MARVELL TECHNOLOGY GROUP LTD
Form 10-Q
November 23, 2010
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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 October 30, 2010

or

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

For the transition period from ______ to ______

Commission file number: 000-30877

Marvell Technology Group Ltd.

(Exact name of registrant as specified in its charter)

Bermuda	**77-0481679**
(State or other jurisdiction of 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 ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ 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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of common shares of the registrant outstanding as of November 12, 2010 was 650.5 million shares.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

MARVELL TECHNOLOGY GROUP LTD.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	October 30, 2010	January 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,642,894	$ 1,105,428
Short-term investments	1,032,379	691,289
Accounts receivable, net	467,975	356,796
Inventories	227,936	241,541
Prepaid expenses and other current assets	70,395	62,527
Deferred income taxes	8,181	7,964
Total current assets	3,449,760	2,465,545
Property and equipment, net	347,588	342,497
Long-term investments	30,865	34,281
Goodwill	2,000,544	1,997,662
Acquired intangible assets, net	131,122	179,101
Other non-current assets	161,793	151,854
Total assets	$ 6,121,672	$ 5,170,940
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 352,216	$ 283,362
Accrued liabilities	82,431	76,110
Accrued employee compensation	152,279	125,810
Income taxes payable	22,540	19,992
Deferred income	88,216	59,396
Current portion of capital lease obligations	1,011	1,940
Total current liabilities	698,693	566,610
Capital lease obligations, net of current portion		511
Non-current income taxes payable	121,855	117,240
Other long-term liabilities	73,118	68,600
Total liabilities	893,666	752,961
Commitments and contingencies (Note 9)		
Shareholders equity:		

Common stock	1,297	1,277
Additional paid-in capital	4,732,088	4,607,844
Accumulated other comprehensive income (loss)	3,602	(885)
Retained earnings (accumulated deficit)	491,019	(190,257)
Total shareholders equity	5,228,006	4,417,979
Total liabilities and shareholders equity	$ 6,121,672	$ 5,170,940

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		Nine Months Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net revenue	$ 959,327	$ 803,098	$ 2,711,380	$ 1,965,152
Operating costs and expenses:				
Cost of goods sold	390,808	341,617	1,101,475	887,306
Research and development	218,420	212,873	665,742	615,152
Selling and marketing	39,751	35,442	115,037	102,260
General and administrative	29,576	16,660	78,124	148,856
Amortization of acquired intangible assets	21,770	26,450	65,533	83,252
Total operating costs and expenses	700,325	633,042	2,025,911	1,836,826
Operating income	259,002	170,056	685,469	128,326
Interest and other income (expense), net	(1,634)	(1,303)	(1,082)	418
Interest expense	(31)	(70)	(123)	(1,672)
Income before income taxes	257,337	168,683	684,264	127,072
Provision (benefit) for income taxes	1,605	(32,916)	2,988	(21,563)
Net income	$ 255,732	$ 201,599	$ 681,276	$ 148,635
Net income per share:				
Basic	$ 0.39	$ 0.32	$ 1.05	$ 0.24
Diluted	$ 0.38	$ 0.31	$ 1.01	$ 0.23
Weighted average shares:				
Basic	649,782	623,613	646,246	621,057
Diluted	674,789	659,739	676,023	647,863

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)

	Nine Months Ended	
	October 30, 2010	October 31, 2009
Cash flows from operating activities:		
Net income	$ 681,276	$ 148,635
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,991	74,976
Stock-based compensation	87,126	96,040
Amortization of acquired intangible assets	65,533	83,252
Facilities impairment	1,140	
(Gain) loss on investments	9,568	
Fair market value adjustment to acquired inventory sold	(2,391)	(13,883)
Excess tax benefits from stock-based compensation	(669)	(205)
Deferred income taxes	(6,486)	6,131
Changes in assets and liabilities:		
Restricted cash		24,500
Accounts receivable	(111,179)	(172,218)
Inventories	15,856	83,548
Prepaid expenses and other assets	(3,718)	7,559
Accounts payable	63,935	172,062
Accrued liabilities and other	10,785	(13,628)
Accrued employee compensation	26,965	35,149
Income taxes payable	7,163	(29,060)
Deferred income	28,820	27,538
Net cash provided by operating activities	942,715	530,396
Cash flows from investing activities:		
Purchases of investments	(1,023,700)	(426,998)
Sales and maturities of investments	678,738	10,318
Cash paid for acquisition, net	(20,679)	
Purchases of property and equipment	(63,267)	(14,808)
Purchases of technology licenses	(12,649)	(12,550)
Net cash used in investing activities	(441,557)	(444,038)
Cash flows from financing activities:		
Repurchase of common stock	(60,594)	
Proceeds from employee stock plans	97,673	34,749
Principal payments on capital lease obligations	(1,440)	(1,326)
Excess tax benefits from stock-based compensation	669	205
Net cash provided by financing activities	36,308	33,628
Net increase in cash and cash equivalents	537,466	119,986
Cash and cash equivalents at beginning of period	1,105,428	927,409
Cash and cash equivalents at end of period	$ 1,642,894	$ 1,047,395

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 Basis of Presentation

The Company

Marvell Technology Group Ltd., a Bermuda company (the Company), is a leading global semiconductor provider of high-performance application-specific standard products. The Company s core strength of expertise is the development of complex system-on-a-chip devices leveraging its extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing and embedded ARM-based microprocessor integrated circuits. The Company s broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet physical-layer transceiver handheld cellular, Ethernet-based wireless networking, personal area networking, Ethernet-based PC connectivity, control plane communications, powerline communications, video-image processing and power management solutions.

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 2011 and fiscal 2010 are comprised of 52-week periods.

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 October 30, 2010, the results of its operations for the three and nine months ended October 30, 2010 and October 31, 2009, and its cash flows for the nine months ended October 30, 2010 and October 31, 2009. The January 30, 2010 condensed consolidated balance sheet data was derived from audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended January 30, 2010 but does not include all disclosures required for annual periods. Certain reclassifications have been made to conform to the current period s presentation.

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 January 30, 2010 included in the Company s Annual Report on Form 10-K for the year ended January 30, 2010 as filed on March 31, 2010 with the Securities and Exchange Commission. The results of operations for the three and nine months ended October 30, 2010 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, investment fair values, goodwill and other intangible assets, income taxes, revenue recognition 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. 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 intercompany accounts and transactions have been eliminated. The functional currency of the Company and its subsidiaries is the United States dollar.

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Recent Accounting Pronouncements and Accounting Changes

In September 2009, the Financial Accounting Standards Board (the FASB) issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop an estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance was adopted by the Company during the three months ended May 1, 2010, however, as the Company does not generally enter into multiple element arrangements, its adoption did not impact the Company s financial position or results of operations.

In December 2009, the FASB issued revised guidance that amends the consolidation rules related to variable interest entities by replacing the previous quantitative-based analysis with a framework that is based more on qualitative judgments. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design, a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance and a company s obligation to absorb losses or a right to receive benefits that could potentially be significant to the variable interest entity. This guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of the variable interest entity. This guidance became effective during the three months ended May 1, 2010 and its adoption by the Company did not have a material impact on the Company s financial position or results of operations.

In January 2010, the FASB issued guidance that expands the interim and annual disclosure requirements of fair value measurements, including the information about movement of assets between Level 1 and 2 of the three-tier fair value hierarchy established under its fair value measurement guidance. This guidance also requires separate disclosure for purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs using Level 3 methodologies. Except for the detailed disclosure in the Level 3 reconciliation, which is effective for the fiscal years beginning after December 15, 2010, all the other disclosures under this guidance became effective during the three months ended May 1, 2010. The adoption of this guidance did not have a material impact on the Company s financial position or results of operations.

Note 3. Investments

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

	As of October 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale:				
Corporate debt securities	$ 615,870	$ 4,151	$ (120)	$ 619,901
U.S. government and agencies	411,627	856	(5)	412,478
Total short-term investments	$ 1,027,497	$ 5,007	$ (125)	$ 1,032,379
Long-term investments:				
Available-for-sale:				
Auction rate securities	$ 32,950	$	$ (2,085)	$ 30,865
Total long-term investments	$ 32,950	$	$ (2,085)	$ 30,865
Total investments	$ 1,060,447	$ 5,007	$ (2,210)	$ 1,063,244

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of January 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Available-for-sale:				
Corporate debt securities	$ 227,610	$ 934	$ (75)	$ 228,469
U.S. government and agencies	457,592	258	(30)	457,820
Trading securities:				
Auction rate security and settlement option	5,000			5,000
Total short-term investments	$ 690,202	$ 1,192	$ (105)	$ 691,289
Long-term investments:				
Available-for-sale:				
Auction rate securities	$ 36,600	$	$ (2,319)	$ 34,281
Total long-term investments	$ 36,600	$	$ (2,319)	$ 34,281
Total investments	$ 726,802	$ 1,192	$ (2,424)	$ 725,570

As of October 30, 2010, the Company s investment portfolio included $33.0 million in par value of auction rate securities. Beginning in February 2008, liquidity issues in the global credit markets resulted in a failure of auction rate securities, as the amount of securities submitted for sale in those auctions exceeded the amount of bids. To estimate the fair value of the auction rate securities since that time, the Company used a discounted cash flow model based on estimated timing and amount of future interest and principal payments, credit quality of the underlying securities and illiquidity considerations, the collateralization of underlying security investments, the credit worthiness of the issuer of the securities, the probability of full repayment and other considerations. As of October 30, 2010, the fair value of auction rate securities was $2.1 million less than par value and was recorded in long-term investments.

Based on the Company s assessment of its cash flow projections, a balance of approximately $2.7 billion in cash, cash equivalents and short-term investments other than auction rate securities and the fact that the Company continues to generate positive cash flow on a quarterly basis, the Company does not anticipate having to sell these securities below par value in order to operate its business. The Company does not have the intent to sell these auction rate securities until recovery and it is more likely than not that it will not be required to sell the auction rate securities prior to recovery. Thus, the Company considers the impairment to be temporary and recorded the unrealized loss to accumulated other comprehensive income (loss) (AOCI), a component of shareholders equity.

The contractual maturities of available-for-sale and trading debt securities excluding cash and cash equivalents at October 30, 2010 and January 30, 2010 are presented in the following table (in thousands):

	October 30, 2010		January 30, 2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 480,209	$ 480,923	$ 357,179	$ 357,348
Due between one and five years	547,288	551,456	333,023	333,941
Due in over five years	32,950	30,865	36,600	34,281

$ 1,060,447	$ 1,063,244	$ 726,802	$ 725,570

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MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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):

	October 30, 2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Federal and State debt securities	$ 44,747	$ (5)	$	$	$ 44,747	$ (5)
Corporate debt securities	88,005	(120)			88,005	(120)
Auction rate securities			30,865	(2,085)	30,865	(2,085)
Total securities	$ 132,752	$ (125)	$ 30,865	$ (2,085)	$ 163,617	$ (2,210)

	January 30, 2010					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Federal and State debt securities	$ 94,220	$ (30)	$	$	$ 94,220	$ (30)
Corporate debt securities	28,428	(75)			28,428	(75)
Auction rate securities			34,281	(2,319)	34,281	(2,319)
Total securities	$ 122,648	$ (105)	$ 34,281	$ (2,319)	$ 156,929	$ (2,424)

Note 4. Supplemental Financial Information (in thousands)

Inventories

	October 30, 2010	January 30, 2010
Work-in-process	$ 128,876	$ 128,371
Finished goods	99,060	113,170
Inventories	$ 227,936	$ 241,541

Property and equipment, net

	October 30, 2010	January 30, 2010
Machinery and equipment	$ 422,612	$ 371,281
Computer software	74,176	66,643

Furniture and fixtures	23,439	23,335
Leasehold improvements	33,269	33,224
Buildings	144,596	146,294
Building improvements	40,940	45,631
Land	69,246	71,198
Construction in progress	4,925	5,174
	813,203	762,780
Less: Accumulated depreciation and amortization	(465,615)	(420,283)
Property and equipment, net	$ 347,588	$ 342,497

MARVELL TECHNOLOGY GROUP LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current assets

	October 30, 2010	January 30, 2010
Severance fund	$ 60,411	$ 57,261
Deferred tax assets, non-current	40,907	34,638
Technology licenses	33,163	33,486
Long-term prepayments for foundry capacity	8,940	8,504
Equity investments in privately held companies	8,064	6,314
Other	10,308	11,651
Other non-current assets	$ 161,793	$ 151,854

Accrued liabilities

	October 30, 2010	January 30, 2010
Accrued rebates	$ 24,862	$ 13,404
Accrued royalties	14,839	