MARVELL TECHNOLOGY GROUP LTD
Form 10-Q
September 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 2, 2008

or

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

For the transition period from to

Commission file number: 0-30877

Marvell Technology Group Ltd.

(Exact name of registrant as specified in its charter)

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

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

(441) 296-6395

(Address, including Zip Code, of principal executive offices and

registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by 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. x Yes o No

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of common shares of the registrant outstanding as of August 31, 2008 was 610,937,198 shares.

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	August 2, 2008	February 2, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 859,309	$ 615,648
Restricted cash	24,500	
Short-term investments	5,089	15,254
Accounts receivable, net	470,646	332,020
Inventories	326,924	419,494
Prepaid expenses and other current assets	78,587	105,809
Deferred income taxes	15,516	15,516
Total current assets	1,780,571	1,503,741
Property and equipment, net	412,988	416,241
Long-term investments	40,293	45,628
Goodwill	1,994,068	1,994,068
Acquired intangible assets, net	363,538	433,809
Other non-current assets	132,627	157,107
Total assets	$ 4,724,085	$ 4,550,594
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 237,039	$ 231,135
Accrued liabilities	84,770	122,961
Accrued employee compensation	132,859	118,101
Income taxes payable	37,008	39,132
Deferred income	62,005	69,420
Current portion of capital lease obligations	1,933	2,463
Total current liabilities	555,614	583,212
Capital lease obligations, net of current portion	3,363	4,238
Non-current income taxes payable	116,481	108,543
Term loan obligations, long-term portion	288,750	390,750
Other long-term liabilities	53,185	52,332
Total liabilities	1,017,393	1,139,075
Commitments and contingencies (Note 7)		
Shareholders equity:		
Common shares	1,221	1,200
Additional paid-in capital	4,256,384	4,100,659
Accumulated other comprehensive income (loss)	(1,264)	615

Accumulated deficit		(549,649)		(690,955)
Total shareholders equity		3,706,692		3,411,519
Total liabilities and shareholders equity	$	4,724,085	$	4,550,594

See accompanying notes to unaudited condensed consolidated financial statements.

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MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Net revenue	$ 842,575	$ 656,711	$ 1,646,650	$ 1,291,761
Operating costs and expenses:				
Cost of goods sold	405,913	335,530	794,755	662,947
Research and development and other	249,714	236,194	488,189	470,327
Selling and marketing	41,834	53,942	87,922	104,334
General and administrative	30,989	33,775	43,940	57,763
Amortization of acquired intangible assets	34,988	37,293	70,235	74,613
Total operating costs and expenses	763,438	696,734	1,485,041	1,369,984
Operating income (loss)	79,137	(40,023)	161,609	(78,223)
Interest and other income, net	2,469	3,128	5,661	4,447
Interest expense	(5,159)	(9,942)	(12,310)	(19,917)
Income (loss) before income taxes	76,447	(46,837)	154,960	(93,693)
Provision for income taxes	5,080	9,619	13,654	15,591
Net income (loss)	$ 71,367	$ (56,456)	$ 141,306	$ (109,284)
Net income (loss) per share:				
Basic	$ 0.12	$ (0.10)	$ 0.23	$ (0.19)
Diluted	$ 0.11	$ (0.10)	$ 0.22	$ (0.19)
Weighted average shares:				
Basic	606,860	587,534	604,041	587,480
Diluted	637,832	587,534	631,091	587,480

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	
	August 2, 2008	July 28, 2007
Cash flows from operating activities:		
Net income (loss)	$ 141,306	$ (109,284)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	56,650	52,420
Stock-based compensation	92,853	105,664
Amortization of acquired intangible assets	70,235	74,613
Gain from sale of asset under construction		(5,122)
Fair market value adjustment to Intel inventory sold	(10,757)	(77,641)
Interest expense related to supply contract		3,023
Excess tax benefits from stock-based compensation	(494)	(235)
Changes in assets and liabilities, net of assets acquired and liabilities assumed in acquisitions:		
Restricted cash	(24,500)	
Accounts receivable	(138,626)	(28,702)
Inventories	103,327	(88,748)
Prepaid expenses and other assets	42,810	53,992
Accounts payable	5,878	22,334
Accrued liabilities and other	(33,999)	(26,199)
Accrued employee compensation	9,995	855
Income taxes payable	5,814	3,928
Deferred income	(7,415)	8,318
Net cash provided by (used in) operating activities	313,077	(10,784)
Cash flows from investing activities:		
Cash paid in acquisitions, net		(8,279)
Purchases of investments	(10,172)	(113,651)
Sales and maturities of investments	23,793	50,021
Purchases of technology licenses	(1,250)	(16,850)
Purchases of property and equipment	(46,532)	(64,513)
Proceeds from sale of asset under construction		5,122
Net cash used in investing activities	(34,161)	(148,150)
Cash flows from financing activities:		
Proceeds from the issuance of common shares	67,656	2,681
Principal payments on capital lease and debt obligations	(103,405)	(7,811)
Excess tax benefits from stock-based compensation	494	235
Net cash used in financing activities	(35,255)	(4,895)
Net increase (decrease) in cash and cash equivalents	243,661	(163,829)
Cash and cash equivalents at beginning of period	615,648	568,008
Cash and cash equivalents at end of period	$ 859,309	$ 404,179

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. The Company and its Significant Accounting Policies

The Company

Marvell Technology Group Ltd. (the Company), a Bermuda company, is a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. The Company s diverse product portfolio includes switching, transceivers, wireless, PC connectivity, gateways, communications controllers, storage and power management solutions that serve diverse applications used in business enterprise, consumer electronics and emerging markets.

Basis of presentation

The Company s fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2009 is comprised of a 52-week period and fiscal 2008 was comprised of a 53-week period.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair statement of the results for the interim periods have been included in the Company s financial position as of August 2, 2008, the results of its operations for the three and six months ended August 2, 2008 and July 28, 2007, and its cash flows for the six months ended August 2, 2008 and July 28, 2007. The February 2, 2008 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in the Company s 2008 Annual Report on Form 10-K but does not include all disclosures required by GAAP.

These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company s audited financial statements and related notes for the year ended February 2, 2008 included in the Company s Annual Report on Form 10-K as filed on March 28, 2008 with the Securities and Exchange Commission (SEC).The results of operations for the three and six months ended August 2, 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to performance based compensation, uncollectible receivables, inventory excess and obsolescence, the useful lives of long-lived assets including property and equipment, investment fair values, goodwill and other intangible assets, income taxes and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to calculate the fair value of stock-based awards granted. The Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods.

Principles of consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The functional currency of the Company and its significant subsidiaries is the United States dollar.

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Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents also consist of cash on deposit with banks, money market funds and commercial deposits.

Investments

The Company s marketable investments are classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses are reported, net of tax, if any, in accumulated other comprehensive income, a component of shareholders equity. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest and other income, net.

The Company also has equity investments in privately-held companies. These investments are recorded at cost and are included in other non-current assets. The Company accounts for these investments under the cost method because its ownership is less than 20% and it does not have the ability to exercise significant influence over the operations of these companies. The Company monitors these investments for impairment and makes appropriate reductions in carrying value when impairment is deemed to be other than temporary.

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash equivalents, short-term investments and accounts receivable. The Company places its cash primarily in checking and money market accounts. Cash equivalents and short-term investment balances are maintained with high quality financial institutions, the composition and maturities of which are regularly monitored by management. The Company believes that the concentration of credit risk in its trade receivables with respect to its served markets, as well as the limited customer base located primarily in the Far East, are substantially mitigated by the Company s credit evaluation process, relatively short collection terms and the high level of credit worthiness of its customers. The Company performs ongoing credit evaluation of its customers financial condition and limits the amount of credit extended when deemed necessary based upon payment history and the customer s current credit worthiness, but generally requires no collateral. The Company regularly reviews the allowance for bad debt and doubtful accounts by considering factors such as historical experience, credit quality, age of the account receivable balances and current economic conditions that may affect a customer s ability to pay.

Inventories

Inventories are stated at the lower of cost or market, cost being determined under the first-in, first-out method. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

Property and equipment, net

Property and equipment, including capital leases and leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to five years. Buildings are depreciated over an estimated useful life of thirty years and building improvements are depreciated over estimated useful lives of fifteen years. Land is not depreciated. Assets held under capital leases and leasehold improvements are amortized over the shorter of term of lease or their estimated useful lives.

Goodwill and acquired intangible assets

Goodwill is recorded when the consideration paid for a business acquisition exceeds the fair value of net tangible and intangible assets acquired. Acquisition-related identified intangible assets are amortized on a straight-line basis over their estimated economic lives of one to seven years for purchased technology, one to eight years for core technology and four to seven years for customer contracts.

Goodwill is measured and tested for impairment on an annual basis or more frequently if the Company believes indicators of impairment exist. The performance of the test involves a two-step process. The first step requires comparing the fair value of the reporting unit to its net book value, including goodwill. The Company has one reporting unit. The fair value of the reporting unit is

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determined by taking the market capitalization of the reporting unit as determined through quoted market prices. A potential impairment exists if the fair value of the reporting unit is lower than its net book value. The second step of the process is only performed if a potential impairment exists, and it involves determining the difference between the fair value of the reporting unit s net assets other than goodwill and the fair value of the reporting unit. If the difference is less than the net book value of goodwill, impairment exists and is recorded. In the event that the Company determines that the value of goodwill has become impaired, the Company will record an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The Company has not been required to perform this second step of the process since its implementation of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets because the fair value of the reporting unit has exceeded its net book value at every measurement date.

Impairment of long-lived assets

Long-lived assets include equipment, furniture and fixtures, privately held equity investments and intangible assets. Whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable, the Company estimates the future cash flows, undiscounted and without interest charges, expected to result from the use of those assets and their eventual cash position. If the sum of the expected future cash flows is less than the carrying amount of those assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Reclassifications

Certain reclassifications have been made to the prior period balances in the Statements of Cash Flows in order to conform to the current period s presentation.

Revenue recognition

The Company accounts for its revenues under the provisions of Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements. Under these provisions, the Company recognizes revenues when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured.

Product revenue is generally recognized upon shipment of product to customers, net of accruals for estimated sales returns and allowances. However, some of the Company s sales are made through distributors under agreements allowing for price protection and limited rights of return on product unsold by the distributors. Although title passes to the distributor upon shipment terms and payment by the Company s distributors is not contingent on resale of the product, product revenue on sales made through distributors with rights of return and price protection is deferred until the distributors sell the product to end customers because the Company s selling price is not fixed and determinable and the Company is not able to estimate future returns. The Company does not believe that there is any significant exposure related to impairment of deferred cost of sales, as its historical returns have been minimal and inventory turnover for its distributors generally ranges from 60 to 90 days. The Company s sales to direct customers are made primarily pursuant to standard purchase orders for delivery of products. The Company generally allows customers to cancel or change purchase orders with limited notice prior to the scheduled shipment dates and from time to time it also may request a customer to accept a shipment of product before its original requested delivery date, in which case, revenue is not recognized until there is written confirmation from the customer accepting early shipment, delivery has occurred, the fee is fixed or determinable, and collection

is reasonably assured. Additionally, collection is not deemed to be reasonably assured or fixed and determinable if customers receive extended payment terms. As a result, revenue on sales to customers with payment terms substantially greater than the Company s normal payment terms is deferred and is recognized as revenue as the payments become due. Deferred revenue less the related cost of the inventories is reported as deferred income.

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

The Company also enters into development agreements with some of its customers. Under these development agreements, product revenue is recognized under the proportionate performance method. Revenue is recognized as related costs to complete the contract are incurred. These costs are included in research and development expense.

The provisions of the Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, apply to sales arrangements with multiple arrangements that include a combination of hardware, software and /or

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services. For multiple element arrangements, revenue is allocated to the separate elements based on fair value. If an arrangement includes undelivered elements that are not essential to the functionality of the delivered elements, the Company defers the fair value of the undelivered elements and the residual revenue is allocated to the delivered elements. If the undelivered elements are essential to the functionality of the delivered elements, no revenue is recognized. Undelivered elements typically are software warranty and maintenance services.

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

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

The Company accounts for rebates in accordance with EITF Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products), and, accordingly, records reductions to revenue for rebates in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms included in the Company s various rebate agreements.

Research and development and other

Research and development and other costs consist of $249.7 million and $236.2 million of research and development costs for the three months ended August 2, 2008 and July 28, 2007, respectively, and includes $4.1 million and $4.1 million of costs related to patent investigation and filings for the three months ended August 2, 2008 and July 28, 2007, respectively.

Research and development and other costs consist of $488.2 million and $470.3 million of research and development costs for the six months ended August 2, 2008 and July 28, 2007, respectively, and includes $9.2 million and $7.1 million of costs related to patent investigation and filings for the six months ended August 2, 2008 and July 28, 2007, respectively. Research and development costs are expensed as incurred.

Stock-based compensation

The Company makes share-based payment awards to its employees and directors that are fully described in Notes 8 and 9. The stock-based compensation expenses are recorded in accordance with SFAS No. 123 (revised 2004), Share Based Payment (SFAS 123R).

Accounting for income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, the Company determines deferred tax assets and liabilities based upon the difference between the income tax bases of assets and liabilities and their respective financial reporting amounts at enacted tax rates in effect for the periods in which the differences are expected to reverse. The tax consequences of most events recognized in the current year s financial statements are included in determining income taxes currently payable. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax bases of assets or liabilities and their reported amounts in the financial statements. Because it is assumed that the reported amounts of assets and liabilities will be recovered or settled, a difference between the tax basis of an asset or liability and its reported amount on the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or assets are recovered, hence giving rise to a deferred tax liability or asset, respectively. The Company then assesses the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not likely, the Company establish a valuation allowance. The Company accounts for uncertain tax positions in accordance with the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Tax Positions (FIN 48). The Company classifies accrued interest and penalties as part of the accrued FIN 48 liability and records the expense within the provision for income taxes.

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The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, the Company is required to make many subjective assumptions and judgments regarding its income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations are subject to change over time. As such, changes in its subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of income. See Note 10 - Income Taxes of the notes to unaudited condensed consolidated financial statements for additional detail on the Company s uncertain tax positions.

Warranty

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

Note 2. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). The objective of SFAS 141R is to improve the relevance, representational faithfulness, and comparability of the information that a company provides in its financial reports about a business combination and its effects. Under SFAS 141R, a company is required to recognize the assets acquired, liabilities assumed, contractual contingencies and any estimate or contingent consideration measured at their fair value at the acquisition date. It further requires that research and development assets acquired in a business combination that have no alternative future use be measured at their acquisition-date fair value and then immediately charged to expense, and that acquisition-related costs be recognized separately from the acquisition and expensed as incurred. Among other changes, this statement also requires that any negative goodwill be recognized in earnings as a gain attributable to the acquisition, and any deferred tax benefits resulting from a business combination be recognized in income from continuing operations in the period of the combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company expects that SFAS 141R will have an impact on its financial position and results of operations, but the nature and magnitude of the impact will depend on the nature, terms and size of any future business combinations or adjustments to prior business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that a company provides in its consolidated financial statements. SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect SFAS 160 will have a significant impact on its financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), to partially defer SFAS No. 157, Fair Value Measurements (SFAS 157). FSP157-2 defers the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The Company does not believe the adoption of FSP157-2 will have a material impact on its financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company will adopt SFAS 161 in the first quarter of fiscal 2010 and does not anticipate that SFAS 161 will have a significant impact on its financial position and results of operations.

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In April 2008, the FASB issued FSP FAS 142-3, Determination of Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. The Company does not anticipate that FSP FAS 142-3 will have a significant impact on its financial position and results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 will become effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company does not expect the adoption of SFAS 162 will have a significant impact on its financial position and results of operations.

Note 3. Supplemental Financial Information

Available-for-sale investments (in thousands)

	As of August 2, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
U.S. Federal debt securities	$ 5,088	$ 1	$	$ 5,089
Total short-term investments	$ 5,088	$ 1	$	$ 5,089
Long-term investments:				
Auction rate securities	$ 42,150	$	$ (1,857)	$ 40,293
Total long-term investments	$ 42,150	$	$ (1,857)	$ 40,293
Total available-for-sale securities	$ 47,238	$ 1	$ (1,857)	$ 45,382

	As of February 2, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
U.S. Federal debt securities	$ 15,231	$ 23	$	$ 15,254
Total short-term investments	$ 15,231	$ 23	$	$ 15,254
Long-term investments:				
Auction rate securities	$ 45,628	$	$	$ 45,628
Total long-term investments	$ 45,628	$	$	$ 45,628
Total available-for-sale securities	$ 60,859	$ 23	$	$ 60,882

As of August 2, 2008, the Company s investment portfolio included $42.2 million in par value of auction rate securities. Auction rate securities are usually found in the form of municipal bonds, preferred stock, pools of student loans or collateralized debt obligations with contractual maturities generally between 20 to 30 years and whose interest rates are reset every 7 to 35 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The Company s auction rate securities are all backed by student loans originated under the Federal Family Education Loan Program and are over-collateralized, insured and guaranteed by the United States Federal Department of Education (the DOE). All auction rate securities held by the Company are rated by the major independent rating agencies as either AAA or Aaa at the time of purchase and their current ratings are still within the guidelines of the Company s investment policy.

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Beginning in February 2008, liquidity issues in the global credit markets resulted in failure of the auctions representing all of the auction rate securities held by the Company, as the amount of securities submitted for sale in those auctions exceed the amount of bids. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. Observable market prices were not available for the valuation of these investments. Accordingly, the Company used a discounted cash flow model to estimate the fair value of the auction rate securities as of August 2, 2008. The assumptions used in preparing the discounted cash flow model included estimates for the amount and timing of future interest and principal payments, the collateralization of underlying security investments, the credit worthiness of the issuer of the securities, the probability of full repayment considering the guarantees by the DOE of the underlying student loans, guarantees by other third parties, additional credit enhancements included in the securities, and the rate of return required by investors to own these securities in the current environment. Utilizing these assumptions, the Company found that its auction rate securities had a fair value of $40.3 million, which indicated an impairment of approximately $1.9 million. During the six months ended August 2, 2008, the Company recorded a temporary impairment charge for this amount in accumulated other comprehensive (loss), a component of shareholders equity. When evaluating whether the impairment is temporary or other than temporary, the Company reviewed factors such as the length of time and extent to which fair value has been below cost basis, the financial condition and near-term prospects of the issuer, and the Company s ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in the market value. The Company specifically noted that it had approximately 5% of its total cash invested in these auction rate securities, a cash balance of approximately $859.3 million in investments other than auction rate securities, and that the Company continues to generate positive cash flow on a quarterly basis.

While the recent auction failures limit the Company s ability to liquidate these investments, the Company does not believe that the auction failures will materially impact its ability to fund its working capital needs, capital expenditures or other business requirements, and that it has the ability to hold these securities for a period longer than 12 months. However, at the reporting date, it is not certain when liquidity will return to the markets or if any other secondary markets will become available, and the Company has continued to classify its auction rate securities in long-term investments as of August 2, 2008.

The Company will continue to evaluate the impact of these failed auctions on the fair value of its auction rate securities. If the issuer of the auction rate securities is unable to successfully close future auctions or does not redeem the auction rate securities, or the United States government fails to support its guaranty of the obligations, the Company may be required to adjust the carrying value of the auction rate securities and record other-than-temporary impairment charges in future periods, which could materially affect its results of operations and financial condition.

The contractual maturities of available-for-sale debt securities at August 2, 2008 and February 2, 2008 are presented in the following table (in thousands):

	August 2, 2008		**February 2, 2008**	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 5,088	$ 5,089	$ 15,231	$ 15,254
Due between one and five years				
Due over five years	42,150	40,293	45,628	45,628
	$ 47,238	$ 45,382	$ 60,859	$ 60,882

The following table shows the investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	August 2, 2008			
	Less than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Auction rate securities	$ 40,293	$ 1,857	$ 40,293	$ 1,857
Total securities	$ 40,293	$ 1,857	$ 40,293	$ 1,857

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Inventories (in thousands)

	August 2, 2008		February 2, 2008
Work-in-process	$	207,266	$	270,449
Finished goods		119,658		149,045
	$	326,924	$	419,494

Prepaid expenses and other current assets (in thousands)

	August 2, 2008		February 2, 2008
Prepayments for foundry capacity	$	18,400	$	23,200
Prepayments for wafers				13,938
Receivable from foundry		13,344		10,240
Other		46,843		58,431
	$	78,587	$	105,809

Property and equipment, net (in thousands)

	August 2, 2008		February 2, 2008
Property and equipment:			
Machinery and equipment	$	331,534	$	315,797
Computer software		74,973		72,736
Furniture and fixtures		22,941		22,303
Leasehold improvements		34,001		33,659
Buildings		107,601		105,091
Building improvements		44,686		44,340
Land		71,198		61,096
Construction in progress		36,817		32,287
		723,751		687,309
Less: Accumulated depreciation and amortization		(310,763)		(271,068)
	$	412,988	$	416,241

Other non-current assets (in thousands)

	August 2, 2008		February 2, 2008
Long term prepayments for foundry capacity	$	15,600	$	22,800
Cost investments in private companies		7,058		7,058
Severance fund		48,981		50,235
Technology licenses		22,635		25,209
Deferred tax assets, non-current		22,975		22,975

Other		15,378		28,830
	$	132,627	$	157,107

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Accrued liabilities (in thousands)

	August 2, 2008	February 2, 2008
Term loan obligations, current portion	$ 4,000	$ 4,000
Accrued royalties	8,639	8,859
Accrued rebates	19,683	22,756
Accrued legal and professional services	23,329	25,562
Accrued contingent consideration		27,000
Other	29,119	34,784
	$ 84,770	$ 122,961

Other long-term liabilities (in thousands)

	August 2, 2008	February 2, 2008
Accrued severance	$ 51,180	$ 49,819
Long-term facilities consolidation charge	932	1,326
Other	1,073	1,187
	$ 53,185	$ 52,332

Net income (loss) per share

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

	Three Months Ended		Six Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Numerator:				
Net income (loss)	$ 71,367	$ (56,456)	$ 141,306	$ (109,284)
Denominator:				
Weighted average shares of common shares outstanding	606,860	587,534	604,041	587,480
Weighted average shares basic	606,860	587,534	604,041	587,480
Effect of dilutive securities-				
Warrants			631	
Common share options and other	30,972		26,419	
Weighted average shares diluted	637,832	587,534	631,091	587,480
Net income (loss) per share				
Basic	$ 0.12	$ (0.10)	$ 0.23	$ (0.19)

Diluted	$ 0.11	$ (0.10)	$ 0.22	$ (0.19)

Options to purchase 59,606,901 common shares at a weighted average exercise price of $20.29 have been excluded from the computation of diluted net income per share for the three months ended August 2, 2008 based on the treasury stock method calculation. The anti-dilutive effects of warrants, common share options, restricted stock and other securities totaling 41,056,440 shares were excluded from diluted net loss per share for the three months ended July 28, 2007.

Options to purchase 59,976,003 common shares at a weighted average exercise price of $20.41 have been excluded from the computation of diluted net income per share for the six months ended August 2, 2008 using the treasury stock method calculation. The anti-dilutive effects of warrants, common stock options, restricted stock and other securities totaling 42,493,261 were excluded from diluted net loss per share for the six months ended July 28, 2007.

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Comprehensive income (loss) (in thousands)

	Three Months Ended		Six Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Net income (loss)	$ 71,367	$ (56,456)	$ 141,306	$ (109,284)
Other comprehensive income (loss):				
Unrealized (loss) gain on available-for-sale investments and other, net of tax	(181)	129	(1,879)	324
Total comprehensive income (loss)	$ 71,186	$ (56,327)	$ 139,427	$ (108,960)

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

Note 4. Fair Value Measurements

Effective February 3, 2008, the Company adopted SFAS 157, except as it applies to the nonfinancial assets and nonfinancial liabilities subject to FSP 157-2. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell 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, SFAS 157 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 (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include 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.

In accordance with SFAS 157, we measure our cash equivalents and marketable securities at fair value. Our cash equivalents and marketable securities are primarily classified within Level 1 with the exception of our investments in auction rate securities, which are classified within Level 3. Cash equivalents and marketable securities are valued primarily using quoted market prices utilizing market observable inputs. The Company s investments in auction rate securities are classified within Level 3 because there are no active markets for the auction rate securities

and therefore the Company is unable to obtain independent valuations from market sources. Therefore, the auction rate securities were valued using a discounted cash flow model (see Note 3). Some of the inputs to the cash flow model are unobservable in the market. The total amount of assets measured using Level 3 valuation methodologies represented 1% of total assets as of August 2, 2008.

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The table below sets forth, by level, our financial assets that were accounted for at fair value as of August 2, 2008. The table does not include assets and liabilities which are measured at historical cost or any basis other than fair value (in thousands):

	Portion of Carrying Value Measured at Fair Value August 2, 2008	Level 1	Level 3
Items measured at fair value on a recurring basis:			
Cash equivalents:			
U.S. Treasury bills	$ 128,864	$ 128,864	$
Money market funds	20,004	20,004	
Short-term investments:			
U.S. Federal, State, county and municipal debt securities	5,089	5,089	
Long-term investments:			
Auction rate securities	40,293		40,293
Total	$ 194,250	$ 153,957	$ 40,293

The following table summarizes the change in fair values for Level 3 items for the six months ended August 2, 2008:

	Level 3
Changes in fair value during the period ended August 2, 2008 (pre-tax):	
Beginning Balance at February 3, 2008	$ 45,628
Purchases	10,000
Sales	(13,478)
Unrealized loss included in other comprehensive income	(1,857)
Ending Balance at August 2, 2008	$ 40,293

Note 5. Business Combinations

During fiscal 2008, the Company completed the acquisition of two unrelated private companies. One of the companies was acquired for $9.7 million and designs and develops software for optical storage applications. The second company was acquired for $13.4 million and provides IP Multimedia Subsystem middleware and applications for multi-mode cellular mobile devices. Under the purchase method of accounting, the total purchase price of these acquisitions was allocated to net tangible and intangible assets based on their fair values. In conjunction with these acquisitions, the Company recorded acquired net tangible assets of $4.1 million, deferred tax assets of $0.9 million, deferred tax liabilities of $3.8 million, amortizable intangible assets of $9.2 million and goodwill of $12.7 million. The intangible assets are being amortized over their useful lives ranging from one to seven years.

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Note 6. Acquired Intangible Assets, Net

	As of August 2, 2008			As of February 2, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Purchased technology	$ 708,398	$ (572,236)	$ 136,162	$ 708,398	$ (538,765)	$ 169,633
Core technology	212,650	(81,834)	130,816	212,650	(62,758)	149,892
Trade name	350	(176)	174	350	(130)	220
Customer contracts	183,300	(87,529)	95,771	183,300	(70,029)	113,271
Supply contract	900	(704)	196	900	(642)	258
Non-competition	700	(281)	419	700	(165)	535
Total intangible assets, net	$ 1,106,298	$ (742,760)	$ 363,538	$ 1,106,298	$ (672,489)	$ 433,809

Purchased technologies are amortized on a straight-line basis over their estimated useful lives of one to six years. Core technologies are amortized on a straight-line basis over their estimated useful lives of one to eight years. Trade names are amortized on a straight-line basis over their estimate useful lives of one to five years. Customer contracts and related relationships are amortized on a straight-line basis over their estimated useful lives of four to seven years. The supply contract is amortized on a straight-line basis over its estimated useful life of four years. Non-competition is amortized on a straight-line basis over three years. The aggregate amortization expense of identified intangible assets was $35.0 million for the three months ended August 2, 2008 and $37.3 million for the three months ended July 28, 2007, $70.2 million for the six months ended August 2008 and $74.6 million for the six months ended July 28, 2007. Amortization expense is expected to be $67.6 million for the remaining six months of fiscal 2009, $113.5 million in fiscal 2010, $83.3 million in fiscal 2011, $41.7 million in fiscal 2012, $35.0 million in fiscal 2013, $21.9 million in fiscal 2014 and $0.6 million in fiscal 2015.

Note 7. Commitments and Contingencies

Performance-based compensation

The Company has adopted various performance-based compensation plans for employees and executives, which are comprised of cash and equity components. The Company evaluates performance against plan metrics on a quarterly basis and accrues a liability in cash and stock-based compensation expense if performance metrics are met. The Company may adjust amounts previously accrued if it becomes unlikely that long term performance metrics will be achieved.

Warranty obligations

The following table presents changes in the warranty accrual included in accrued liabilities during the three and six months ended August 2, 2008 and July 28, 2007 (in thousands):

	Three Months Ended		Six Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Warranty accrual (included in accrued liabilities):				
Beginning balance	$ 2,541	$ 2,534	$ 2,532	$ 2,567
Accruals	308	151	820	359
Settlements	(328)	(305)	(831)	(546)
Ending balance	$ 2,521	$ 2,380	$ 2,521	$ 2,380

Purchase commitments

In connection with the acquisition of the communication and application processor business of Intel Corporation, the Company entered into a product supply agreement with Intel. Although the Company has met the contractual obligations under the original supply agreement and has transitioned certain products to its fabrication partners, the Company anticipates that it will continue to source certain legacy application processor cellular and handset inventory from Intel. Under terms of an amendment to the supply agreement, the Company has committed to purchase an additional minimum number of wafers through December 2008. The amendment had no impact on the accounting for the original acquisition. As of August 2, 2008, the Company had non-cancellable purchase orders outstanding of $17.1 million under the amended arrangement.

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Under the Company s manufacturing relationships with its other foundries, cancellation of outstanding purchase orders is allowed but requires repayment of all expenses incurred through the date of cancellation. As of August 2, 2008, these foundries had incurred approximately $188.4 million of manufacturing expenses on the Company s outstanding purchase orders.

On February 28, 2005 and as amended on March 31, 2005, the Company entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, the Company agreed to pay the foundry $174.2 million over a period of 18 months. The amendment extends the term of the agreement and the agreed upon pricing terms until December 31, 2015. As of August 2, 2008, payments totaling $174.2 million, which is included in prepaid expenses and other current assets and other non-current assets have been made and approximately $140.2 million of the prepayment has been utilized as of August 2, 2008. At August 2, 2008, there are no outstanding commitments under the agreement.

As of August 2, 2008, the Company had approximately $49.8 million of other outstanding non-cancellable purchase orders for capital purchase obligations.

Contingencies

IPO Securities Litigation. On July 31, 2001, a putative class action suit was filed against two investment banks that participated in the underwriting of the Company s initial public offering (IPO) on June 29, 2000. That lawsuit, which did not name the Company or any of its officers or directors as defendants, was filed in the United States District Court for the Southern District of New York. Plaintiffs allege that the underwriters received excessive and undisclosed commissions and entered into unlawful tie-in agreements with certain of their clients in violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Thereafter, on September 5, 2001, a second putative class action was filed in the Southern District of New York relating to the Company s IPO. In this second action, plaintiffs named three underwriters as defendants and also named as defendants the Company and two of its officers, one of whom is also a director. Relying on many of the same allegations contained in the initial complaint, plaintiffs allege that the defendants violated various provisions of the Securities Act of 1933, as amended, and the Exchange Act. In both actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys and experts fees. These two actions have been consolidated and coordinated with hundreds of other lawsuits filed by plaintiffs against approximately 40 underwriters and approximately 300 issuers across the United States. Defendants in the coordinated proceedings moved to dismiss the actions. In February 2003, the trial court granted the motions in part and denied them in part, thus allowing the case to proceed against the Company and the underwriters. Claims against the individual officers have been voluntarily dismissed with prejudice by agreement with plaintiffs. In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including the Company, was submitted to the court for approval. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six focus cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings (the action involving the Company is not one of the six cases). Because class certification was a condition of the settlement, it was unlikely that the settlement would receive final Court approval. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon a stipulation among the parties to the settlement. Plaintiffs filed amended master allegations and amended complaints in the six focus cases. Defendants motions to dismiss those new complaints were denied in part and granted in part. Plaintiffs have also moved for class certification in the six

focus cases, which the defendants in those cases have opposed.

Section 16(b) Litigation. On October 9, 2007, a purported shareholder of the Company filed a complaint for violation of Section 16(b) of the Exchange Act, which prohibits short-swing trading, against the Company s IPO underwriters. The complaint, *Vanessa Simmonds v. The Goldman Sachs Group, et al.*, Case No. C07-1632 filed in District Court for the Western District of Washington, seeks the recovery of short-swing profits. The Company is named as a nominal defendant. No recovery is sought from the Company. The underwriter defendants and some of the issuer defendants (excluding the Company) filed motions to dismiss on July 25, 2008; the plaintiff s opposition briefing was due on September 8, 2008; the moving defendants reply briefs are due on October 23, 2008 when the District Court will consider setting a hearing date for the motions. All discovery is stayed pending resolution of the moving defendants motions to dismiss.

Jasmine Networks Litigation. On September 12, 2001, Jasmine Networks, Inc. (Jasmine) filed a lawsuit in the Santa Clara County Superior Court alleging claims against the Company and three of its officers for allegedly improperly obtaining and using information and technologies during the course of the negotiations with its personnel regarding the potential acquisition of certain Jasmine assets by the Company. The lawsuit claims that the Company s officers improperly obtained and used such information and technologies after the Company signed a non-disclosure agreement with Jasmine. The Company believes the claims asserted against its officers and the Company are without merit and the Company intends to defend all claims vigorously.

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On June 21, 2005, the Company filed a cross complaint in the above disclosed action in the Santa Clara County Superior Court asserting claims against Jasmine and unnamed Jasmine officers and employees. The cross complaint was later amended to name two individual officers of Jasmine. On May 15, 2007, the Company filed a second amended cross complaint to add additional causes of action for declaratory relief against Jasmine. Among other causes of action, the cross complaint alleges that Jasmine and its personnel engaged in fraud in connection with their effort to sell the Company technology that Jasmine and its personnel wrongfully obtained from a third party in violation of such third party s rights, and that such technology does not constitute trade secrets or property of Jasmine. The cross complaint seeks a declaratory judgment that the Company s technology does not incorporate any of Jasmine s alleged technology. The cross complaint seeks further a declaratory judgment that Jasmine and its personnel misappropriated certain aspects of Jasmine s allegedly proprietary technology. The Company intends to prosecute the cross complaint against Jasmine and its personnel vigorously, including, but not limited to, filing certain dispositive motions regarding the ownership of the technology which is the subject of the cross complaint. On June 13, 2007, Jasmine filed a demurrer to the fifth, sixth and seventh causes of action of the Company s second amended cross complaint. The demurrer was heard on July 19, 2007 and denied. On August 3, 2007, Jasmine filed its answer to the second amended cross complaint. The Company thereafter filed its motion for summary adjudication on its fifth and sixth causes of action for declaratory relief seeking, among other things, a determination that Jasmine held no proprietary interest in the JSLIP algorithm, which was one of the core technologies Jasmine asserts was misappropriated by the Company. The motion was denied on November 14, 2007. However, in its opposition, Jasmine admitted that JSLIP had been taken from the work of a third party and is embodied in patents held by the University of California and Cisco Systems. These admissions are significant with respect to both Jasmine s assertion of trade secret rights and any damages claimed by Jasmine.

In addition, on December 28, 2001 and January 7, 2002, the trial court issued a preliminary injunction precluding Jasmine from using, disclosing or disseminating the contents of a privileged communication between certain officers of the Company and its counsel. The order granting injunctive relief was reversed by the California Court of Appeal, but review was granted by the California Supreme Court on a grant and hold basis pending the Court s decision on a case involving closely related issues, *Rico v. Mitsubishi Motors Corp.* (2004) 116 Cal.App.4th 51. The effect of the California Supreme Court s grant of review was to depublish the Court of Appeal s decision. On December 13, 2007, the California Supreme Court ruled in the *Rico v. Mitsubishi* case in a manner consistent with the position asserted by the Company that attorney work product and attorney-client privileges are not waived by inadvertent disclosure of a privileged communication, and that any party receiving such information (i) is required to notify opposing counsel immediately; and (ii) may not read such document more closely than is necessary to determine it is privileged. *Rico v. Mitsubishi Motors Corp.* (2007) 42 Cal.4th 807. Following its decision in *Rico v. Mitsubishi*, on April 23, 2008, the California Supreme Court issued an order dismissing the Company s petition for review. As a result the decision of the Court of Appeal, which remains unpublished, became final.

The case is now proceeding in the trial court, where the parties are engaged in extensive discovery. The Company has successfully filed multiple discovery motions and anticipates filing additional discovery motions based upon Jasmine s failure to provide discovery. The Company further intends to bring dispositive motions on a number of Jasmine s claims and anticipates a trial date sometime in 2009. The Company intends to vigorously assert its cross-claims and defenses in the trial court.

CSIRO Litigation. As of January 2007, Australia s Commonwealth Scientific and Industrial Research Organisation (CSIRO) is involved in three patent litigations in the Eastern District of Texas in which it has accused a number of wireless LAN system manufacturers, including some of the Company s customers, of infringing CSIRO s patent, U.S. Patent No. 5,487,069 (the 069 Patent). CSIRO s claims of infringement relate to IEEE 802.11a, 802.11g and 802.11n wireless standards. As a result of CSIRO s claims for patent infringement, a number of the Company s customers have sought indemnification from the Company. In response to these demands for indemnification, the Company has acknowledged the demands and incurred costs in response to them.

On May 4, 2007, the Company filed an action in the United States District Court for the Eastern District of Texas seeking a declaratory judgment against CSIRO that the 069 Patent is invalid and unenforceable and that the Company and its customers do not infringe the 069 Patent. The complaint also seeks damages and a license for the Company and its customers on reasonable and non-discriminatory terms in the event the Company s 802.11a/g/n wireless LAN products are found to infringe and the 069 Patent is found to be valid and enforceable.

On July 3, 2007, the Company moved to intervene in the two actions described in the first paragraph above pending in the Eastern District of Texas, for the purposes of staying the actions as to products incorporating the Company s parts in favor of the separate action that the Company filed as described in the second paragraph above. Alternatively the Company moved to disqualify the firm of Townsend, Townsend and Crew from continuing to represent CSIRO because of a conflict of interest. CSIRO opposed these motions on August 3, 2007.

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On August 3, 2007, CSIRO moved to dismiss the Company s complaint for lack of case or controversy and failure to state a claim upon which relief can be granted, or, in the alternative, to stay the case pending the resolution of the pending lawsuits described in the first paragraph above. On October 24, 2007, the Court issued an order denying CSIRO s motion to dismiss. The Court also denied the Company s motions to stay/intervene/disqualify. The Company appealed the Court s denial of the motions to stay/intervene/disqualify to the United States Court of Appeals for the Federal Circuit. The hearing on the Company s appeal was held on September 3, 2008. The Court has not yet rendered a decision.

On December 5, 2007, CSIRO filed its answer to the Company s complaint, as well as counterclaims against the Company for willful and deliberate infringement of the 069 Patent. CSIRO s counterclaims included a claim for monetary damages, including triple damages based on its allegation of willful and deliberate infringement, attorneys fees and injunctive relief. On April 10, 2008, the Company filed a First Amended Complaint and First Amended Reply to CSIRO s Answer and Counterclaims. On April 23, 2008, CSIRO filed its Answer and Counterclaims to the First Amended Complaint. On May 12, 2008, the Company filed a Reply and Affirmative Defenses to CSIRO s amended counterclaims.

On May 22, 2008, the Company filed a motion for summary judgment seeking to invalidate the 069 Patent on indefiniteness grounds. The motion was denied on August 14, 2008.

The claim construction hearing was held on June 26, 2008 and the claim construction order was issued on August 14, 2008. On August 1, 2008, the Company moved to disqualify the firm of Townsend, Townsend and Crew from representing CSIRO in the Marvell v. CSIRO case because of a conflict of interest. CSIRO opposed the motion on August 18, 2008. The Court has not yet rendered a decision. Trial for the Company s declaratory judgment action is set to begin on May 10, 2010. CSIRO and the Company are currently engaging in discovery and motion practice.

Shareholder Derivative Litigation. Between June 22, 2006 and August 2, 2006, three purported shareholder derivative actions were filed in the United States District Court for the Northern District of California. Each of these lawsuits names the Company as a nominal defendant and a number of the Company s current and former directors and officers as defendants. Each lawsuit seeks to recover damages purportedly sustained by the Company in connection with its option granting processes, and seeks certain corporate governance and internal control changes. Pursuant to orders of the court dated August 17 and October 17, 2006, the three actions were consolidated as a single action, entitled *In re Marvell Technology Group Ltd. Derivative Litigation*. The plaintiffs filed an amended and consolidated complaint on November 1, 2006. On January 16, 2007, the Company filed a motion to dismiss the consolidated complaint for lack of standing or, in the alternative, stay proceedings.

On February 12, 2007, a new purported derivative action was filed in the United States District Court for the Northern District of California. As in *In re Marvell Technology Group Ltd. Derivative Litigation*, this lawsuit names the Company as a nominal defendant and a number of the Company s current and former directors and officers as defendants. It seeks to recover damages purportedly sustained by the Company in connection with its option granting processes, and seeks certain corporate governance and internal control changes. On May 1, 2007, the court entered an order consolidating this lawsuit with *In re Marvell Technology Group Ltd. Derivative Litigation*.

On May 29, 2007, the Court entered an order staying discovery in this matter pending resolution of the Company s motion to dismiss.

On January 25, 2008, the Court entered a stipulated order staying proceedings so that the parties could finalize a settlement that would resolve the actions. On or about March 5, 2008, the parties entered into a memorandum of understanding that tentatively settles and resolves the actions. The terms of the memorandum of understanding include certain corporate governance enhancements and an agreement by the Company to pay up to $16 million in plaintiffs attorneys fees, an amount less than the $24.5 million that the Company received from a settlement with its directors and officers liability insurers. This tentative settlement of the consolidated derivative actions requires court approval before it becomes final. The Company accrued the $16 million settlement amount in the fourth quarter of fiscal 2008. The Company anticipates that the parties will finalize and submit formal settlement documentation to the court in the next few months for both preliminary and final approval, at which time payment of the settlement amount will be made. The Company recorded the insurance settlement amount as restricted cash at the time it was received in the first quarter of fiscal 2009.

Class Action Securities Litigation. Between October 5, 2006 and November 13, 2006, four putative class actions were filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. The complaints allege that the Company and certain of its officers and directors violated the federal securities laws by making false and

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misleading statements and omissions relating to the grants of stock options. The complaints seek, on behalf of persons who purchased the Company s common shares during the period from October 3, 2001 to October 3, 2006, unspecified damages, interest, and costs and expenses, including attorneys fees and disbursements. Pursuant to an order of the court dated February 2, 2007, these four putative class actions were consolidated as a single action entitled *In re Marvell Technology Group Ltd. Securities Litigation*. On August 16, 2007, plaintiffs filed a consolidated class action complaint. On October 18, 2007, the Company filed a motion to dismiss the consolidated class action complaint. The motion is fully briefed and was argued on February 15, 2008. The Company awaits the court s order on this motion.

SEC and United States Attorney Inquiries. In July 2006, the Company received a letter of informal inquiry from the SEC requesting certain documents relating to the Company s stock option grants and practices. The Company also received a grand jury subpoena from the office of the United States Attorney for the Northern District of California requesting substantially similar documents. On April 20, 2007, the Company was informed that the SEC was conducting a formal investigation into this matter. On June 8, 2007 and July 3, 2007, the Company received document subpoenas from the SEC. On October 11, 2007, the Company received a Wells Notice from the staff of the SEC. Weili Dai, Vice President of Sales for Communications and Consumer Business of Marvell Semiconductor, Inc. (MSI), who is not an officer or director of the Company, also received a Wells notice. The SEC staff also advised the Company that it is not at this time recommending enforcement action against any of the Company s current officers or directors. The Wells notices indicated that the staff intended to recommend to the staff of the SEC that it bring civil actions against the recipients for injunctive relief and civil monetary penalties. The Company responded in writing to the Wells Notice and sought to reach a resolution of this matter before any action was filed.

On May 8, 2008, the Company announced that it had reached an agreement with the SEC to settle this matter. Without admitting or denying the allegations in the SEC s complaint, the Company agreed to settle the charges by consenting to a permanent injunction against any future violations of various provisions of the federal securities laws. The Company also agreed to pay a civil penalty of $10 million in connection with the settlement. On May 8, 2008, the SEC filed a complaint captioned *SEC v. Marvell Technology Group, Ltd., et al*., Case No. CV-08-2367-HRL, in the United States District Court for the Northern District of California. The Company s consent to entry of final judgment was also filed on May 8, 2008. In a related agreement, Ms. Dai also entered into a settlement with the SEC. Without admitting or denying the allegations in the SEC s complaint, Ms. Dai consented to a permanent injunction against any future violations of various provisions of the federal securities laws, agreed not to serve as a director or officer of a public company for a period of five years, and agreed to pay a civil penalty of $500,000. The Court entered the final judgment against Ms. Dai on June 16, 2008 and against the Company on July 1, 2008. The Company accrued the $10 million civil penalty in the first quarter of fiscal 2009 and paid it to the SEC on July 8, 2008.

This settlement concludes the SEC s formal investigation of the Company with respect to the Company s historic stock option granting practices.

Wi-Lan Litigation. On December 21, 2006, MSI received a letter from Wi-Lan, Inc. (Wi-Lan) accusing MSI of infringing four United States patents allegedly owned by Wi-Lan, and one Canadian patent also allegedly owned by Wi-Lan. On October 31, 2007, Wi-Lan sued two groups of system and chip manufacturers in the United States District Court for the Eastern District of Texas, in both cases naming MSI as a defendant and alleging patent infringement. In the first case, Wi-Lan alleges that defendants infringe two patents that allegedly relate to the 802.11 wireless standard. In the second case, Wi-Lan alleges that defendants infringe the same two patents asserted in the first case, and in addition Wi-Lan alleges that some of the defendants in the second case infringe a third patent that

allegedly relates to Asymmetric Digital Subscriber Line (ADSL) technology. In the second case, MSI is not accused of infringing the ADSL patent.

On May 27, 2008, defendants in both cases jointly moved to consolidate the co-pending related cases and permit claims involving suppliers of the products to be litigated first. Wi-Lan filed its opposition on June 18, 2008. The Court has not yet rendered a decision. The Claim Construction Hearing is scheduled for September 1, 2010, and the trial is set to begin on January 4, 2011. MSI believes it does not infringe the asserted Wi-Lan patents and will vigorously defend itself in these matters.

On November 5, 2007, MSI filed a complaint against Wi-Lan in the United States District Court for the Northern District of California asking the Court to find that it does not infringe three patents that Wi-Lan asserted against MSI in its December 21, 2006 letter. Two of these patents were not asserted against MSI in either of the two Texas litigations. These patents allegedly relate to Wideband Code Division Multiple Access technology. Also, MSI asks in the alternative that the Court find the patents invalid. Wi-Lan has filed a motion to dismiss, and the Company filed its opposition to that motion on June 9, 2008. On June 19, 2008, Marvell settled this declaratory judgment action. This settlement does not effect or in any way involve the ongoing litigations brought by Wi-LAN in the Eastern District of Texas.

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Fujitsu et al. Litigation. On December 17, 2007, Fujitsu, Ltd., LG Electronics., Ltd., and U.S. Philips Corp., sued NETGEAR, Inc. in the United States District Court for the Western District of Wisconsin, alleging that NETGEAR s 802.11 equipment infringed three United States patents allegedly owned individually by the plaintiffs. On March 17, 2008, NETGEAR filed a third-party complaint against three companies, including MSI, who allegedly supply 802.11 chips to NETGEAR. In the third-party action, NETGEAR alleges that whatever damages and compensation it is required to pay as a result of the underlying patent infringement litigation, the alleged suppliers owe to NETGEAR. The Company filed an answer and a motion to amend the schedule in the case on April 8, 2008. The Court, on its own, adjusted the schedule to account for the new parties added to the litigation and moved the trial date to April 27, 2009. The claim construction hearing was held on August 15, 2008. The Company believes that it does not owe NETGEAR any payment resulting from NETGEAR s use of the Company s 802.11 parts in NETGEAR products, and the Company also believes that none of the patents in suit is infringed by NETGEAR. The Company intends to defend this litigation vigorously.

General. The Company is also party to other legal proceedings and claims arising in the normal course of business. The legal proceedings and claims described above could result in substantial costs and could divert the attention and resources of the Company s management. Although the legal responsibility and financial impact with respect to these proceedings and claims cannot currently be ascertained, an unfavorable outcome in such actions could have a material adverse effect on the Company s cash flows, including potential impacts to certain covenants under its existing credit agreement. Litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling in litigation could require the Company to pay damages or one-time license fees or royalty payments, which could adversely impact gross margins in future periods, or 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. 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.

Note 8. Stock-Based Compensation

The Company adopted SFAS 123R in its fiscal year beginning January 29, 2006. SFAS 123R requires the measurement and recognition of compensation expense for all share-based awards to employees and directors, including employee stock options, restricted stock units and employee stock purchase rights based on estimated fair values.

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

	Three Months Ended		Six Months Ended	
	August 2, 2008	**July 28, 2007**	**August 2, 2008**	**July 28, 2007**
Cost of goods sold	$ 3,755	$ 3,275	$ 6,828	$ 6,293
Research and development	32,998	34,591	62,930	66,633
Selling and marketing	6,159	10,997	13,507	18,148

General and administrative	4,715	10,033	9,588	14,590
	$ 47,627	$ 58,896	$ 92,853	$ 105,664

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

	Stock Option Plans Three Months Ended		ESPP Three Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Volatility	44%	45%	45%	
Expected life (in years)	5.0	5.0	1.3	
Risk-free interest rate	2.7%	4.6%	4.3%	
Dividend yield				
Weighted average fair value	$ 7.01	$ 7.58	$ 6.05	

	Stock Option Plans Six Months Ended		ESPP Six Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Volatility	44%	45%	45%	
Expected life (in years)	5.2	5.0	1.3	
Risk-free interest rate	3.3%	4.6%	4.3%	
Dividend yield				
Weighted average fair value	$ 5.25	$ 7.66	$ 6.05	

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In developing estimates used in the adoption of SFAS 123R, the Company established the expected term for employee options and awards, as well as expected forfeiture rates, based on the historical settlement experience and after giving consideration to vesting schedules. Assumptions for option exercises and pre-vesting terminations of options were stratified by employee groups with sufficiently distinct behavior patterns.

Expected volatility under SFAS 123R was developed based on the average of the Company s historical daily stock price volatility. The risk-free interest rate assumption is based on observed interest rates appropriate for the expected terms of our stock options.

SFAS 123R also requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

Note 9. Shareholders Equity

Stock plans

In April 1995, the Company adopted the 1995 Stock Option Plan (the Option Plan). The Option Plan, as amended, had 383,675,842 common shares reserved for issuance thereunder as of August 2, 2008. Options granted under the Option Plan generally have a term of ten years and generally must be issued at prices not less than 100% and 85% for incentive and nonqualified stock options, respectively, of the fair market value of the stock on the date of grant. Incentive stock options granted to shareholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant. The options generally vest 20% one year after the vesting commencement date, and the remaining shares vest one-sixtieth per month over the remaining 48 months. Options granted under the Option Plan prior to March 1, 2000 may be exercised prior to vesting and the exercised shares remain unvested until vested in accordance with the terms of the grant. The Company has the right to repurchase such shares at their original purchase price if the optionee is terminated from service prior to vesting. Such right expires as the options vest over a five-year period. Options granted under the Option Plan subsequent to March 1, 2000 may only be exercised upon or after vesting.

In August 1997, the Company adopted the 1997 Directors Stock Option Plan (the Directors Plan). Under the Directors Plan, an outside director was granted an option to purchase 30,000 common shares upon appointment to the Company s Board of Directors. These options vested 20% one year after the vesting commencement date and remaining shares vest one-sixtieth per month over the remaining 48 months. An outside director was also granted an option to purchase 6,000 common shares on the date of each annual meeting of the shareholders. These options vested one-twelfth per month over 12 months after the fourth anniversary of the vesting commencement date. Options granted under the Directors Plan could be exercised prior to vesting. The Directors Plan was terminated in October 2007.

In October 2007, the Company adopted the 2007 Directors Stock Incentive Plan (the 2007 Directors Plan). Under the 2007 Directors Plan, an outside director is granted an option to purchase 50,000 common shares upon appointment to the Company s Board of Directors. These options

vest 1/3rd on the one year anniversary of the date of grant and 1/3rd of the shares on each anniversary thereafter. An outside director who has served on the Board of Directors for the prior six months is also granted an option to purchase 12,000 common shares on the date of each annual meeting of the Company s shareholders. These options vest 100% on the earlier of the date of the next annual general meeting of shareholders or the one year anniversary of the date of grant.

Under the Option Plan and the 2007 Directors Plan, the Company may also grant restricted stock awards, which may be subject to vesting and stock unit awards, which are denominated in shares of stock, but may be settled in cash or tradable shares of the Company s common shares upon vesting, as determined by the Company at the time of grant.

Employee stock purchase plan

In June 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan, as amended, had 49,871,612 common shares reserve for issuance thereunder as of August 2, 2008. Under the Purchase Plan, employees are granted the right to purchase common shares at a price per share that is 85% of the lesser of the fair market value of the shares at

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(i) the participant s entry date into the two-year offering period, or (ii) the end of each six-month purchase period within the offering period. Participants purchase stock using payroll deductions, which may not exceed 20% of their total cash compensation. Effective on August 20, 2007, offering and purchase periods begin on December 8 and June 8 of each year. For the three and six months ended August 2, 2008, the Company recognized $8.1 million and $18.0 million of stock-based compensation expense related to the activity under the Purchase Plan, respectively. The Company issued 1,741,158 shares under the Purchase Plan in the three and six months ended August 2, 2008 at a price of $12.95. As of August 2, 2008, there was $21.3 million of unrecognized compensation cost related to the Purchase Plan.

Stock option activity under the Company s stock option plans for the six months ended August 2, 2008 is summarized below (in thousands, except per share amounts):

	Options Outstanding (In thousands)		**Weighted Average Exercise Price**
Balance at February 2, 2008	109,158	$	14.64
Options granted	10,881	$	12.17
Options forfeited/canceled/expired	(4,877)	$	19.42
Options exercised	(6,247)	$	6.80
Balance at August 2, 2008	108,915	$	14.63
Vested or expected to vest at August 2, 2008	100,651	$	14.18
Exercisable at August 2, 2008	60,952	$	11.05

Included in the preceding table are options for 1,683,000 common shares granted to certain officers at exercise prices ranging between $14.01 and $24.80 that will become exercisable only upon the achievement of specified annual earnings per share targets through fiscal 2014.

The aggregate intrinsic value and weighted average remaining contractual term of options vested and expected to vest at August 2, 2008 was $416.4 million and 6.3 years, respectively. The aggregate intrinsic value and weighted average remaining contractual term of options exercisable at August 2, 2008 was $378.3 million and 5.0 years, respectively. The aggregate intrinsic value is calculated based on the Company s closing stock price for all in-the-money options as of August 2, 2008.

The aggregate intrinsic value and weighted average remaining contractual term of restricted stock vested and expected to vest as of August 2, 2008 was $51.0 million and 0.8 years, respectively.

Included in the table below is activity related to the nonvested restricted stock awards:

	Nonvested Restricted Stock Outstanding		Weighted Average Grant Date Fair Value
Balance at February 2, 2008	2,111	$	16.89
Granted	2,371	$	11.51
Vested	(638)	$	14.71
Canceled/Forfeited	(191)	$	13.94
Balance at August 2, 2008	3,653	$	13.55

The Company s current practice is to issue new shares to satisfy share option exercises. As of August 2, 2008, compensation costs related to nonvested awards not yet recognized amounted to $332.2 million. The unamortized compensation expense for stock options and restricted stock will be amortized on a straight-line basis and is expected to be recognized over a weighted-average period of 2.4 years and 1.3 years, respectively.

The total tax benefit attributable to options exercised in the six months ended August 2, 2008 was $0.5 million and the excess tax benefits from stock-based compensation of $0.5 million as reported on the condensed consolidated statements of cash flows in financing activities. Such excess tax benefits represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods.

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Stock award activity

The Company has issued restricted stock and restricted stock unit awards to its employees under the Option Plan. Such awards generally vest over a period of one to five years from the date of grant. The restricted stock awards have the voting rights of common shares and the shares underlying the restricted stock are considered issued and outstanding. The Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse. The grant of restricted stock awards is deducted from the shares available for grant under the Option Plan.

Based on the closing price of the Company s stock of $14.69 as reported on the NASDAQ Stock Market on August 1, 2008, the total pretax intrinsic value of all outstanding restricted stock was $1.1 million.

Note 10. Income Taxes

For the three months ended August 2, 2008 and July 28, 2007, the Company s effective tax rate was an income tax expense of 6.6% and an income tax expense of (20.5)%, respectively. The income tax provision for these periods was affected by non-tax-deductible expenses such as SFAS 123R stock-based compensation expense, amortization of acquired intangibles, foreign exchange adjustments, and accrual of unrecognized tax benefits, interest and penalties associated with FIN 48. In addition, the August 2, 2008 income tax expense was also affected by the Housing and Economic Recovery Act of 2008 (P.L. 110-289) signed into law July 30, 2008.

The Company s total unrecognized tax benefits as of August 2, 2008 and February 2, 2008 were $118.3 million and $109.7 million, respectively. During the three months ended August 2, 2008, there was a reversal of a FIN 48 reserve due to the lapse of a statute of limitations in the amount of $1.4 million which includes penalty and interest. However, overall there was a net $8.6 million increase in unrecognized tax benefits, penalties and interest during the six months ended August 2, 2008. The net increase was primarily due to uncertain tax positions on our international structure. If recognized, all of the FIN 48 liabilities recorded to date will impact the effective tax rate.

In accordance with the Company s accounting policy, the Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax provision. This policy did not change as a result of the adoption of FIN 48.

The Company conducts business globally and, as a result, one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is subject to examination by tax authorities throughout the world, including such major jurisdictions as Singapore, Japan, Taiwan, China, India, Germany, Israel, Netherlands, Switzerland, the United Kingdom, Canada, Malaysia and the United States. The Company is subject to non U.S. income tax examinations for years beginning with fiscal year 2002 and for U.S. income tax examinations beginning with fiscal year 2004. During the quarter ended May 3, 2008, non U.S. subsidiaries were notified by tax authorities that they would begin an income tax audit for fiscal years 2004, 2005 and 2006. The audit field work was completed after the quarter ended May 3, 2008, concluding that no adjustments were necessary to the 2004, 2005 and 2006 years. The audit also covered the employment taxes with regard to the re-measured stock options, and the taxing authorities found that the employment taxes were adequately provided. The audit field work by U.S. tax authorities of the Company s U.S. subsidiaries is complete for the fiscal years 2004, 2005 and 2006, however, there is no closing agreement. The U.S. tax authorities are reviewing employment taxes with regard to the re-measured stock options and have proposed audit assessments for calendar years 2003, 2004, 2005 and 2006. The Company believes that it has adequately provided for

all issues related to these examinations, and the ultimate disposition of these matters is unlikely to have a material adverse affect the Company s consolidated financial position.

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Note 11. Related Party Transactions

During fiscal 2008, the Company incurred $0.1 million in expenses from an unrelated third-party entity, ACM Aviation, Inc. (ACM), for charter aircraft services provided to MSI for Estopia Air LLC (Estopia Air). The aircraft provided by ACM to the Company for such services is owned by Estopia Air. The Company s Chairman, President and Chief Executive Officer, Dr. Sehat Sutardja, and the Company s Vice President of Sales for Communications and Consumer Business of MSI, Weili Dai, through their control and ownership of Estopia Air, own the aircraft provided by ACM. During the three months ended August 2, 2008 and July 28, 2007, the Company incurred no expenses from ACM for charter aircraft services provided to MSI. During the first six months ended August 2, 2008 and July 28, 2007, the Company incurred none and approximately $73,000, respectively, of expenses from ACM, for charter aircraft services provided to MSI.

On August 19, 2005, the Company, through its subsidiaries MSI and Marvell International Ltd. (Marvell International), entered into a License and Manufacturing Services Agreement (the License Agreement) with C2 Microsystems, Inc. (C2Micro). The License Agreement has substantially similar terms as other license and manufacturing services agreements of the Company with other third parties. The Company recognized $1.4 million of revenue under the License Agreement with C2 Micro during the three months ended August 2, 2008, $9,000 of revenue during the three months ended July 28, 2007, $2.6 million of revenue during the first six months ended August 2, 2008 and $39,000 of revenue during the first six months ended July 28, 2007. As of August 2, 2008, the Company had a receivable of $1.4 million from C2Micro. Dr. Sehat Sutardja, and Weili Dai, through their ownership and control of Estopia LLC (Estopia), are indirect shareholders of C2Micro. Kuo Wei (Herbert) Chang, a member of the Company s Board of Directors, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2Micro. Dr. Pantas Sutardja, the Company s Vice President, Chief Technology Officer, and Chief Research and Development Officer, is also a shareholder of C2Micro.

On January 8, 2007, the Company, through Marvell International, entered into a Library/IP/Software Evaluation License Agreement (the Evaluation License Agreement) with VeriSilicon Holdings Co., Ltd. (VeriSilicon). The Evaluation License Agreement has no consideration. The Company also incurred $43,000 and $119,000 of royalty expense from VeriSilicon under a core license agreement assumed from its acquisition of the semiconductor design business of UTStarcom, Inc. during the three months ended August 2, 2008 and July 28, 2007, respectively. The Company incurred $109,000 and $191,000 of royalty expense under the same license agreement during the first six months ended August 2, 2008 and July 28, 2007, respectively. Weili Dai s brother (and Dr. Sehat Sutardja s brother-in-law) is the Chairman, President and Chief Executive Officer of VeriSilicon. Ms. Dai is also a shareholder of VeriSilicon.

On October 31, 2007, the Company entered into a License Agreement with Vivante Corporation (Vivante). The License Agreement has substantially similar terms as other license agreements of the Company with other third parties. The Company recorded none and $0.2 million of expense during the three and six months ended August 2, 2008, respectively, in connection with the License Agreement with Vivante. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of Vivante. In addition, Dr. Sehat Sutardja is also a direct shareholder and Chairman of the board of directors of Vivante. Weili Dai s brother (and Dr. Sehat Sutardja s brother-in-law) is the Chief Executive Officer of Vivante. Kuo Wei (Herbert) Chang, a member of the Company s Board of Directors, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of Vivante.

On September 28, 2007, the Company, through Marvell International, entered into a Master Technology Agreement (the Technology Agreement) with Sonics, Inc. (Sonics), pursuant to which the Company licensed technology from Sonics. The Technology Agreement has substantially similar terms as other license agreements of the Company with other third parties. The Company paid $2.1 million under the Technology Agreement for the license and related maintenance during fiscal 2008. Kuo Wei (Herbert) Chang, member of the Company s Board of Directors and Mike Sophie, former member of the Company s Board of Directors, both serve as members of the board of directors of Sonics and each has a direct and/or indirect ownership interest in the equity of Sonics. There was no expense incurred during the three months ended August 2, 2008 and July 28, 2007.

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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 that involve risks and uncertainties. These statements include, without limitation, statements regarding our expectations, beliefs, intentions or strategies regarding the future. 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, believes, seeks, estimates, can, and similar expressions identify such forward-looking statements. These are statements that relate to future periods and include statements relating to our anticipation that the rate of new orders and shipments will vary significantly from quarter to quarter; industry trends; our anticipation that the total amount of sales through distributors will increase in future periods; our expectation that a significant percentage of our sales will continue to come from direct sales to key customers; our expectations regarding the number of days in inventory, inventory levels and levels of accounts receivable; our expectations regarding competition; our intention to reduce product costs to offset decreases in average selling prices; our continued efforts relating to the protection of our intellectual property; our expectations regarding the amount of customer concentration in the future; our expectations regarding the amount of our future sales in Asia; our intention to continue to invest significant resources for research and development; our expectation regarding the effect of auction rate securities on our working capital needs or other requirements; our expected results, cash flows, and expenses, including those related to research and development, sales and marketing and general and administrative; our intention to complete acquired in-process research and development projects; our intention to make acquisitions, investments, strategic alliances and joint ventures; our expectations regarding revenue, sources of revenue and make-up of revenue; our expectations regarding the impact of legal proceedings and claims; our expectations regarding the adequacy of our capital resources to meet our capital needs for the next 12 months; our plan to attract and retain highly skilled personnel; our expectations regarding the growth in business and operations; our expectations regarding our compliance with periodic reporting requirements; our expectations regarding the impact of the restatement of our financial statements in connection with the internal review of our historic stock option granting practices; our plans regarding remediation of 2008 material weakness and expectations regarding the effectiveness of those remediation efforts; our plan regarding forward exchange contracts; and the effect of recent accounting pronouncements and changes in taxation rules; and our plan of sourcing certain legacy application processor cellular and handset inventory from Intel. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors that could cause actual results to differ materially from those predicted, include but are not limited to, the impact of international conflict and continued economic volatility in either domestic or foreign markets; the outcome and impact of the litigation related to our historic stock option granting practices; our dependence upon the hard disk drive industry which is highly cyclical; our ability to scale our operations in response to changes in demand for existing or new products and services; our maintenance of an effective system of internal controls; our dependence on a small number of customers; our ability to develop new and enhanced products; our success in integrating businesses we acquire and the impact such acquisitions may have on our operating results; our ability to estimate customer demand accurately; the success of our strategic relationships with customers; our reliance on independent foundries and subcontractors for the manufacture, assembly and testing of our products; our ability to manage future growth; the development and evolution of markets for our integrated circuits; our ability to protect our intellectual property; the impact of any change in our application of the United States federal income tax laws and the loss of any beneficial tax treatment that we currently enjoy; the impact of changes in international financial and regulatory conditions; the impact of changes in management; the risk that other remediation efforts will be insufficient to address our material weakness in internal controls and the outcome of pending or future litigation and legal proceedings. Additional factors which could cause actual results to differ materially include those set forth in the following discussion, as well as the risks discussed in Item 1A, Risk Factors. and other sections of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date hereof. Unless required by law, we undertake no obligation to update any forward-looking statements.

Overview

We are a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. Our diverse product portfolio includes switching, transceiver, wireless, PC connectivity, gateways, communications controller and storage and power management solutions that serve diverse applications used in business enterprises, consumer electronics and emerging markets. We are a fabless integrated circuit company, which means that we rely on independent, third-party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products and significantly reduces the amount of capital we need to invest in manufacturing products. In February 2006, we acquired the semiconductor

design business of UTStarcom, Inc. for $40.8 million, including $16.0 million subsequently recognized when milestones were achieved. This business designs and supplies chipsets for personal phone applications. In May 2006, we acquired the printer semiconductor business of Avago Technologies Limited for $288.0 million,

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including earnout payments of $35.0 million subsequently recognized during fiscal 2007 and fiscal 2008 based on the achievement of certain levels of revenue. The printer semiconductor business of Avago designs and develops System-on-Chip (SoC) and system level solutions for both inkjet and laser jet printer systems. In November 2006, we completed the acquisition of the communications and applications processor business of Intel Corporation for approximately $605.6 million. The communications and applications processor business of Intel designs and develops cellular baseband processors for multi-mode, multi-band wireless handheld devices such as cellular handsets, PDAs and smartphones. In addition, we have also completed several smaller acquisitions over the last three fiscal years.

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

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

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2009 is comprised of 52 weeks and fiscal 2008 was comprised of 53 weeks. In this Quarterly Report on Form 10-Q, we refer to the fiscal year ended January 27, 2007 as fiscal 2007, the fiscal year ended February 2, 2008 as fiscal 2008, and the fiscal year ending January 31, 2009 as fiscal 2009.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods. For a description of our critical accounting policies and estimates, please refer to the Critical Accounting Policies and Estimates section of our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended February 2, 2008. There have been no material changes in any of our accounting policies during fiscal 2009.

Results of Operations

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

	Three Months Ended		Six Months Ended	
	August 2, 2008	July 28, 2007	August 2, 2008	July 28, 2007
Net revenue	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:				
Cost of goods sold	48.2	51.1	48.3	51.3
Research and development and other	29.6	36.0	29.6	36.4
Selling and marketing	5.0	8.2	5.3	8.1
General and administrative	3.7	5.1	2.7	4.5
Amortization of acquired intangible assets	4.1	5.7	4.3	5.8
Total operating costs and expenses	90.6	106.1	90.2	106.1
Operating income (loss)	9.4	(6.1)	9.8	(6.1)
Interest and other income, net	0.3	0.5	0.3	0.3
Interest expense	0.6	1.5	0.7	1.5
Income (loss) before income taxes	9.1	(7.1)	9.4	(7.3)
Provision for income taxes	0.6	1.5	0.8	1.2
Net income (loss)	8.5%	(8.6)%	8.6%	(8.5)%

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Three and Six Months Ended August 2, 2008 and July 28, 2007

Net Revenue

	Three Months Ended			Six Months Ended		
	August 2, 2008	July 28, 2007	% Change	August 2, 2008	July 28, 2007	% Change
Net revenue	$ 842,575	$ 656,711	28.3%	$ 1,646,650	$ 1,291,761	27.5%

Net revenue consists primarily of product revenue from sales of our semiconductor devices, and to a much lesser extent, development revenue derived from development contracts with our customers. Net revenue is gross revenue, net of accruals for estimated sales returns, allowances and rebates. The increase in net revenue for the three and six months ended August 2, 2008 compared to the net revenue for the three and six months ended July 28, 2007 reflects an increase in volume shipments of our storage SoCs and wireless products. The increase in net revenue was due to increased demand from our primary hard disk drive customers and the overall hard disk drive industry demand for notebook PC two and a half inch drives and consumer products markets and increased demand for our wireless products in consumer applications. Net revenue derived from development contracts increased in absolute dollars during the three and six months ended August 2, 2008 compared to the three and six months ended July 28, 2007, but represented less than 10% of net revenue for each period.

Historically, a relatively small number of customers have accounted for a significant portion of our revenue. For the three and six months ended August 2, 2008, one customer represented more than 10% of our net revenue, with a total of 21% of our net revenue. For the three months ended July 28, 2007, two customers each represented more than 10% of our net revenue, for a combined total of 27% of our net revenue. For the six months ended July 28, 2007, one customer accounted for more than 10% of our net revenue with a total of 15% of our net revenue. No distributors accounted for more than 10% of our net revenue in the three and six months ended August 2, 2008 and in the three and six months ended July 28, 2007.

Because we sell our products to many OEM manufacturers who have manufacturing operations located in Asia, a significant percentage of our sales are made to customers located outside of the United States. Sales to customers located in Asia represented 87% and 81% of our net revenue for the three months ended August 2, 2008 and July 28, 2007, respectively, and represented 86% and 83% of our net revenue for the six months ended August 2, 2008 and July 28, 2007, respectively. The rest of our sales are to customers located in the United States and other geographic regions. We expect that a significant portion of our revenue will continue to be represented by sales to our customers in Asia. Substantially all of our sales to date have been denominated in U.S. dollars.

Cost of Goods Sold

	Three Months Ended			Six Months Ended		
	August 2, 2008	July 28, 2007	% Change	August 2, 2008	July 28, 2007	% Change
Cost of goods sold	$ 405,913	$ 335,530	21.0%	$ 794,755	$ 662,947	19.9%

% of net revenue	48.2%	51.1%	48.3%	51.3%
Gross margin	51.8%	48.9%	51.7%	48.7%

Cost of goods sold consists primarily of the costs of manufacturing, assembly and test of integrated circuit devices and related overhead costs, product warranty costs, royalties and compensation and associated costs relating to manufacturing support, logistics and quality assurance personnel, including stock-based compensation, excess and obsolescence provisions and purchase accounting adjustments. Gross margin is calculated as net revenue less cost of goods sold as a percentage of net revenue. The increase in gross margin for the three and six months ended August 2, 2008 compared to the three and six months ended July 28, 2007 was primarily due to reduced costs for cellular and handset products resulting from the transition of manufacturing to our fabrication partners. In addition, gross margins improved as we recorded less inventory excess and obsolescence provision and experienced lower material and manufacturing costs due to volume efficiencies and yield improvements. The decrease in excess and obsolescence provision was due to lower levels of inventory as well as to the mix and quantities on hand compared to forecasted demand for such products. Our

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gross margins may fluctuate in future periods due to, among other things, changes in the mix of products sold, the timing of production ramps of new products, increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting, charges for obsolete or potentially excess inventory, changes in the costs charged by our manufacturing and test subcontractors, the introduction of new products with lower margins, product warranty costs and changes in the amount of development revenue recognized.

Research and Development and Other

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**
Research and development and other	$ 249,714	$ 236,194	5.7%	$ 488,189	$ 470,327	3.8%
% of net revenue	29.6%	36.0%	29.6%	36.4%		

Research and development and other expense consists primarily of compensation and associated costs relating to development personnel, including stock-based compensation, prototype costs, contracted development work costs, depreciation and amortization expense, patent investigation and filings fees and allocated occupancy costs for these operations.

The increase in research and development and other expense in absolute dollars for the three months ended August 2, 2008 compared to the three months ended July 28, 2007 was primarily due to higher salary and related costs of $7.6 million. Additionally, we incurred higher mask, prototype and product related costs of $6.6 million, increased costs for depreciation and amortization expense and an increase of $1.9 million related to our expanding operations. Partially offsetting the increases in research and development and other expense was decreased costs of $2.2 million in outside professional services and computer aided design maintenance costs. Additionally, stock based compensation expense decreased by $1.6 million. Research and development related costs for the three months ended August 2, 2008 was $245.6 million compared to $232.2 million for the three months ended July 28, 2007.

The increase in research and development and other expense in absolute dollars in the six months ended August 2, 2008 compared to the six months ended July 28, 2007 was primarily due to higher salary and related costs of $17.7 million. Additionally, we incurred increased costs for depreciation and amortization expense of $5.5 million arising from purchases of property, equipment and technology licenses and an increase of $4.0 million related to our expanding operations. Partially offsetting the increases in research and development and other expenses was a decrease in outside professional services, computer aided design maintenance costs and engineering supplies of $5.5 million and a decrease in stock-based compensation expense of $3.7 million. Research and development related costs for the six months ended August 2, 2008 was $479.0 million compared to $463.2 million for the six months ended July 28, 2007.

Selling and Marketing

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**

Selling and marketing	$	41,834	$	53,942	(22.4)%	$	87,922	$	104,334	(15.7)%
% of net revenue		5.0%		8.2%			5.3%		8.1%	

Selling and marketing expense consists primarily of compensation and associated costs relating to sales and marketing personnel, including stock-based compensation, sales commissions, promotional and other marketing expenses, and allocated occupancy costs for these operations. The decrease in selling and marketing expense in absolute dollars for the three months ended August 2, 2008 compared to the three months ended July 28, 2007 was primarily due to lower salary and related expenses of $3.4 million due to lower overall headcount of sales and marketing personnel. Additionally, we incurred a decrease in stock-based compensation expense of $4.8 million and a decrease in other marketing costs of $2.3 million.

The decrease in selling and marketing expense in absolute dollars for the six months ended August 2, 2008 compared to the six months ended July 28, 2007 was primarily due to lower overall headcount of selling and marketing personnel that resulted in a decrease in salary and related costs of $4.8 million. Additionally, we incurred a decrease in stock-based compensation expense of $4.6 million, a decrease in other marketing costs of $3.6 million and a decrease in overhead costs of $1.4 million.

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General and Administrative

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**
General and administrative	$ 30,989	$ 33,775	(8.2)%	$ 43,940	$ 57,763	(23.9)%
% of net revenue	3.7%	5.1%		2.7%	4.5%	

General and administrative expense consists primarily of compensation and associated costs relating to general and administrative personnel, including stock-based compensation, fees for professional services and allocated occupancy costs for these operations. The decrease in absolute dollars in general and administrative expense for the three months ended August 2, 2008 compared to the three months ended July 28, 2007 was the result of a $6.1 million decrease in legal and professional fees due to completion of the internal review by a special committee of our Board of Directors related to our historic stock option granting practices and related accounting matters that was completed during the three months ended July 28, 2007. Additionally, stock-based compensation expense decreased $5.3 million. Partially offsetting the decrease in general and administrative expense was a $2.0 million increase in salary and related costs due to the net hiring of additional administrative personnel and a $5.1 million gain from the sale of an asset under construction recorded during the three months ended July 28, 2007.

The decrease in absolute dollars in general administrative expense for the six months ended August 2, 2008 compared to the six months ended July 28, 2007 was primarily due to a decrease in legal fees of $19.9 million as a result of $24.5 million of insurance recoveries for shareholder derivative, class action and related lawsuits received during the three months ended May 3, 2008 partially offset by a $10.0 million settlement with the Securities and Exchange Commission (SEC) investigation regarding our historic stock option granting practices and related accounting matters. Additionally, stock-based compensation expense decreased $5.0 million. Partially offsetting the decrease in general and administrative expense was an increase in salary and related costs of $5.0 million due to the net hiring of additional administrative personnel and a $5.1 million gain from the sale of an asset under construction recorded during the six months ended July 28, 2007.

Amortization of Acquired Intangible Assets

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**
Amortization of acquired intangible assets	$ 34,988	$ 37,293	(6.2)%	$ 70,235	$ 74,613	(5.9)%
% of net revenue	4.1%	5.7%		4.3%	5.8%	

In fiscal 2007 and 2008, we made seven acquisitions in which we acquired intangible assets that are being amortized over their estimated economic lives of one to eight years. The decrease in amortization of acquired intangible assets for the three and six months ended August 2, 2008 compared to the three and six months ended July 28, 2007 was due to amortization of intangible assets from certain acquisitions being fully amortized.

Interest and Other Income, Net

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**
Interest and other income, net	$ 2,469	$ 3,128	(21.1)%	$ 5,661	$ 4,447	27.3%
% of net revenue	0.3%	0.5%		0.3%	0.3%	

Interest and other income, net consists primarily of interest earned on cash, cash equivalents and short-term investment balances and other realized and unrealized gains and losses. The decrease in interest and other income for the three months ended August 2, 2008 compared to the three months ended July 28, 2007 was primarily due to a decrease in market interest rates for the three months ended August 2, 2008.

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The increase in interest and other income, net for the six months ended August 2, 2008 compared to the six months ended July 28, 2007 was due primarily to a $4.9 million reserve for the full impairment of an equity investment in a private company recorded for the six months ended July 28, 2007. Partially offsetting the increase in interest and other income was a decrease in interest and other income due to a decrease in market interest rates.

Interest Expense

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**
Interest expense	$ 5,159	$ 9,942	(48.1)%	$ 12,310	$ 19,917	(38.2)%
% of net revenue	0.6%	1.5%		0.7%	1.5%	

Interest expense consists primarily of interest paid on a term loan and capital lease obligations. The decrease in interest expense for the three and six months ended August 2, 2008 compared to the three and six months ended July 28, 2007 was primarily due to lower interest rates on a term loan obligation, lower interest expense from a supply agreement with Intel and lower capital lease interest expense.

Provision for Income Taxes

	Three Months Ended			Six Months Ended		
	August 2, 2008	**July 28, 2007**	**% Change**	**August 2, 2008**	**July 28, 2007**	**% Change**
Provision for income taxes	$ 5,080	$ 9,619	(47.2)%	$ 13,654	$ 15,591	(12.4)%
% of net revenue	0.6%	1.5%		0.8%	1.2%	

For the three months ended August 2, 2008 and July 28, 2007, our effective tax rate was 6.6% and (20.5)%, respectively. For the six months ended August 2, 2008 and July 28, 2007, our effective tax rate of 8.8% and (16.6%), respectively. The effective tax rates are influenced by non-tax-deductible expenses, such as Statement of Financial Accounting Standards (SFAS123R stock-based compensation expense, amortization of acquired intangibles, and accounting for uncertain tax benefits under Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Tax Positions (FIN 48), which include foreign exchange adjustments. The July 28, 2007 effective tax rate was also impacted by the pretax loss and the fact that a smaller proportion of profit was earned in low or zero tax jurisdictions. Also, for the three months ended August 2, 2008, the effective tax rate was reduced by the recognition of uncertain tax positions resulting from lapse of a statute of limitations, and the benefit of a research tax credit refund arising out of the signing of the Housing and Economic Recovery Act of 2008 (P.L. 110-289).

Liquidity and Capital Resources

Our principal source of liquidity as of August 2, 2008 consisted of $888.9 million of cash, cash equivalents, restricted cash and short-term investments of which $24.5 million is restricted for use in a legal settlement. Since our inception, we have financed our operations through a

combination of sales of equity securities, cash generated by operations and cash assumed in acquisitions.

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities was $313.1 million for the six months ended August 2, 2008 compared to net cash used in operating activities of $10.8 million for the six months ended July 28, 2007. The cash inflow from operations in the six months ended August 2, 2008 was primarily due to net income of $141.3 million and changes in working capital. Non-cash charges for the six months ended August 2, 2008 included $70.2 million related to amortization of acquired intangible assets, $56.7 million of depreciation and amortization expense and $92.9 million of stock-based compensation expense. A significant working capital change contributing to positive cash flow in the six months ended August 2, 2008 was the decrease in inventories of $103.3 million. The decrease in inventories was primarily due to the completion of contractual obligations under the original supply agreement with Intel as well as concentrated efforts to reduce inventory levels. The number of days in inventory decreased to 72 days as of August 2, 2008 compared to 80 days as of July 28, 2007. Also contributing to the increase in cash flows was a decrease in prepaid expenses and other assets of $42.8 million primarily due to the utilization of prepaid foundry capacity and prepaid wafers. In addition, accrued employee compensation increased $10.0 million due primarily to an increase in accrued vacation, accrued salaries due to timing of the payroll cycle and to accrued bonuses.

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Significant working capital changes offsetting positive cash flows for the six months ended August 2, 2008 included an increase in accounts receivable of $138.6 million due primarily to the timing of revenue recorded toward the end of the quarter as well as timing of payments received from customers. Days sales outstanding (DSO) increased to 50 days for the six months ended August 2, 2008 compared to 49 days for the six months ended July 28, 2007. Many of our larger customers have regularly scheduled payment dates that fall immediately before or after our fiscal quarter-end. As a result, our accounts receivable balance and DSO may fluctuate depending on the timing of large payments made by our customers. Also contributing to the use of cash in operating activities was a decrease in accrued liabilities and other of $34.0 million. The decrease in accrued liabilities and other was attributable to decreases in accrued contingent consideration and accrued sales rebates. Restricted cash increased $24.5 million due to proceeds from settlement with our directors and officers insurance carriers with the settlement requiring the proceeds to be used towards the consolidated derivative actions settlement and any future class action securities litigation settlement.

Significant working capital changes contributing to the use of cash in operating activities for the six months ended July 28, 2007 included an increase in inventories of $88.7 million from inventory purchase commitments and build up of inventory to support increased revenue levels. Also contributing to the use of cash in operating activities was an increase in accounts receivable of $28.7 million due primarily to the timing of payments received from our customers. Also contributing to the use of cash in operating activities was a decrease in accrued liabilities and other of $26.2 million due primarily to a reduction in accrued legal expenses and payment of an acquisition contingency.

Significant working capital changes contributing to positive cash flows for the six months ended July 28, 2007 included a decrease in prepaid expense and other assets of $54.0 million due primarily to the utilization of prepaid foundry capacity and prepaid wafers. Also contributing to positive cash flows was an increase in accounts payable of $22.3 million due to the increase in overall activity and the increase in inventory.

Net Cash Used in Investing Activities

Net cash used in investing activities was $34.2 million for the six months ended August 2, 2008 compared to $148.2 million for the six months ended July 28, 2007. The net cash used in investing activities in the six month ended August 2, 2008 was due to purchases of property and equipment of $46.5 million and purchases of investments of $10.2 million, partially offset by sales and maturities of investments of $23.8 million. The net cash used in investing activities for the six months ended July 28, 2007 was due to purchases of short-term investments of $113.7 million, purchases of property and equipment of $64.5 million and purchases of technology licenses of $16.9 million, partially offset by sales and maturities of short-term investments of $50.0 million.

Net Cash Used in Financing Activities

Net cash used in financing activities was $35.3 million for the six months ended August 2, 2008 compared to $4.9 million for the six months ended July 28, 2007. For the six months ended August 2, 2008 and July 28, 2007, net cash used in financing activities was attributable to principal payments on debt obligations and capital leases partially offset by proceeds from the issuance of common shares under our stock option plans.

Contractual Obligations and Commitments

In connection with the acquisition of the communications and applications processor business of Intel, we entered into a product supply agreement with Intel. Although we have met the contractual obligations under the original supply agreement and have transitioned certain products to our fabrication partners, we anticipate that we will continue to source certain legacy application processor cellular and handset inventory from Intel. Under terms of an amendment to the supply agreement, we have committed to purchase an additional minimum number of wafers through December 2008. The amendment had no impact on the accounting for the original acquisition. As of August 2, 2008, we had non-cancellable purchase orders outstanding of $17.1 million under the amended arrangement.

Under our manufacturing relationships with our other foundries, cancellation of outstanding purchase orders is allowed but requires repayment of all expenses incurred through the date of cancellation. As of August 2, 2008, these foundries had incurred approximately $188.4 million of manufacturing expenses on our outstanding purchase orders.

On February 28, 2005 and as amended on March 31, 2005, we entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, we agreed to pay the foundry $174.2 million over a period of 18 months. The amendment extends the term of the agreement and the agreed upon pricing terms until December 31, 2015. As of August 2, 2008, payments totaling $174.2 million

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(included in prepaid expenses and other current assets and other non-current assets) had been made and approximately $140.2 million of the prepayment had been utilized as of August 2, 2008. At August 2, 2008, there were no outstanding commitments under the agreement.

As of August 2, 2008, we had approximately $49.8 million of other outstanding non-cancelable purchase orders for capital purchase obligations.

As a result of a facility consolidation in February 2002, we obtained a sublease on one of our facilities that had a non-cancelable lease. Actual sublease income has approximated estimated sublease income, but was less than our actual lease commitment, resulting in future negative cash flow over the remaining term of the sublease. As of August 2, 2008, cash payments of $11.8 million, net of sublease income, have been made in connection with this sublease. Approximately $1.5 million remains accrued for this facilities consolidation charge as of August 2, 2008 of which $0.6 million is current and $0.9 million is long-term, payable through 2010.

We currently intend to fund our short and long-term capital requirements, as well as our liquidity needs, with existing cash, cash equivalents and short-term investment balances as well as cash generated by operations. We believe that our existing cash, cash equivalents and short-term investment balances will be sufficient to meet our working capital needs, capital requirements, investment requirements and commitments for at least the next 12 months. However, our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects, costs of making improvements to facilities and increases in operating expenses, which are all subject to uncertainty. To the extent that our existing cash, cash equivalents and short-term investment balances and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may enter into additional acquisitions or other strategic arrangements in the future, which could also require us to seek additional debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. Additional funds may not be available on terms favorable to us or at all.

The following table summarizes our contractual obligations as of August 2, 2008 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Period						
	2009 (remaining six months)	**2010**	**2011**	**2012**	**2013**	**There-after**	**Total**
Contractual obligations:							
Operating leases	$ 28,399	$ 38,842	$ 27,842	$ 16,979	$ 10,136	$ 10,441	$ 132,639
Capital lease obligations	1,257	2,085	2,084	521			5,947
Purchase commitments to foundries	205,504						205,504
Capital purchase obligations	49,792						49,792
Long-term debt obligations	2,162	290,750					292,912
Total contractual cash obligations	$ 287,114	$ 331,677	$ 29,926	$ 17,500	$ 10,136	$ 10,441	$ 686,794

Included in operating lease commitments are lease payments for computer aided design software license agreements and airplane lease commitments.

Our total unrecognized tax benefits under FIN 48 as of August 2, 2008 and February 2, 2008 were $118.3 million and $109.7 million, respectively. There was an overall $8.6 million net increase in our unrecognized tax benefits, penalties and interest during the six months ended August 2, 2008 as discussed above in Note 10 Income Taxes of the notes to our unaudited condensed consolidated financial statements. At this time, we are unable to make a reasonably reliable estimate of the amount of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

In November 2006, we borrowed $400.0 million from a group of lenders in the form of term loans to partially finance the acquisition of the communications and applications processor business of Intel. The credit agreement contains customer covenants including financial covenants with which we were in compliance as of August 2, 2008. We pay interest and principal amounts equal to 0.25% of the aggregate principal amount of loans on a quarterly basis on the last business day of each March, June, September and December. The loan is repayable in November 2009. We may repay the term loans in part or in full at any time without premium or penalty. During the three months ended August 2, 2008, we paid an additional principal amount of $100.0 million.

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Prospective capital needs: We believe that our existing cash, cash equivalents and marketable securities, together with cash generated from operations and from exercise of employee stock options will be sufficient to cover our working capital needs, capital expenditures, investment requirements and commitments for at least the next 12 months. However, we are named as defendants to several litigation actions and an unfavorable outcome in such actions could have a material adverse effect on our cash flows, including potential impacts to certain covenants under our existing credit agreement. In the event that we may need or desire to raise additional funds to prepay our term loan obligation or consummate acquisitions of other businesses, assets, products or technologies, we could raise such funds by electing to sell equity or debt securities to the public or to selected investors, or by borrowing money from financial institutions. Our existing credit agreement however limits our ability to borrow additional funds as certain covenants would have to be met.

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. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

Off-Balance Sheet Arrangements

As of August 2, 2008, we did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). The objective of SFAS 141 is to improve the relevance, representational faithfulness, and comparability of the information that a company provides in its financial reports about a business combination and its effects. Under SFAS 141R, a company is required to recognize the assets acquired, liabilities assumed, contractual contingencies and any estimate or contingent consideration measured at their fair value at the acquisition date. It further requires that research and development assets acquired in a business combination that have no alternative future use be measured at their acquisition-date fair value and then immediately charged to expense, and that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. Among other changes, this statement also requires that any negative goodwill be recognized in earnings as a gain attributable to the acquisition, and any deferred tax benefits resulting from a business combination be recognized in income from continuing operations in the period of the combination. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect that SFAS 141R will have an impact on our financial position and results of operations, but the nature and magnitude of the impact will depend on the nature, terms and size of any future business combinations or adjustments to prior business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a company provides in its consolidated financial statements. SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or

loss on the deconsolidation of the subsidiary be measured at fair value. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect SFAS 160 will have a significant impact on our financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157, (FSP 157-2), to partially defer SFAS No. 157, Fair Value Measurements (SFAS 157). FSP 157-2 defers the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. We do not believe the adoption of FSP 157-2 will have a material impact on our financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and

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Hedging Activities and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We will adopt SFAS 161 in the first quarter of fiscal 2010 and do not anticipate that SFAS 161 will have a significant impact on our financial position and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, Determination of Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. We do not anticipate that FSP FAS 142-3 will have a significant impact on our financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 will become effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. We do not anticipate the adoption of SFAS 162 will have a significant impact on its financial position and results of operations.

Related Party Transactions

During fiscal 2008, we incurred $0.1 million of expenses from an unrelated third-party entity, ACM Aviation, Inc. (ACM) for charter aircraft services provided to Marvell Semiconductor, Inc. (MSI) for Estopia Air LLC (Estopia Air). The aircraft provided by ACM to us for such services is owned by Estopia Air. Our President and Chief Executive Officer, Dr. Sehat Sutardja and Vice President of Sales for Communications and Consumer Business of MSI, Weili Dai, through their control and ownership in Estopia Air, own the aircraft provided by ACM. Dr. Sutardja and Weili Dai are husband and wife. During the three months ended August 2, 2008 and July 28, 2007, we incurred no expense, respectively of expenses from ACM, for charter aircraft services provided to MSI. During the six months ended August 2, 2008 and July 28, 2007, the Company incurred none and $73,000, respectively, of expenses from ACM, for charter aircraft services provided to MSI.

On August 19, 2005, through our subsidiaries MSI and Marvell International Ltd. (Marvell International), we entered into a License and Manufacturing Services Agreement (the License Agreement) with C2 Microsystems, Inc. (C2Micro). The License Agreement has substantially similar terms as other license and manufacturing services agreements with other third parties. We recognized $1.4 million of revenue under the License Agreement with C2Micro during the three months ended August 2, 2008, $9,000 of revenue during the three months ended July 28, 2007, $2.6 million of revenue during the six months ended August 2, 2008 and $39,000 revenue during the six months ended July 28, 2007. As of August 2, 2008, we had a receivable of $1.4 million from C2Micro. Sehat Sutardja, Ph.D., and Weili Dai, through their ownership and control of Estopia LLC (Estopia), are indirect shareholders of C2Micro. Kuo Wei (Herbert) Chang, a member of our board of directors, is a member of the Board of Directors of C2Micro and through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2Micro. Dr. Pantas Sutardja, our Vice President, Chief Technology Officer, Acting Chief Operating Officer and Chief Research and Development Officer, is also a shareholder of C2Micro.

On January 8, 2007, through Marvell International, we entered into a Library/IP/Software Evaluation License Agreement (the Evaluation License Agreement) with VeriSilicon Holdings Co., Ltd. (VeriSilicon). The Evaluation License Agreement has no consideration. We incurred $43,000 and $119,000 of royalty expense from VeriSilicon under a core license agreement assumed from our acquisition of the semiconductor design business of UTStarcom, Inc. during the three months ended August 2, 2008 and July 28, 2007, respectively. We also incurred $109,000 and $191,000 of royalty expense from VeriSilicon under a core license agreement assumed from our acquisition of the semiconductor design business of UTStarcom, Inc. during the six month ended August 2, 2008 and July 28, 2007, respectively. Weili Dai s brother (and Dr. Sehat Sutardja s brother-in-law) is the Chairman, President and Chief Executive Officer of VeriSilicon. Ms. Dai is also a shareholder of VeriSilicon.

On October 31, 2007, we entered into a License Agreement with Vivante Corporation (Vivante). The License Agreement has substantially similar terms as other license agreements with other third parties. We recorded none and $0.2 million of expense during the three and six months ended August 2, 2008, respectively, in connection with the License Agreement with Vivante. Dr. Sehat

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Sutardja and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of Vivante. In addition, Dr. Sehat Sutardja is also a direct shareholder and Chairman of the board of directors of Vivante. Weili Dai s brother (and Dr. Sehat Sutardja s brother-in-law) is the Chief Executive Officer of Vivante. Kuo Wei (Herbert) Chang, a member of our Board of Directors, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of Vivante.