been renewed. 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. 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.

Several securities class action lawsuits were filed against us following our September 11, 2015 announcement of an independent audit committee investigation of certain accounting and internal control matters in the second quarter of fiscal 2016 and our subsequent delinquency in filing our periodic financial reports.

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 exposed to potential impairment charges on certain assets.

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We had approximately \$2.0 billion of goodwill on our consolidated balance sheet as of July 29, 2017. 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.

We have identified that our business operates as a single operating segment with two components (Storage, and Networking and Connectivity), which we have concluded can be aggregated into a single reporting unit for purposes of testing goodwill impairment. As part of our restructuring announced in November 2016, our former Smart Networked Devices and Solutions component was renamed Networking and Connectivity. 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.

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 2017 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.

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 health issues 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; Singapore; Etoy, Switzerland; and Shanghai, China subject us to the risks of owning real property, which include, but are not limited to:

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• 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 tenants or other 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.

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 announced the declaration of our first quarterly cash dividend. In November 2016, we announced that our board of directors had authorized a \$1 billion share repurchase program, of which \$500 million of shares have already been repurchased. 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 the 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.

We are incorporated in Bermuda, and, as a result, it may not be possible for our shareholders to enforce civil liability provisions of the securities laws of the United States. In addition, our Bye-Laws contain a waiver of claims or rights of action by our shareholders against our officers and directors, which will severely limit our shareholders' right to assert a claim against our officers and directors under Bermuda law.

We are organized under the laws of Bermuda. As a result, it may not be possible for our shareholders to affect service of process within the United States upon us, or to enforce against us in U.S. courts judgments based on the civil liability provisions of the securities laws of the United States. There is significant doubt as to whether the courts of Bermuda would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liability provisions of the securities laws of the United States or any state, or hear actions brought in

Bermuda against us or those persons based on those laws. The United States and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not be automatically enforceable in Bermuda.

Our Bye-Laws contain a broad waiver by our shareholders of any claim or right of action, both individually and on our behalf, against any of our officers and directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties with or for us, other than with respect to any matter involving any fraud or dishonesty on the part of the officer or director or to any matter arising under U.S. federal securities laws. This waiver will limit the rights of our shareholders to assert claims against our officers and directors unless the act complained of involves fraud or dishonesty or arises as a result of a breach of U.S. federal securities laws. Therefore, so

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long as acts of business judgment do not involve fraud or dishonesty or arise as a result of a breach of U.S. federal securities laws, they will not be subject to shareholder claims under Bermuda law. For example, shareholders will not have claims against officers and directors for a breach of trust, unless the breach rises to the level of fraud or dishonesty, or arises as a result of a breach of U.S. federal securities laws.

Our Bye-Laws contain provisions that could delay or prevent a change in corporate control, even if the change in corporate control would benefit our shareholders.

Our Bye-Laws contain change in corporate control provisions, which include authorizing the issuance of preferred shares without shareholder approval. This provision could make it more difficult for a third party to acquire us, even if doing so would benefit our shareholders.

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

There were no sales of unregistered securities during the three months ended July 29, 2017.

### Issuer Purchases of Equity Securities

The following table presents details of our share repurchases during the three months ended July 29, 2017 (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)
April 30 – May 27, 2017—		\$ —	—	\$ 719,238
May 28 – June 24, 2017	3,737	\$ 17.56	3,737	\$ 653,623
June 25– July 29, 2017	9,374	\$ 16.60	9,374	\$ 497,973
Total	13,111	\$ 16.88	13,111	

(1) The monthly periods presented above for the three months ended July 29, 2017, are based on our fiscal accounting periods which follow a quarterly 4-4-5 week fiscal accounting period.

On November 17, 2016, the Company announced that its Board of Directors authorized a \$1 billion share repurchase plan. The newly authorized stock repurchase program replaces in its entirety the prior \$3.25 billion stock repurchase program, which had approximately \$115 million of repurchase authority remaining as of

(2) November 17, 2016. 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.

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## Item 6. Exhibits

Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
3.1	Memorandum of Association of Marvell Technology Group Ltd.	S-1	333-33086	3.1	3/23/2000
3.2	Fourth Amended and Restated Bye-Laws of Marvell Technology Group Ltd.	8-K	000-30877	3.1	11/10/2016
3.3	Memorandum of Increase of Share Capital of Marvell Technology Group Ltd.	8-K	000-30877	3.1	7/6/2006
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	XBRL Instance Document				Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document				Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Document				Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				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.



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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: August 31, 2017 By: /s/ JEAN HU  
Jean Hu  
Chief Financial Officer  
(Principal Financial Officer)