MARVELL TECHNOLOGY GROUP LTD
Form 10-Q
July 02, 2007

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 28, 2006

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 Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o Yes x No

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

Large accelerated filer x Accelerated filer o Non-accelerated filer 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 shares of the registrant s common stock outstanding as of May 31, 2007 was 587,591,437 shares.

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Explanatory Note

In this Form 10-Q, we are restating our consolidated financial statements and related disclosures as of January 28, 2006 and for the three and nine months ended October 29, 2005. This Form 10-Q also reflects the restatement of Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 for the third quarter of fiscal 2006, Controls and Procedures in Item 4 and new management certifications.

For more information regarding our internal review of historical stock option practices and related accounting matters and the restatement of stock-based compensation and other items, please refer to Note 1, Restatement of Consolidated Financial Statements to Item 1, Financial Statements and Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations . For more information regarding the deficiencies noted in the internal review relating to stock option practices and our remedial measures, refer in Part I to Management s Discussion and Analysis of Financial Condition and Results of Operation in Item 2 and Controls and Procedures in Item 4.

We have not amended any of our other previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q for the periods affected by the restatement except for the Form 10-Q/A concurrently filed with this Form 10-Q for the first quarter of fiscal 2007. Consequently, the consolidated financial statements and related financial information contained in such previously filed reports should no longer be relied upon. Our Form 10-K for fiscal year ended January 27, 2007 includes the restatement of all periods through the first quarter of fiscal 2007.

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PART I: FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	October 28, 2006	January 28, 2006 (restated) (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 839,441	$ 348,431
Short-term investments	36,231	572,591
Accounts receivable, net of allowances of $3,549 and $3,028	294,216	245,164
Inventories	227,872	211,374
Prepaid expenses and other current assets	103,479	104,307
Deferred income taxes	3,945	3,945
Total current assets	1,505,184	1,485,812
Property and equipment, net	366,731	260,921
Goodwill	1,654,376	1,558,209
Acquired intangible assets	224,342	111,973
Other noncurrent assets	151,809	87,591
Total assets	$ 3,902,442	$ 3,504,506
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 199,677	$ 196,606
Accrued liabilities	78,186	34,905
Accrued employee compensation	62,408	59,177
Income taxes payable	28,006	24,394
Deferred income	31,672	29,773
Current portion of capital lease obligations	19,443	16,563
Total current liabilities	419,392	361,418
Capital lease obligations, net of current portion	23,748	24,447
Non-current income taxes payable	110,845	86,545
Other long-term liabilities	35,701	24,871
Total liabilities	589,686	497,281
Commitments and contingencies (Note 7)		
Shareholders equity:		
Common stock, $0.002 par value; 992,000 shares authorized; 587,423 and 582,776 shares issued and outstanding	1,175	1,165
Additional paid-in capital	3,747,626	3,634,239
Deferred stock-based compensation		(61,987)
Accumulated other comprehensive loss	(102)	(1,759)
Accumulated deficit	(435,943)	(564,433)
Total shareholders equity	3,312,756	3,007,225
Total liabilities and shareholders equity	$ 3,902,442	$ 3,504,506

(1) See Note 1 Restatement of Consolidated Financial Statements

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended October 28, 2006	October 29, 2005 (restated) (1)	Nine Months Ended October 28, 2006	October 29, 2005 (restated) (1)
Net revenue	$ 520,398	$ 426,026	$ 1,615,579	$ 1,181,250
Operating costs and expenses:				
Cost of goods sold	256,090	197,580	775,398	558,816
Research and development and other	152,939	83,043	434,812	249,098
Selling and marketing	37,875	23,129	116,004	71,290
General and administrative	40,427	11,833	78,674	38,851
Amortization of acquired intangible assets	27,405	19,746	72,161	59,258
Total operating costs and expenses	514,736	335,331	1,477,049	977,313
Operating income	5,662	90,695	138,530	203,937
Interest and other income, net	6,845	5,244	15,552	13,240
Income before income taxes	12,507	95,939	154,082	217,177
Provision for income taxes	6,461	12,584	34,438	32,776
Income before change in accounting principle	6,046	83,355	119,644	184,401
Cumulative effect of change in accounting principle, net of tax effect			8,846	
Net income	$ 6,046	$ 83,355	$ 128,490	$ 184,401
Basic income per share:				
Income before change in accounting principle	$ 0.01	$ 0.15	$ 0.20	$ 0.33
Cumulative effect of change in accounting principle, net of tax effect			0.02	
Basic net income per share	$ 0.01	$ 0.15	$ 0.22	$ 0.33
Shares used in basic per share computation	587,348	567,310	585,728	562,243
Diluted income per share:				
Income before change in accounting principle	$ 0.01	$ 0.13	$ 0.19	$ 0.29
Cumulative effect of change in accounting principle, net of tax effect			0.01	
Diluted net income per share	$ 0.01	$ 0.13	$ 0.20	$ 0.29
Shares used in diluted per share computation	628,104	632,424	633,718	626,673

(1) See Note 1 Restatement of Consolidated Financial Statements

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 28, 2006	October 29, 2005 (restated) (1)
Cash flows from operating activities:		
Net income	$ 128,490	$ 184,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle, net	(8,846)	
Depreciation and amortization	52,519	41,840
Stock-based compensation	146,494	48,794
Amortization of acquired intangible assets	72,161	59,258
Excess tax benefits from stock-based compensation	(889)	
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(49,052)	(52,383)
Inventories	10,306	(21,040)
Prepaid expenses and other assets	(51,790)	(105,044)
Accounts payable	3,072	60,441
Accrued liabilities and other	13,772	3,358
Accrued employee compensation	(767)	4,901
Income taxes payable	29,092	29,562
Deferred income	1,899	9,854
Net cash provided by operating activities	346,461	263,942
Cash flows from investing activities:		
Cash paid in acquisitions	(282,978)	
Purchases of short-term investments	(266,938)	(490,811)
Sales and maturities of short-term investments	804,902	533,876
Acquisition costs	(4,233)	
Purchases of property and equipment	(121,412)	(62,309)
Purchases of technology licenses	(8,029)	
Net cash provided by (used in) investing activities	121,312	(19,244)
Cash flows from financing activities:		
Proceeds from the issuance of common stock	36,035	65,732
Principal payments on capital lease obligations	(13,687)	(12,042)
Excess tax benefits from stock-based compensation	889	
Net cash provided by financing activities	23,237	53,690
Net increase in cash and cash equivalents	491,010	298,388
Cash and cash equivalents at beginning of period	348,431	166,471
Cash and cash equivalents at end of period	$ 839,441	$ 464,859
Supplemental cash flows information:		
Acquisition of property and equipment under capital lease obligations	$ 15,868	$ 19,797
Long-term leased assets under construction	$ 7,000	$ 14,750
Elimination of deferred stock-based compensation due to adoption of FAS 123R	$ 61,986	$

(1) See Note 1 Restatement of Consolidated Financial Statements

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. Restatement of Consolidated Financial Statements

Background

On about May 23, 2006, the Company s Chief Executive Officer initiated a review of the Company s past stock option granting practices. Then on May 25, 2006, the Board appointed a committee, chaired by and consisting solely of an independent and disinterested member of the Audit Committee who had no prior involvement in the stock option process, to conduct the internal review of the Company s historical stock option practices and related accounting matters. This committee retained outside legal counsel at the time to assist with this internal review. In June and July 2006, this committee identified various stock option grants as having been potentially selected with the benefit of hindsight. During this time the Company was also named as a nominal defendant, and a number of the Company s current and former directors and officers were named as defendants, in purported shareholder derivative actions.

During this time, the Company was informed that its outside legal counsel at the time could not represent both the independent committee and the Company, particularly if that independent committee was going to evaluate and address matters raised by the derivative actions. The Company s Board met on July 19, 2006 and appointed a successor special committee, titled the Special Committee Regarding Derivative Litigation, to assume responsibility for the stock option review and to evaluate and address matters raised by the derivative action (the Special Committee). The same independent director continued as the sole member of the Special Committee and, after consideration of a number of firms, selected new, independent counsel to represent the Special Committee. The Special Committee subsequently retained a second independent law firm (collectively Independent Counsel). Independent Counsel retained forensic accounting experts to assist in the internal review.

The Special Committee reported its preliminary findings on quantitative issues to the Audit Committee and the Board on September 28, 2006. Based on the report of the Special Committee, and upon the recommendation of management and the Audit Committee, the Board concluded on October 2, 2006, that the Company would need to restate historical financial statements to record additional non-cash charges for stock-based compensation expense related to past option grants and that the historical financial statements and all earnings press releases and similar communications issued by the Company relating to periods beginning on or after its initial public offering in June 2000 should no longer be relied upon. The Company reported these conclusions in a current report on Form 8-K filed on the same day.

On February 7, 2007, the former General Counsel of the U.S. subsidiary, Marvell Semiconductor, Inc. (MSI), who was a subject of the internal review, raised allegations regarding the independence of the sole member of the Special Committee. The Audit Committee thereafter formed a subcommittee consisting of the Chairman of the Audit Committee to investigate the matter. The subcommittee appointed a former federal judge to serve as independent reviewer for the subcommittee who in turn retained independent counsel. Although the independent reviewer made no findings as to the truth of the allegations themselves and expressed substantial doubt regarding the credibility of the allegations, he nevertheless concluded that the independent director should step down from the Special Committee to ensure compliance with the stringent independence standards developed by courts reviewing the independence of special litigation committees formed to assess the merits of shareholder derivative litigation. The subcommittee also found that the General Counsel violated the Company s Code of Ethics and Business Conduct for not reporting the allegations timely. The subcommittee accepted the findings of the independent reviewer. The Company has since terminated the General Counsel for the violation. On March 30, 2007, the independent director resigned from the Special Committee and the Board appointed two independent non-director members to the Special Committee to continue the review of the Company s historical stock option practices and related accounting matters, which action is permitted under the Company s bye-laws. As a result, the Special Committee thereafter consisted of two non-directors.

On April 27, 2007, the Special Committee reported its findings to the Board of Directors and to the Implementation Committee, which consists of three independent members of the Board. The Implementation Committee was formed by the Board on April 26, 2007 to make such decisions and take such action as the committee determines to be appropriate in light of the Special Committee s findings and recommendations. On May 8, 2007, the Company disclosed on Form 8-K the completion of the independent review.

Findings of the Special Committee

From the Company s initial public offering through June 9, 2006 (the Relevant Period), option grants awarded to employees who were not then executive officers, as defined in Section 16 of the Securities Exchange Act of 1934, as amended (Section 16

Officers), were awarded either by the Board of Directors or the Stock Option Committee of the Board. The Stock Option Committee was formed by the Board of Directors in December 2000 and consisted of the Chief Executive Officer and the former Executive Vice President and Chief Operating Officer. Pursuant to authority delegated by the Board of Directors under Marvell s 1995 Stock Option Plan, the Stock Option Committee was empowered to act jointly. The Stock Option Committee awarded all grants to non-executive employees after its formation until June 9, 2006.

The Special Committee concluded that only one member of the Stock Option Committee was actively involved in the grant approval process. Of the 59 minutes of meetings of the Stock Option Committee, all of which were prepared by or under the direction of the former General Counsel of MSI, only the first set of minutes were separately prepared for each member s signature and signed by each of them; subsequently the minutes were only prepared for one member to sign and only one member signed those minutes. Additionally, the Special Committee determined that the Stock Option Committee conducted no meetings with respect to option grants and that minutes reflecting such meetings were false.

The Special Committee determined that in a substantial number of instances grant dates were chosen by management with the benefit of hindsight, so as to provide exercise prices lower than the fair market value on the actual measurement date.

In addition to the foregoing, the review determined that false employee-related paperwork was employed to reflect start dates that preceded the actual first day of employment, and to reflect secondary grant authorizations as if they occurred on dates prior to the original grant date, which facilitated giving the employees favorable prices.

From the Company s initial public offering in June 2000 through February 28, 2002, grants to the former Chief Financial Officer were awarded only by the Stock Option Committee. The Stock Option Committee was not advised that it lacked the authority to make such awards. Furthermore, the first award made to the former Chief Financial Officer by the Executive Compensation Committee dated October 16, 2002 was backdated and the Special Committee found that the former General Counsel misled the Executive Compensation Committee with respect to the facts and circumstances surrounding the grant, including the grant date.

During the Relevant Period, option grants to Section 16 Officers and members of the Board of Directors were approved by the Board of Directors or the Executive Compensation Committee or made pursuant to the Automatic Director Grant Program under the 1997 Director s Stock Option Plan. In the absence of a meeting, grant approvals by the Executive Compensation Committee were documented via written consents, which were dated as of a specified date but signed at a later time. The Executive Compensation Committee comprised three to four independent members of the Board over the Relevant Period. The Special Committee found that current board members who had served or are serving on the Executive Compensation Committee had not engaged in impropriety or intentional backdating with the benefit of hindsight.

The Special Committee found evidence of recommendations made by representatives of Human Resources and Finance and the Company s external auditors between 2000 and 2004 to grant options on fixed grant dates In August 2004, the Company implemented revisions to the Company s stock the Company s option grant processes and procedures for new hire and secondary grants that generally followed a fixed grant date schedule.

For the period from the Company s initial public offering in June 2000 through June 2006, the Special Committee found a systemic failure in controls over the stock option process, and that corporate documents, including the Company s SEC filings on Form 10-K and Form 10-Q, and proxy statements, were false in relation to the accounting and related disclosure covering stock option matters.

The Special Committee found that certain individuals had varying degrees of responsibility for the lack of controls and the inappropriate grant practices. As to the following individuals, the Special Committee concluded among other things:

Matthew Gloss, MSI s corporate counsel from April 2000 until February 2001 and thereafter its Vice President and subsequently, General Counsel until his termination in March 2007, failed to properly advise upper management, including Dr. Sutardja and Ms. Dai, about their responsibilities and duties regarding stock options and other financial filings. The minutes of the Stock Option Committee were prepared by or at the direction of Matthew Gloss. Mr. Gloss was also found to have misled the Executive Compensation Committee by creating false minutes and unanimous written consents including in one instance adding or directing the addition of a grant date to a unanimous written consent after that unanimous written consent was executed, or by creating minutes that were incomplete, inaccurate or misleading. He also failed to establish proper controls over the stock option process despite being on notice of various control problems.

George A. Hervey, MSI s Vice President and Chief Financial Officer throughout the Relevant Period until his resignation in May 2007, failed to properly advise upper management, including Dr. Sutardja and Ms. Dai, about their responsibilities and duties regarding stock options and other financial filings. Mr. Hervey also was found to have been aware of awarding options to two employees prior to their start date. He also failed to establish a system of proper controls despite being on notice of repeated concerns

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raised by others regarding the stock option process. He signed inaccurate external documents, including the Company s SEC filings and financial statements.

Weili Dai, the Company s former Board member, who served as Executive Vice President and General Manager of the Communications **Business Group from 1999 to April 2006** and thereafter also as Chief Operating Officer until she resigned from such positions in May 2007, played a central role in all Stock Option Committee grants. Ms. Dai participated in the selection of grant dates with the benefit of hindsight and signed false minutes and other employee related corporate documents. The Special Committee also found that she failed to establish proper internal controls and failed to exercise proper review and inquiry as an officer. Certain individuals involved in the process said that they did not feel able to provide her with frank advice. She signed inaccurate external documents, including 10 K s and proxy statements. She did not personally benefit from any of the grants she approved.

Dr. Sehat Sutardja, the Company s Chairman of the Board, President and Chief Executive Officer, was found to have had a limited role in the stock option process and to have participated in only a few instances in awards with incorrect measurement dates with respect to which he had received no or inadequate advice. He signed inaccurate external documents, including the Company s SEC filings, financial statements, and proxy statements. The Special Committee found that he failed to establish proper internal controls and that certain individuals involved in the process to some extent did not feel able to provide him with frank advice. He did not personally benefit from any of the grants he approved.

Remediation

With respect to the following employees, the Special Committee made recommendations, and Marvell s Implementation Committee has implemented or is in the process of implementing the following remedial steps:

The Company accepted the resignation of George A. Hervey on May 2, 2007. All unvested stock options previously awarded to him were cancelled.

The Implementation Committee of the Board of Directors determined, contrary to the recommendation of the Special Committee, that Ms. Dai have no continuing role with the Company, that retaining the services of Ms. Dai in a substantially reduced capacity as Director of Strategic Marketing and Business Development, an individual contributor in a non-managerial role, and under the auspices of the Implementation Committee better serves the interests of all shareholders. Ms. Dai will have no authority to undertake any decisions affecting internal controls or financial matters of the Company. The Implementation Committee will provide periodic compliance updates to the Board of Directors on Ms. Dai s activities. Additionally, all of Ms. Dai s outstanding options that were unvested as of May 6, 2007 have been cancelled and the exercisability of already vested options have been limited, notwithstanding her continued employment.

Dr. Sehat Sutardja will remain as President and Chief Executive Officer and as a member of the Board, but will step down as Chairman of the Board in favor of a non-executive Chairman. Dr. Sutardja agreed to reduce the number of shares received in his December 26, 2003 option grant by 500,000 pre-split shares (2,000,000 post-split shares), which is the amount of underlying shares mistakenly awarded by the Executive Compensation Committee in excess of that authorized under the applicable stock option plan.

In April 2007, the Stock Option Committee was formally dissolved; however, it ceased to function during June 2006 and has granted no options since that time. Currently, the Executive Compensation Committee, comprising two independent Board members, holds periodic meetings to approve equity award grants. The process requires that any proposed equity awards be reviewed in advance by the Human Resources, Legal, Finance and Internal Audit Departments, and requires communication of the details of proposed equity awards to committee members prior to each monthly meeting, as well as awarding recipients promptly after the meeting. Equity awards are priced and valued based upon the closing price of our common stock on the date of the meeting. Decisions of the committee meeting are documented by minutes. Additionally, the Executive Compensation Committee adopted a policy regarding the granting of equity-based compensation awards. Following the Special Committee s recommendations, we are conducting a search for a new Chief Operating Officer, Chief Financial Officer, General Counsel and Vice President of Compliance. Additionally, the Board s Governance Committee is conducting a search for three new independent directors to fill existing vacancies. One of these independent directors will succeed Dr. Sutardja as Chairman of the Board.

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Pre-tax Financial Impact of the Equity Award Review

Approximately 74% of shares granted during the Relevant Period were backdated or resulted in additional accounting charges. Of these re-measured grants, the stock prices on the original grant date were lower than the prices on the appropriate measurement dates for 97% of such shares. Substantially all options granted (99% of shares granted during the Relevant Period) have been evaluated for appropriate re-measurement dates under Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25).

The types of grant discrepancies uncovered by the internal review (by both the Special Committee and management) and the additional pre-tax stock-compensation expense arising from these adjustments, quantified under APB 25 for periods through fiscal 2006, are summarized as follows (in thousands):

	Cumulative through January 28, 2006	**Year Ended January 28, 2006**	**Year Ended January 29, 2005**	**Year Ended January 31, 2004**	**Year Ended February 1, 2003**	**Year Ended February 2, 2002**	**Year Ended January 27, 2001 and prior**
Board of Director Grants (a)	$ 1	$ 1	$	$	$	$	$
Officer Grants (b)	19,577	6,317	12,023	836	270	127	4
Re-priced Officer Grants (c)	39,658	24,827	9,888	4,943			
New Hire Grants effective hire dates (d)	19,879	249	1,530	2,729	4,754	7,278	3,339
Other New Hire (e)	49,876	5,313	13,235	13,437	10,322	7,061	508
Secondary Grants (e)	18,165	2,360	3,713	3,016	4,432	3,975	669
Re-priced New Hire Grants (f)	100,575	49,798	23,727	25,254	(1,885)	3,681	
Evergreen Grants (g)	60,838	9,870	11,082	12,634	17,911	9,312	29
Non-employee Grants * (h)	8,800	121	486	1,166	(264)	1,884	5,407
Termination related charges (i)	10,006						10,006
	$ 327,375	$ 98,856	$ 75,684	$ 64,015	$ 35,540	$ 33,318	$ 19,962

*The restated financial statements include charges for non-employee grants of $1,062,000 for fiscal 2000, $139,000 for fiscal 1999, $41,000 for fiscal 1998, $12,000 for fiscal 1997 and $1,000 for fiscal 1996.

(a) Board of Director Grants: Non-employee directors receive initial and annual grants in their capacity as directors. A grant of 24,000 shares to a non-employee director, issued on an annual general meeting date in accordance with the terms of his appointment letter, was outside the 1997 Directors Stock Option Plan and therefore required approval from the Board. The Board approval was obtained at a later date. For accounting purposes, the grant was re-measured based on the Company s stock price at the date of the Board s ratification.

In December 2006, the terms of this option were reformed to reflect the revised stock option exercise price.

(b) Officer Grants: During the Relevant Period, the Company granted options on 13 different dates (including the Re-priced Officer Grants) to the then-Section 16 Officers Dr. Sehat Sutardja, Weili Dai, Dr. Pantas Sutardja and George Hervey. The Company recorded additional compensation costs for one grant on December 26, 2003 (which represents 75% of options granted) for three of the officers who were also founders of the Company (Founder Officers) and six grants (which represents 96% of options granted) for George Hervey. For accounting purposes, the grant of 12,640,000 shares to the Founder Officers was re-measured based on the stock price at the date the Executive Compensation Committee meeting occurred to approve the grants. Grants to George Hervey totaling 1,279,892 shares of options originally

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priced at the as of dates of the written consents have been re-measured to the last documented date of approval received from members of the Executive Compensation Committee.

In December 2006, the terms of the options deemed to have been issued at a discount were reformed to reflect the revised stock option exercise prices for all affected Section 16 Officer grants. Of these 5.4 million reformed options, the Company received from the Officers the incremental exercise prices for the portion of these options which had previously been exercised totaling $9.6 million. The reformation of these options did not result in incremental compensation cost in the fourth quarter of fiscal 2007.

The amounts above do not include $7.5 million in unrecognized stock-based compensation that will be recorded in the second quarter of fiscal 2008 in connection with the cancellation of certain officer grants to Dr. Sehat Sutardja and Weili Dai.

(c) Re-priced Officer Grants: The minutes of the May 22, 2002 Executive Compensation Committee meeting reflect the Executive Compensation Committee s approval of a grant to the Founder Officers totaling 1.6 million shares, to be effective on the execution of a unanimous written consent. In June 2002, the Executive Compensation Committee members executed a unanimous written consent dated June 6, 2002 and effective as of May 22, 2002. The Special Committee found that on September 10, 2002 after the former General Counsel had a discussion with two of the Founder Officers who indicated that the setting of the price as of May 22, 2002 was inaccurate, the grant was repriced to the fair market value on June 6, 2002. The Special Committee found that the former General Counsel had misled the Executive Compensation Committee as to the reasons for the change. The Special Committee further found that the amendment was falsely characterized as a documentation error rather than a grant modification. While the affected options were not considered to be issued at a discount on the date of the modification, these shares were subject to variable accounting until the Company s adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) at the beginning of fiscal 2007.

(d) New Hire Grants effective hire dates: The internal review identified that 4,669,200 of options to 30 new hire recipients which required revision to reflect a later date. In all cases, the stock price on the original grant date was lower than the price on the appropriate measurement date. For accounting purposes, the new hire start dates had to be reconstructed through payroll records and evaluated to determine appropriate re-measurement dates.

(e) Other New Hire and Secondary Grants: In addition to grants issued to new hires at the commencement of their employment, the Company occasionally issues secondary grants to employees for outstanding performance, retention or other discretionary reasons outside of the annual performance review cycle. During the Relevant Period, the Company granted new hire and secondary options on 86 different dates, excluding assumption of acquisition-related options. These dates included grants made from August 2004 onwards when a fixed grant date schedule was set on the first Friday of each month. As a result of the internal review, the Company recorded additional compensation costs for grants relating to 37 different grant dates, impacting approximately two-thirds of the new hire and secondary grants (totaling 48,708,478 options). The original grant date with respect to such grants preceded the appropriate measurement date and in substantially all instances, the stock price on the former date was lower than the price on the appropriate measurement date. Generally, the terms of new hire grants, except for their exercise prices, are stated in employee offer letters which are acknowledged by employees. For new hire grants, re-measurement dates were determined based on the first instance when the Stock Option Committee grant date was picked. For secondary grants, as there was no other reliable documentation available to support the measurement date, the Company applied the date the grant was submitted to stock administration for processing, which typically indicated the conclusion of the grant process. The last date of submission was used unless the submitted change was proven to be purely administrative in nature and unrelated to the terms of the grant. Absent such submission documentation, the Company used the date the grant entry was created in the option database, as this was the most objectively verifiable date when the terms of the grant were known, in accordance with the SEC Chief Accountant s letter issued on September 19, 2006, outlining the SEC staff s interpretation of specific accounting guidance for registrants under APB 25.

(f) Re-priced New Hire Grants: Of the New Hire grants in the Relevant Period, grant prices were constructively re-set for a segment of grants on three grant dates. Consequently, affected awards totaling 6,224,200 options were subject to variable accounting until the Company s adoption of SFAS 123R. The re-pricing resulted from the Stock Option Committee s originally designated grant date being modified to a later grant date.

(g) Evergreen Grants: During the Relevant Period, there were eight Evergreen grant dates. Substantially all employees are entitled to these grants for retention purposes. There were two Evergreen grant dates in

both fiscal 2003 and 2004. There was evidence of amendments to the recipients and / or the number of options subsequent to the original grant date. In all cases, the definitive lists of award recipients could not be reasonably determined, until after the original grant date impacting 54,702,828 options. Consequently, all Evergreen grants were re-measured on subsequent dates when the granting process was considered to be finalized. For purposes of the restatement, the Company used the date the grant was submitted to stock administration for processing, which typically indicated the conclusion of the grant process. The last date of submission was used unless the submitted change was proven to be purely administrative in nature and unrelated to the terms of the grant. Absent this supporting documentation, the date the grant entry was created in the option database was used. In substantially all instances, the stock price on the former date was lower than the price on the appropriate measurement date. The last evergreen grant (totaling 7,215,056 options) occurred during fiscal 2007 and the effects on the restatement were included in the restated fair value of the affected grants under SFAS 123R, increasing the grant date fair value of affected options by $0.31 per share.

(h) Non-employee Grants: Since the inception of the Company, 3,819,000 options were granted to 13 recipients who were not employees or directors of the Company. These grants were erroneously accounted for under APB 25 as if they had been made to employees. Of these four recipients that were granted a total of 1,483,000 options subsequently became employees or directors of the Company. As a result, the affected awards were accounted for as non-employee grants under EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, which resulted in the application of variable accounting on these options until exercised or cancelled. Options held by consultants who became employees or directors of the Company have been accounted for under FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, which addresses a change in grantee status.

(i) Termination-related charges: With respect to option grants to an employee, the post-service exercise period for 605,332 vested stock options was effectively extended by an unpaid leave of absence arrangement which appears to have lacked substance. The Company applied APB 25 as if the leave of absence arrangement was a constructive modification extending the exercise period of vested awards. The Company recorded $10.0 million in additional deferred compensation charges in fiscal 2001.

Notwithstanding the foregoing, the lack of conclusive evidence in the case of certain grants required management to apply significant judgment in establishing revised measurement dates. The Company determined that the total cumulative, pre-tax, non-cash, stock-based compensation expense resulting from revised measurement dates under APB 25 was $327.4 million for periods through fiscal 2006. There was no impact on revenue. The Company adopted SFAS 123R at the beginning of fiscal 2007.

Tax Impact of the Equity Award Review and Other

The majority of the additional $327.4 million stock option compensation is expensed on the financial statements of the entities located in tax jurisdictions having a lower tax rate than that of the U.S. The tax benefits associated with all but $12.0 million of the $327.4 million total expense is recorded in Bermuda at zero percent tax rate. The $12.0 million of compensation expense and associated tax benefits have resulted in a cumulative deferred tax asset of $2.5 million as of January 28, 2006 and a deferred provision benefit of $4.8 million. The tax impact of the adjustments arising from the equity award review is summarized as follows (in thousands):

	Cumulative through January 28, 2006	Year Ended January 28, 2006	Year Ended January 29, 2005	Year Ended January 31, 2004	Year Ended February 1, 2003	Year Ended February 2, 2002	Year Ended January 27, 2001
Operating costs and expenses - Payroll tax* (a)	$ 7,628	$ 4,384	$ 2,306	$ 921	$ 17	$	$
Provision for income tax Deferred Income Tax Benefit (b)	(4,806)	(1,822)	(1,150)	(1,170)	(405)	(259)	
Provision for income tax Section 162(m) and utilization of deferred tax assets** (c)	27,206	27,206					
Tax Impact of the Equity Award Review	$ 30,028	$ 29,768	$ 1,156	$ (249)	$ (388)	$ (259)	$
Reduction to deferred tax asset for exemption benefit (d)	$ 5,275	$ 3,249	$ 2,026				

* $3.0 million of additional employer and employee withholding taxes relating to exercises of affected options, including penalty and interest, and $24.2 million of Section 409A expenses of employees, including penalties and interest was also recorded in fiscal 2007.

** $4.9 million of penalty and interest associated with Section 162(m) liability was also recorded in fiscal 2007.

(a) Payroll Tax - The revised measurement dates for certain stock options as discussed in this filing may result in adverse federal and state tax consequences to holders of those options under IRC Section 409A which was enacted in 2004 to impose certain restrictions on deferred compensation arrangements. The adverse tax consequences are that Section 409A may subject the option holder of the re-measured retroactively priced stock options to a penalty tax and interest on the exercise of the options vesting after December 31, 2004. In addition to similar penalty taxes and interest under California and other state income tax laws upon the exercise of the option grant will apply.

- *Exercised options*. The option grants had been originally issued as incentive stock options. Due to the re-measurement caused by the re-pricing, they have become non-statutory stock options. The Company has accrued employment taxes for the exercise in each of the years due to the conversion of the options from incentive to non-statutory. Included in the restated results through fiscal 2006 are additional employer and employee withholding taxes relating to exercises of affected options totaling $7.6 million, including penalties and interest. The amounts represent additional compensation expense and have been classified in their respective functional categories. On a calendar year basis the amounts total: calendar 2003 of $0.8 million, calendar 2004 of $1.9 million, calendar 2005 of $3.7 million, and calendar 2006 of $4.2 million. The above table reflects the amounts on a fiscal year basis. The full amount of compensation, taxes, interest and penalties has been accrued as reflected above as well as in fiscal 2007. The total amount accrued through fiscal 2007 is $10.6 million.

- *Section 409A*

The Company has informed employees who exercised options in 2006 that any additional tax costs accruing to such employees from Section 409A, ISO disqualification, and employment taxes will be reimbursed by us and grossed up. For the Section 409A affected options exercised during calendar year 2006, the IRS issued guidelines that would allow employers to enter into a global settlement of Section 409A issues on behalf of their employees. California and other states have offered a similar program. This liability does not appear in the above table, but has been accrued in fiscal year 2007 as explained in the remainder of this section.

Because all holders of re-measured stock options generally were not involved in or aware of the retroactive pricing, the Board of Directors approved our plan to deal with the adverse tax consequences that may be incurred by the holders of the re-measured options in the fourth quarter of fiscal 2007. Therefore, the Company recorded in the last quarter of fiscal

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2007 Section 409A expenses for the adverse tax consequences of the re-measured options exercised during calendar year 2006 of approximately $24.2 million, including estimated penalties and interest. The amount represents additional compensation expense and has been classified in the respective functional categories. The Company has sent timely notices to the IRS and the California Franchise Tax Board that it elected to participate in these programs.

- *Unexercised options*. The IRS has provided taxpayers with the following two ways of correcting unexercised discounted stock options: 1) setting a fixed exercise date; and 2) increasing the exercise price of the option up to the fair market price on the date of grant. The Company is actively evaluating these options. The discount associated with unexercised stock options outstanding as of January 27, 2007 amounted to $51.7 million. The Company has not determined the tax consequences associated with these potential future remedies.

(b) Deferred Tax Asset for Stock Based Compensation: The Company recorded adjustments for the creation of additional deferred tax asset for stock based compensation that is deductible at later periods for U.S. income tax purposes on its balance sheets for year end dates of each of fiscal 2002 through fiscal 2006. As a result, additional benefits for income tax arising from stock based compensation was recognized in fiscal 2006 of $1.8 million, fiscal 2005 of $1.1 million, fiscal 2004 of $1.2 million, fiscal 2003 of $0.4 million and fiscal 2002 of $0.3 million. The total gross stock based compensation cost that results in a deferred tax benefit is $12.0 million of the total expense of $327.4 million.

In addition, the Company evaluated the impact of the restatement on its global tax provision. The Company and its subsidiaries file tax returns in multiple tax jurisdictions around the world. In the U.S. jurisdiction one of the company s subsidiaries claims a tax deduction relative to stock options with regard to the U.S. distributor business. In accordance with FAS 123R for this jurisdiction where the deduction is claimed during fiscal 2007, the Company has recorded a deferred tax asset totaling $3.5 million at January 27, 2007, to reflect future tax deductions to the extent the company believes such asset is recoverable.

(c) Income Tax - Section 162(m) and utilization of deferred tax assets: The Company has accrued for the current and deferred tax impact of $104.5 million of non-deductible officer compensation related to Internal Revenue Code Section 162(m) (Section 162(m)) in fiscal 2006. Section 162(m) limits the deductibility of compensation in excess of one million dollars, but exempts stock option compensation where the option was issued at fair market value on the date of grant. The Company has determined that $104.5 million of executive compensation in fiscal 2006 does not meet the exclusion criteria under Section 162(m), under existing IRS interpretations, and have therefore accrued $21.8 million of current tax expense and $5.4 million of deferred tax expense associated with the utilization of net operating losses. The Company has accrued the penalty and interest totaling $4.9 million associated with this liability in fiscal 2007.

(d) Other: The Company recorded adjustments to correct an overstatement of deferred tax asset related to the Singapore entity. The original deferred tax asset had not reflected the benefit of the Pioneer status of this entity.

Accumulated Deficit Impact of Equity Award Review and Other Tax Adjustments

The table below reflects the breakdown by year of the cumulative adjustment to retained earnings. The consolidated financial statements for periods through fiscal 2006 included in previously filed periodic reports with the SEC for such periods have not been amended. The consolidated financial statements, included in this Form 10-Q, have been restated as follows (in thousands):

	Stock-based compensation expense	**Estimated additional payroll tax expense**	**Additional deferred income tax benefit**	**Additional deferred income tax provision**	**Section 162(m) and utilization of deferred tax assets**	**Cumulative effect of change in accounting principle, net of tax effect**	**Total Adjustments, net of tax**
Fiscal 2000 and prior *	$ 1,255	$	$	$	$	$	$ 1,255
Fiscal 2001	18,707						18,707
Fiscal 2002	33,318		(259)				33,059
Fiscal 2003	35,540	17	(405)				35,152
Fiscal 2004	64,015	921	(1,170)				63,766
Cumulative effect at January 31, 2004	152,835	938	(1,834)				151,939

	Net income as reported								**Net income as restated**
Fiscal 2005	$ 141,661	75,684	2,306	(1,150)	2,026			78,866	$ 62,795
Fiscal 2006:									
Three months ended April 30, 2005		8,719	866					9,585	
Three months ended July 30, 2005		29,120	1,083					30,203	
Three months ended October 29, 2005		9,102	589					9,691	
Three months ended January 28, 2006		51,915	1,846	(1,822)	3,249	27,206		82,394	
Total for Fiscal 2006	331,363	98,856	4,384	(1,822)	3,249	27,206		131,873	199,490
Cumulative effect at January 28, 2006		327,375	7,628	(4,806)	5,275	27,206		362,678	
Three months ended April 29, 2006	75,297	4,225	2,170	(3,325)		3,510	(8,846)	(2,266)	77,563
Cumulative effect at April 29, 2006		$ 331,600	$ 9,798	$ (8,131)	$ 5,275	$ 30,716	$ (8,846)	$ 360,412	

* Comprised $1,062,000 for fiscal 2000, $139,000 for fiscal 1999, $41,000 for fiscal 1998, $12,000 for fiscal 1997 and $1,000 for fiscal 1996.

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The restatement adjustments reduced previously reported basic net income per share by $0.24 and $0.14 for fiscal 2006 and 2005, respectively and diluted net income per share by $0.20 and $0.13 for fiscal 2006 and fiscal 2005, respectively.

Cashflows Impact of Equity Award Review

The additional payable for payroll taxes associated with these stock option grants of approximately $10.6 million, additional Section 409A expenses for the adverse tax consequences of the re measured options exercised during calendar year 2006 of approximately $24.2 million, and Section 162(m) liabilities of $26.5 million for cumulative period from fiscal 2001 through 2007, represents future cash outflows totaling $61.3 million.

The following tables present the impact of the financial statement adjustments on the previously reported Consolidated Statement of Operations for the three and nine months ended October 29, 2005:

	Three Months Ended October 29, 2005			**Nine Months Ended October 29, 2005**		
	As Previously Reported	**Adjustments**	**As Restated**	**As Previously Reported**	**Adjustments**	**As Restated**
	(In thousands, except per share amounts)					
Net revenue	$ 426,026	$	$ 426,026	$ 1,181,250	$	$ 1,181,250
Operating costs and expenses:						
Cost of goods sold	197,077	503 (A)	197,580	555,967	2,849 (A)	558,816
Research and development	77,689	5,354 (A)	83,043	222,751	26,347 (A)	249,098
Selling and marketing	21,634	1,495 (A)	23,129	63,898	7,392 (A)	71,290
General and administrative	9,029	2,804 (A)	11,833	24,107	14,744 (A)	38,851
Amortization of stock-based compensation	465	(465)(A)		1,853	(1,853)(A)	
Amortization and write-off of goodwill and acquired intangible assets and other	19,746		19,746	59,258		59,258
Total operating costs and expenses	325,640	9,691	335,331	927,834	49,479	977,313
Operating income (loss)	100,386	(9,691)	90,695	253,416	(49,479)	203,937
Interest and other income, net	5,244		5,244	13,240		13,240
Income (loss) before income taxes	105,630	(9,691)	95,939	266,656	(49,479)	217,177
Provision for income taxes	12,584		12,584	32,776		32,776
Net income (loss)	$ 93,046	$ (9,691)	$ 83,355	$ 233,880	$ (49,479)	$ 184,401
Basic net income (loss) per share	$ 0.16	$ (0.01)	$ 0.15	$ 0.42	$ (0.09)	$ 0.33
Diluted net income (loss) per share	$ 0.15	$ (0.02)	$ 0.13	$ 0.37	$ (0.08)	$ 0.29
Weighted average shares basic	567,310		567,310	562,243		562,243
Weighted average shares diluted	632,424		632,424	626,673		626,673

(A). Adjustments for additional stock-based compensation expense pursuant to APB 25 and reclassification of previously reported stock-based compensation expenses to the respective functional cost and expense line items.

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The following tables present the impact of the financial statement adjustments on the previously reported Consolidated Balance Sheets as of January 28, 2006:

	January 28, 2006		
	As Previously Reported	Adjustments	As Restated
	(In thousands, except per share amounts)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 348,431	$	$ 348,431
Short-term investments	572,591		572,591
Accounts receivable, net of allowance of $3,028	245,164		245,164
Inventories	211,374		211,374
Prepaid expenses and other current assets	104,307		104,307
Deferred income taxes	18,007	(14,062)(B)	3,945
Total current assets	1,499,874	(14,062)	1,485,812
Property and equipment, net	260,921		260,921
Goodwill	1,558,209		1,558,209
Acquired intangible assets, net	111,973		111,973
Other non-current assets	82,312	5,279 (B)	87,591
Total assets	$ 3,513,289	$ (8,783)	$ 3,504,506
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 196,606	$	$ 196,606
Accrued liabilities	34,905		34,905
Accrued employee compensation	51,549	7,628 (C)	59,177
Income taxes payable	3,352	21,042 (B)	24,394
Deferred income	29,773		29,773
Current portion of capital lease obligations	16,563		16,563
Total current liabilities	332,748	28,670	361,418
Capital lease obligations, net of current portion	24,447		24,447
Non-current income taxes payable	85,126	1,419 (B)	86,545
Other long-term liabilities	24,871		24,871
Total liabilities	467,192	30,089	497,281
Shareholders equity:			
Preferred stock, $0.002 par value; 8,000 shares authorized; no shares issued and outstanding			
Common stock, $0.002 par value; 992,000 shares authorized; 582,776 shares issued and outstanding	1,165		1,165
Additional paid-in capital	3,249,587	384,652 (A)	3,634,239
Deferred stock-based compensation	(1,141)	(60,846)(A)	(61,987)
Accumulated other comprehensive loss	(1,759)		(1,759)
Accumulated deficit	(201,755)	(362,678)	(564,433)
Total shareholders equity	3,046,097	(38,872)	3,007,225
Total liabilities and shareholders equity	$ 3,513,289	$ (8,783)	$ 3,504,506

(A). Adjustments for additional stock-based compensation expense pursuant to APB 25, net of tax benefit from employee stock transactions.

(B). Adjustments to deferred tax assets arising from the stock-based compensation charge.

(C). Adjustments for additional payroll taxes.

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The following tables present the impact of the financial statement adjustments on the previously reported Statements of Cash Flows for three and nine months ended October 29, 2005:

	Nine Months Ended October 29, 2005		
	As Previously Reported (In thousands)	Adjustments	As Restated
Cash flows from operating activities:			
Net income	$ 233,880	$ (49,479)	$ 184,401
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	41,840		41,840
Stock-based compensation	1,853	46,941 (A)	48,794
Amortization of acquired intangible assets	59,258		59,258
Changes in assets and liabilities, net of acquisition:			
Accounts receivable	(52,383)		(52,383)
Inventories	(21,040)		(21,040)
Prepaid expenses and other assets	(105,044)		(105,044)
Accounts payable	60,441		60,441
Accrued liabilities and other	3,358		3,358
Accrued employee compensation	2,363	2,538 (B)	4,901
Income taxes payable	29,562		29,562
Deferred income	9,854		9,854
Net cash provided by operating activities	263,942		263,942
Cash flows from investing activities:			
Purchases of short-term investments	(490,811)		(490,811)
Sales and maturities of short-term investments	533,876		533,876
Purchases of property and equipment	(62,309)		(62,309)
Net cash provided by (used in) investing activities	(19,244)		(19,244)
Cash flows from financing activities:			
Proceeds from the issuance of common stock	65,732		65,732
Principal payments on capital lease obligations	(12,042)		(12,042)
Net cash provided by financing activities	53,690		53,690
Net increase (decrease) in cash and cash equivalents	298,388		298,388
Cash and cash equivalents at beginning of period	166,471		166,471
Cash and cash equivalents at end of period	$ 464,859	$	$ 464,859

(A). Adjustments for additional stock-based compensation expense pursuant to APB 25.

(B). Adjustments for additional payroll tax.

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Note 2. The Company and its Significant Accounting Policies

The Company

Marvell Technology Group Ltd. (the Company), a Bermuda company, was incorporated on January 11, 1995. The Company is a leading global semiconductor provider of high-performance analog, mixed-signal, digital signal processing and embedded microprocessor integrated circuits. The Company s diverse product portfolio includes switching, transceivers, wireless, PC connectivity, gateways, communications controllers, storage and power management solutions that serve diverse applications used in business enterprises, consumer electronics and emerging markets.

Basis of presentation

The Company s fiscal year is the 52- or 53-week period ending on the Saturday closest to January 31. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal years 2007 and 2006 comprised 52-weeks.

On February 21, 2006, the Board of Directors approved a 2 for 1 stock split of the Company s common stock, to be effected pursuant to the issuance of additional shares as a stock dividend. The stock split was subject to shareholder approval of an increase in the Company s authorized share capital at the Company s 2006 Annual General Meeting. On June 9, 2006, shareholders at the Company s 2006 Annual General Meeting approved an increase in the authorized share capital by 500 million shares of common stock. Stock certificates representing one additional share for each share held were delivered on July 24, 2006 (payment date) to all shareholders of record at the close of business on July 10, 2006 (record date). All share and per share amounts in these condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split for all periods presented.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments except for the effect of the restatements as discussed in Note 1, necessary to fairly state the Company s financial position as of October 28, 2006, the results of its operations for the three and nine months ended October 28, 2006 and October 29, 2005, respectively and its cash flows for the nine months ended October 28, 2006 and October 29, 2005, respectively. These condensed consolidated financial statements and related notes are unaudited and should be read in conjunction with the Company s audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended January 27, 2007 filed concurrently with this Form 10-Q. The results of operations for the three and nine months ended October 28, 2006 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year.

Principles of consolidation

The unaudited interim 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.

Use of estimates

The preparation of unaudited interim condensed consolidated financial statements in conformity with generally accepted accounting principles 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. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, 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 may differ from these estimates.

Revenue recognition

The Company accounts for its revenues under the provisions of Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements. Under this provision, 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 rights of return on product unsold by the distributors. Product revenue on sales made through distributors with rights of return and price protection is deferred until the distributors sell the product to end customers. 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 the original requested delivery date, in which case revenue is not recognized until there is written

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

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 and determinable and collectibility is probable. Revenue from post-contract customer support and any other future deliverables is deferred and earned over the support period or as contract elements are delivered.

Research and development and other

Research and development and other costs consist primarily of $148.9 million and $81.1 million of research and development costs for the three months ended October 28, 2006 and October 29, 2005, respectively, excluding costs related to patent investigation and filings for the three months ended October 28, 2006 and October 29, 2005 which were $4.0 million and $1.9 million, respectively.

Research and development and other costs consist primarily of $425.7 million and $244.0 million of research and development costs for the nine months ended October 28, 2006 and October 29, 2005, respectively, excluding costs related to patent investigation and filings for the nine months ended October 28, 2006 and October 29, 2005 which were $9.1 million and $5.1 million, respectively. Research and development and other costs are expensed as incurred.

Inventories

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

Warranty accrual

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

Stock-based compensation

Effective from January 29, 2006, the Company adopted FASB Statement of Financial Accounting Standards No. 123 (revised 2004), Share Based Payment (SFAS 123R). 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. SFAS 123R supersedes previous accounting guidance under Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB 25) and related interpretations and amends SFAS No. 95, Statement of Cash Flows. Under SFAS 123R, the benefits of tax deductions in excess of recognized compensation cost has to be reported as a financing cash flow, rather than as an operating cash flow. This may reduce future net cash flows from operations and increase future net financing cash flows. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107), which provides guidance regarding the interaction of SFAS 123R and certain SEC rules and regulations. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

Prior to January 29, 2006, the Company accounted for its stock based compensation plans using the intrinsic value method under the provisions of APB 25 and related guidance, under the accelerated method of amortization.

The Company adopted SFAS 123R using the modified prospective method. Under the modified prospective method, results of operations include compensation costs of unvested options granted prior to January 29, 2006, and options granted subsequent to that date. For grants prior to January 29, 2006, the Company amortizes stock-based compensation expense under the accelerated method. For grants from January 29, 2006, the Company amortizes stock-based compensation expense ratably over the vest term.

Cumulative Effect of Change in Accounting Principle

The adoption of SFAS 123R resulted in a cumulative benefit from change in auditing principle of $8.8 million net of tax as of the year ended January 27, 2007, as restated, reflecting the net cumulative impact of estimated forfeitures that were previously not included in the determination of historic stock based compensation expense in periods prior to January 28, 2006.

As a result of the adoption of SFAS 123R, stock-based compensation increased from $9.6 million and $48.8 million in the three and nine months ended October 29, 2005, respectively to $42.1 million and $146.5 million in the three and nine months ended October 28, 2006, respectively. Stock-based compensation of $0.7 million was capitalized in inventory as of October 28, 2006. There was no stock-based compensation cost included in inventory as of January 28, 2006. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

Prior to the adoption of SFAS 123R, the Company presented deferred compensation as a separate component of shareholders equity. In accordance with the provisions of SFAS 123R, on January 29, 2006, unamortized deferred compensation totaling $62.0 million on that date was eliminated with a corresponding reduction in additional paid-in capital.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards (FSP 123R-3). We have elected to adopt the alternative transition method provided in the FSP 123R-3 for calculating the tax effects of stock-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the APIC pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

Note 3. Supplemental Financial Information

Available-for-sale investments (in thousands)

	October 28, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 3,588	$	$ (70)	$ 3,518
Auction rate securities	7,935			7,935
U.S. Federal, State, county and municipal debt securities	25,253		(475)	24,778
Short-term investments	$ 36,776	$	$ (545)	$ 36,231

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	January 28, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 33,662	$	$ (551)	$ 33,111
Auction rate securities	438,615			438,615
U.S. Federal, State, county and municipal debt securities	107,414		(1,592)	105,822
	579,691		(2,143)	577,548
Less amounts classified as cash equivalents	(4,957)			(4,957)
Short-term investments	$ 574,734	$	$ (2,143)	$ 572,591

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

The contractual maturities of available-for-sale debt securities classified as short-term investments at October 28, 2006 are presented in the following table (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 5,077	$ 5,022
Due between one and five years	23,763	23,274
Due over five years	7,936	7,935
	$ 36,776	$ 36,231

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

	October 28, 2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$	$	$ 3,518	$ (70)	$ 3,518	$ (70)
U.S. Federal, State, county and municipal debt securities			24,778	(475)	24,778	(475)
Total temporarily impaired securities	$	$	$ 28,296	$ (545)	$ 28,296	$ (545)

	January 28, 2006					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	$	$	$ 28,154	$ (551)	$ 28,154	$ (551)
U.S. Federal, State, county and municipal debt securities	4,998	(24)	100,824	(1,568)	105,822	(1,592)

Total temporarily impaired securities	$	4,998	$	(24	)	$	128,978	$	(2,119	)	$	133,976	$	(2,143	)

Inventories (in thousands)

	October 28, 2006	January 28, 2006
Work-in-process	$ 90,172	$ 96,110
Finished goods	137,700	115,264
	$ 227,872	$ 211,374

Prepaid expenses and other current assets (in thousands)

	October 28, 2006	January 28, 2006
Prepayments for foundry capacity	$ 37,820	$ 62,120
Receivable from foundry	22,649	19,512
Other	43,010	22,675
	$ 103,479	$ 104,307

Property and equipment (in thousands)

	October 28, 2006	January 28, 2006
Property and equipment:		
Machinery and equipment	$ 200,355	$ 142,320
Computer software	131,660	108,032
Furniture and fixtures	17,268	10,588
Leasehold improvements	10,709	9,292
Buildings	40,709	8,727
Building improvements	10,648	24,747
Land	51,500	51,500
Construction in progress	101,082	56,311
	563,931	411,517
Less: Accumulated depreciation and amortization	(197,200)	(150,596)
	$ 366,731	$ 260,921

Purchased intangible assets (in thousands)

	As of October 28, 2006			As of January 28, 2006		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Purchased technology	$ 507,900	$ (443,300)	$ 64,600	$ 437,415	$ (400,980)	$ 36,435
Core technology	71,900	(13,892)	58,008	26,400	(2,031)	24,369
Trade name	100	(100)		100	(100)	
Supply contract	900	(155)	745			
Customer contracts	122,200	(21,211)	100,989	54,400	(3,231)	51,169
Total intangible assets	$ 703,000	$ (478,658)	$ 224,342	$ 518,315	$ (406,342)	$ 111,973

The increase in goodwill during third quarter of fiscal 2007 of $15.2 million was due to goodwill from the acquisitions of the UTStarcom Business (of $7.3 million) and the Avago Business (of $7.9 million).

The increase in purchased intangible assets during the nine months ended October 28, 2006 was from the acquisitions of the semiconductor division of UTStarcom, Inc., Avago Technologies Limited and other companies (see Note 4).

Identified intangible assets consist of purchased technology, core technology, supply contract and customer contracts and related relationships. Purchased technologies are amortized on a straight-line basis over their estimated useful lives ranging from one to five years. Core technologies are amortized on a straight-line basis over their estimated useful lives ranging from one to six years. The supply contract is amortized on a straight-line basis over its estimated useful life of four years. Customer contracts and related relationships are amortized on a straight-line basis over their estimated useful lives ranging from four to six years. The aggregate

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amortization expense of identified intangible assets was $27.4 million in the third quarter of fiscal 2007, $19.8 million in the third of quarter of fiscal 2006, $72.2 million in the first nine months of fiscal 2007 and $59.3 million in the first nine months of fiscal 2006. The estimated total amortization expenses of acquired intangible assets is $19.2 million for the remaining three months of fiscal 2007, $72.8 million for fiscal 2008, $66.9 million for 2009, $40.9 million for fiscal 2010, $18.1 million for fiscal 2011, $5.7 million for fiscal 2012, $0.7 million for fiscal 2013 and $0.1 million for fiscal 2014.

Other long-term liabilities (in thousands)

	October 28, 2006	**January 28, 2006**
Long-term facilities consolidation charge	$ 2,362	$ 2,896
Accrued severance	16,992	13,083
Long-term leased asset under construction	13,000	6,000
Other	3,347	2,892
	$ 35,701	$ 24,871

Net income per share

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

	Three Months Ended		**Nine Months Ended**	
	October 28, 2006	**October 29, 2005 (restated)**	**October 28, 2006**	**October 29, 2005 (restated)**
Numerator:				
Income before change in accounting principle	$ 6,046	$ 83,355	$ 119,644	$ 184,401
Net income	$ 6,046	$ 83,355	$ 128,490	$ 184,401
Denominator:				
Weighted average shares of common stock outstanding	587,348	567,310	585,728	562,243
Weighted average shares basic	587,348	567,310	585,728	562,243
Effect of dilutive securities-Warrants	1,572	1,685	1,685	1,646
Contingently issuable shares				455
Common stock options and other	39,184	63,429	46,305	62,329
Weighted average shares diluted	628,104	632,424	633,718	626,673
Income before change in accounting principle;				
Basic	$ 0.01	$ 0.15	$ 0.20	$ 0.33
Diluted	$ 0.01	$ 0.13	$ 0.19	$ 0.29
Net income per share;				
Basic	$ 0.01	$ 0.15	$ 0.22	$ 0.33
Diluted	$ 0.01	$ 0.13	$ 0.20	$ 0.29

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Options to purchase 36,136,943 shares at a weighted average exercise price of $24.39 have been excluded from the computation of diluted net income per share for the three months ended October 28, 2006 using the treasury method calculation. Options to purchase 654,263 common shares at a weighted average exercise price of $23.05 have been excluded from the computation of diluted net income per share for the three months ended October 29, 2005 using the treasury stock method calculation.

Options to purchase 30,467,554 common shares at a weighted average exercise price of $24.41 have been excluded from the computation of diluted net income per share for the nine months ended October 28, 2006 using the treasury stock method calculation. Options to purchase 640,959 common shares at a weighted average exercise price of $22.26 have been excluded from the computation of diluted net income per share for the nine months ended October 29, 2005 using the treasury stock method calculation.

Comprehensive income (in thousands)

	Three Months Ended		**Nine Months Ended**	
	October 28, 2006	**October 29, 2005 (restated)**	**October 28, 2006**	**October 29, 2005 (restated)**
Net income	$ 6,046	$ 83,355	$ 128,490	$ 184,401
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale investments and other, net of tax	1,157	475	1,657	(400)
Total comprehensive income	$ 7,203	$ 83,830	$ 130,147	$ 184,001

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

Note 4. Acquisitions

The Company acquired the hard disk and tape drive controller semiconductor business of QLogic Corporation (QLogic Business) during the third quarter of fiscal 2006, the semiconductor division of UTStarcom, Inc (UTStarcom Business) in the first quarter of fiscal 2007, and the printer semiconductor division of Avago Technologies Limited (Avago Business) and assets of another business from an unrelated party during the second quarter of fiscal 2007.

QLogic Business

The Company acquired the QLogic Business on November 4, 2005. The QLogic Business designs and supplies controller chips for data storage peripherals, such as hard disk and tape drives. The QLogic Business provides controller chip products which the Company believes will be able to provide complementary products to its customers in the hard disk market while improving its ability to address the overall data storage market. These factors contributed to a purchase price that was in excess of the fair value of the QLogic Business net tangible and intangible assets acquired. The Company recorded goodwill, which is not deductible for tax purposes, in connection with this transaction.

Under terms of the agreement, the Company issued a combination of $184.0 million in cash and 1,960,998 shares of its common stock valued at $45.6 million for total consideration of $229.6 million. The agreement provides for $12.0 million of the consideration to be placed in escrow for up to one year from the closing date to secure QLogic s obligations under certain representation and warranty provisions.

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

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

The value of the 1,960,998 shares of the Company s common stock issued was determined based on the average price of the Company s common stock over a 5-day period including the two days before and after August 29, 2005 (the announcement date), or $23.25 per share.

Under the purchase method of accounting, the total purchase price was allocated to the QLogic Business net tangible and intangible assets based on their fair values as of the date of the completion of the acquisition as follows (in thousands):

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

The Company acquired tangible assets of approximately $25.1 million consisting of inventory and fixed assets, net of assumed liabilities and was recorded at its estimated fair value. The amortizable intangible assets of $123.3 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from management. The amortizable intangible assets acquired and their respective estimated remaining lives, over which each asset will be amortized on a straight-line basis over useful lives ranging from one to four years are:

	Estimated Remaining Useful Life (in years)	**Estimated Fair Value (in thousands)**
Existing technology	1 to 2	$ 42,700
Core technology	3	26,400
Customer relationships	4	54,200
In-process research and development	N/A	4,300
Total intangible assets acquired		$ 127,600

Existing technology comprised products that have reached technological feasibility and includes the fibre channel hard disk controller (HDC), Small Computer System Interface (SCSI) HDC and the tape drive products of the hard disk and tape drive controller business of QLogic. The core technology represents technology that is embedded in the existing technology that was separately valued. Customer relationships represent future projected revenues that are derived from sales of future versions of existing products that will be sold to existing customers.

Of the total purchase price, $4.3 million was allocated to in-process research and development (IPRD) based upon the fair values of assets acquired and was charged to expense in the fourth quarter of fiscal 2006. The QLogic Business was developing new products that had not reached technological feasibility and which had no alternative use and therefore was immediately written-off. The projects in process consisted of a product based on a combined SCSI HDC and fibre channel HDC that would help customers transition from a SCSI market. The values assigned to IPRD were determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The fair values of IPRD were determined using the income approach, which discounts expected future cash flows to present value. The discount rates used in the present value calculations were derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks related to the product s development and success as well as the product s stage of completion. A discount rate of 21.0% was used for IPRD. At the time of the acquisition, the project was approximately 25.0% complete with aggregate costs to complete of $2.7 million. The project was canceled in January 2006.

The weighted average useful lives of acquired intangibles from the QLogic Business are 1.2 years for developed technology, 3.0 years for core technology and 4.0 years for customer relationships.

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

	Three Months Ended October 29, 2005		Nine Months Ended October 29, 2005	
	(restated)		(restated)	
Net revenue	$	471,218	$	1,307,934
Net income	$	89,525	$	196,689
Basic net income per share	$	0.16	$	0.35
Diluted net income per share	$	0.14	$	0.31

<u>UTStarcom Business</u>

The Company acquired the UTStarcom Business on February 16, 2006. The UTStarcom Business focuses on the design and development of personal handyphone systems (PHS) and next generation cellular communications technology. The primary reasons for the acquisition of the semiconductor division of UTStarcom were to strengthen and augment its software engineering workforce and enhance its technological capabilities for emerging cellular strategies, obtain an established product being utilized in wireless communications technology, reduce the time required to develop new products and bring them to market for next generation cellular technology and to complement the Company s existing wireless offerings. These factors contributed to a purchase price that was in excess of the fair value of the UTStarcom Business net tangible and intangible assets acquired. The Company recorded goodwill, which is not deductible for tax purposes, in connection with this transaction.

Under the terms of the agreement, the Company paid $24.0 million in cash. In the third quarter of fiscal 2007, the Company recorded additional purchase consideration of $16.0 million upon the achievement of the contingent milestones as defined in the purchase agreement. A liability of approximately $8.7 million was preliminarily recorded, representing the excess of the fair value of net tangible and intangible assets acquired over the purchase price. As a result of the contingent consideration, additional goodwill of $7.3 million was recorded.

The purchase price of the acquisition was $40.8 million, including the contingent consideration of $16.0 million recognized during the third quarter of fiscal 2007, and was determined as follows (in thousands):

Cash	$ 40,008
Transaction costs	792
Total purchase price	$ 40,800

Under the purchase method of accounting, the total purchase price (including the contingent consideration recognized of $16.0 million) was allocated to net tangible and intangible assets based on their fair values as of the date of the completion of the acquisition as follows (in thousands):

Inventories	$ 2,097
Fixed assets	611
	2,708
Amortizable intangible assets:	
Existing technology	11,900
Core technology	4,100
Supply contract	900
Customer relationships	13,900
Goodwill	7,292
Total purchase price allocation	$ 40,800

The amortizable intangible assets of $30.8 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from

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management. The amortizable intangible assets acquired and their respective estimated remaining lives, over which each asset will be amortized on a straight-line basis over useful lives ranging from three to four years are:

	Estimated Remaining Useful Life	Estimated Fair Value
	(in years)	(in thousands)
Existing technology	3	$ 11,900
Core technology	4	4,100
Supply contract	4	900
Customer contracts	4	13,900
Total intangible assets acquired		$ 30,800

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

The weighted average useful lives of acquired intangibles from the UTStarcom Business are 3.0 years for developed technology, 4.0 years for core technology, 4.0 years for customer relationships and 4.0 year for the supply contract.

<u>Avago Business</u>

The Company acquired the Avago Business on May 1, 2006. The Avago Business focuses on the design and development of system-on-chip and system level solutions for both inkjet and laser jet printer systems. The primary purpose and benefits of the acquisition were to obtain, accelerate and strengthen the Company s entry into the printer market, leverage its portfolio of complementary technology, obtain important printer systems level knowledge and strengthen the Company s relationship with the only customer of the products. These factors contributed to a purchase price that was in excess of the fair value of the Avago Business net tangible and intangible assets acquired. The Company recorded goodwill, which is not deductible for tax purposes, in connection with this transaction.

Under the terms of the agreement, the Company paid $249.6 million in cash and may pay up to an additional $35.0 million in cash if certain defined milestones are achieved. The purchase price of the acquisition, including the contingent consideration recognized of $10.0 million, was $263.0 million and was determined as follows (in thousands):

Cash	$ 259,591
Estimated transaction costs	3,388
Total estimated purchase price	$ 262,979

In the third quarter of fiscal 2007, the Company recorded additional purchase consideration of $10.0 million upon the achievement of certain levels of revenue of the past year. The remaining contingent consideration of up to $25.0 million is still outstanding and may result in the recognition of additional purchase consideration in the future. The remaining contingent consideration is based on the achievement of a certain level of revenue over a one year period ending October 2007. Additionally, in the third quarter of fiscal 2007, the Company recorded a cash consideration adjustment of $1.9 million relating to inventory acquired at the acquisition date, resulting in a corresponding reduction in goodwill.

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Under the purchase method of accounting, the total purchase price (including the contingent consideration recognized of $10.0 million) was allocated to net tangible and intangible assets based on their fair values as of the date of completion of the acquisition, as adjusted, as follows (in thousands):

Accounts receivable	$ 1,871
Current assets	1,442
Deferred tax asset	925
Inventories	23,896
Fixed assets	14,322
Other current assets	2,750
Accrued liabilities	(12,541)
Accrued employee benefits	(3,998)
	28,667
Amortizable intangible assets:	
Existing technology	55,800
Core technology	40,200
Customer relationships	53,400
Goodwill	84,912
Total purchase price allocation	$ 262,979

The amortizable intangible assets of $149.4 million were determined based on valuation techniques such as discounted cash flows and weighted average cost of capital methods used in the high technology industry using assumptions and estimates from management.   The amortizable intangible assets acquired and their respective estimated remaining lives, over which each asset will be amortized on a straight-line basis over useful lives ranging from three to six years are:

	Estimated Remaining Useful Life	**Estimated Fair Value**	
	(in years)	**(in thousands)**	
Existing technology	3 to 4	$	55,800
Core technology	3 to 6	40,200	
Customer contracts	5	53,400	
Total intangible assets acquired		$	149,400

The existing technology represents personal laser jet, laser jet systems technology and other technology that the Avago Business has developed. Core technology represents the combination of processes, patents, and trade secrets that are the building blocks for current and planned new products. Customer relationships represent future projected revenue that will be derived from sales of future versions of existing products that will be sold to existing customers.

The weighted average useful lives of acquired intangibles from the Avago Business are 3.2 years for developed technology, 4.9 years for core technology and 5.0 years for customer relationships.

The results of operations of the UTStarcom Business and Avago Business have been included in the Company s consolidated statements of operations since their respective acquisition completion date of February 16, 2006 and May 1, 2006. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisitions of the UTStarcom Business and Avago Business occurred at the beginning of the period presented (in thousands, except for per share amounts):

	Nine Months Ended October 28, 2006		**Three Months Ended October 29, 2005**		**Nine Months Ended October 29, 2005**	
			(restated)		**(restated)**	
Net revenue	$	1,653,579	$	458,775	$	1,277,141
Net income	$	104,734	$	66,063	$	129,978
Basic net income per share	$	0.18	$	0.12	$	0.23

Diluted net income per share	$	0.17	$	0.10	$	0.21	

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Other acquisition

During the second quarter of fiscal 2007, the Company completed the acquisition of the assets of a division of an unrelated company for a purchase price of $7.3 million. Under the purchase method of accounting, the total purchase price was allocated to net tangible and intangible assets based on their fair values as of the date of the completion of the respective acquisitions. The Company recorded acquired net tangible assets of $0.4 million, amortizable intangible assets of $2.9 million and goodwill of $4.0 million. The intangible assets are being amortized over their useful lives ranging from one to six years.

Note 5. Facilities Consolidation Charge

During fiscal 2003, the Company recorded a total of $19.6 million of charges associated with costs of consolidation of its facilities (2003 facilities consolidation) of which $6.0 million related to non-cash charges. As of October 28, 2006, cash payments of $10.5 million, net of sublease income, had been made in connection with these charges. Approximately $3.0 million is accrued for the facilities consolidation charge as of October 28, 2006, of which $0.6 million represents the current portion and is included in accrued liabilities. The long-term portion totaling $2.4 million is payable through 2010, and is included in other long-term liabilities.

Activities of accrued losses related to the 2003 facilities consolidation during the nine months ended October 28, 2006 were as follows (in thousands):

		Nine Months Ended October 28, 2006		
Beginning balance		$	3,578	
Net cash payments		(574		)
Non-cash charges				
Ending balance		$	3,004	

Note 6. Recent Accounting Pronouncements

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards (FSP 123R-3). We have elected to adopt the alternative transition method provided in the FSP 123R-3 for calculating the tax effects of stock-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the APIC pool related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

In June 2006, the FASB ratified the Emerging Issues Task Force (EITF) consensus on EITF Issue No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43 (EITF 06-2). EITF 06-2 requires companies to accrue the cost of such compensated absences over the requisite service period. The Company currently accrues the cost of compensated absences for sabbatical programs when the eligible employee completes the requisite service period. The Company is required to apply the provisions of EITF 06-2 at the beginning of fiscal 2008. EITF 06-02 allows for adoption through retrospective application to all prior periods or through a cumulative effect adjustment to retained earnings if it is impracticable to determine the period-specific effects of the change on prior periods presented. The Company is currently evaluating the financial impact of this guidance and the method of adoption which will be used.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of fiscal 2008, with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company has evaluated the impact of adopting FIN 48 and determined that there is no material impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The Company adopted SAB 108 at the end of fiscal 2007. The adoption did not have a material impact on our financial position and results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company is currently evaluating the potential impact of this statement.

Note 7. Commitments and Contingencies

Warranty Obligations

The following table presents changes in the warranty accrual included in accrued liabilities during the three and nine months ended October 28, 2006 and October 29, 2005 (in thousands):

	Three Months Ended		**Nine Months Ended**	
	October 28, 2006	**October 29, 2005**	**October 28, 2006**	**October 29, 2005**
Warranty accrual (included in accrued liabilities):				
Beginning balance	$ 3,983	$ 3,181	$ 3,914	$ 1,571
Warranties issued		705	339	2,647
Settlements	(215)	(83)	(485)	(415)
Ending balance	$ 3,768	$ 3,803	$ 3,768	$ 3,803

Purchase Commitments

The Company s manufacturing relationships with its foundries allow for the cancellation of all outstanding purchase orders, but require repayment of all expenses incurred through the date of cancellation. As of October 28, 2006, foundries had incurred approximately $134.7 million of manufacturing expenses on the Company s outstanding purchase orders. As of October 28, 2006, the Company also had approximately $75.3 million of other outstanding non-cancelable purchase orders for capital purchase obligations.

On February 28, 2005 and as amended on March 31, 2005, the Company entered into an agreement with a foundry to reserve and secure foundry fabrication capacity for a fixed number of wafers at agreed upon prices for a period of five and a half years beginning on October 1, 2005. In return, the Company agreed to pay the foundry $174.2 million over a period of eighteen months. The amendment extends the term of the agreement and the agreed-upon pricing terms until December 31, 2015. As of October 28, 2006, payments totaling $174.2 million (included in prepaid expenses and other current assets and other non current assets) have been made and approximately $74.9 million of the prepayment has been utilized as of October 28, 2006. At October 28, 2006, there were no more remaining commitments under the agreement.

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, or IPO, on June 29, 2000. That lawsuit, which did not name Marvell or any of the Company s officers or directors as defendants, was filed in the United States District Court for the Southern District of New York. Plaintiffs allege that the underwriters received excessive and undisclosed commissions and entered into unlawful tie-in agreements with certain of their clients in violation of Section 10(b) of the Securities Exchange Act of 1934. Thereafter, on September 5, 2001, a second putative class action was filed in the Southern District of New York relating to the Company s IPO. In this second action, plaintiffs named three underwriters as defendants and also named as defendants Marvell and two of the Company s officers, one of whom is also a director. Relying on many of the same allegations contained in the initial complaint in which we were not named as a defendant, plaintiffs allege that the defendants violated various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. In both actions, plaintiffs seek, among other items, unspecified damages, pre-judgment interest and reimbursement of attorneys and experts fees. These two actions relating to the Company s IPO have been consolidated with hundreds of other lawsuits filed by plaintiffs against approximately 40 underwriters and approximately 300 issuers across the United States. Defendants in the consolidated proceedings moved to dismiss the actions. In February 2003, the trial court granted the motions in part and denied them in part, thus allowing the case to proceed against the underwriters and the Company as to alleged violations of section 11 of the Securities Act of 1933 and section 10(b) of the Securities Exchange Act of 1934. Claims against the individual officers have been voluntarily dismissed with prejudice by agreement with plaintiffs. On June 26, 2003, the plaintiffs announced that a settlement among plaintiffs, the issuer defendants and their directors and officers, and their insurers has been structured, a part of which provides that the insurers for all issuer defendants would guarantee up

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to $1 billion to investors who are class members, depending upon plaintiffs success against non-settling parties. The Company s board of directors has approved the proposed settlement, which if approved by the court would result in the plaintiffs dismissing the case against the Company and granting releases that extend to all of its officers and directors. Definitive settlement documentation was completed in early June 2004 and first presented to the court on June 14, 2004. On February 15, 2005, the court issued an opinion preliminarily approving the proposed settlement, contingent upon certain modifications being made to one aspect of the proposed settlement the proposed bar order. The court ruled that it had no authority to deviate from the wording of the Private Securities Litigation Reform Act of 1995 and that any bar order that may issue should the proposed settlement be finally approved must be limited to the express wording of 15 U.S.C. section 78u-4(f)(7)(A). On May 2, 2005 the issuer defendants and plaintiffs jointly submitted an amendment to the settlement agreement conforming the language of the settlement agreement with the court s February 15, 2005 ruling regarding the bar order. The court on August 31, 2005 issued an order preliminarily approving the settlement and setting a public hearing on its fairness for April 24, 2006 due to difficulties in mailing the required notice to class members. A final settlement approval hearing on the proposed issuer settlement was held on April 24, 2006. The court took the matter under submission. Meanwhile the consolidated case against the underwriters has proceeded. On October 2004, the district court certified a class. On December 5, 2006, however, the United States Court of Appeals for the Second Circuit reversed, holding that a class could not be certified. The Second Circuit s holding, while directly affecting only the underwriters, raises some doubt as to whether the settlement class contemplated by the proposed issuer settlement would be approved in its present form. On January 5, 2007, plaintiffs petitioned the Second Circuit for rehearing of the Second Circuit s decision. On April 6, 2007, the Second Circuit denied the petition. At a status conference on April 23, 2007, the district court suggested that the issuers settlement could not be approved in its present form, given the Second Circuit s ruling. not yet ruling on the matter, the district court has suggested that the parties will likely withdraw and seek to reformulate the current settlement in light of the Second Circuit ruling.

Jasmine Networks Litigation. On September 12, 2001, Jasmine Networks, Inc. (Jasmine) filed a lawsuit in the Santa Clara County Superior Court alleging claims against three officers and the Company for improperly obtaining and using information and technologies during the course of the negotiations with the Company s 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.

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 actions, the cross complaint alleges that Jasmine and its personnel engaged in fraud in connection with their effort to sell to the Company technology that Jasmine and its personnel wrongfully obtained from a third party in violation of such third party s rights. The cross complaint seeks declaratory judgment that the Company s technology does not incorporate any of Jasmine s alleged technology. The cross complaint seeks further declaratory judgment that Jasmine and its personnel misappropriated certain aspects of Jasmine s alleged technology. The Company intends to prosecute the cross complaint against Jasmine and its personnel vigorously, including, but not limited to, filing certain dispositive motions regarding the ownership of the technology which is the subject of the cross complaint.

CSIRO Litigation. In 2004, Australia s Commonwealth Scientific and Industrial Research Organisation (CSIRO) sent notice letters to a number of Wi-Fi System manufacturers regarding CSIRO s patent, U.S. Patent No. 5,487,069 as it relates to IEEE 802.11a and 802.11g wireless standards. In May 2005, a group of system manufacturers, including customers of our 802.11a or 802.11g wireless LAN products, filed an action in the United States District Court for the Northern District of California seeking a declaratory judgment against CSIRO that the plaintiff manufacturers products employing the IEEE 802.11a or 802.11g wireless standards do not infringe CSIRO s patent, U.S. Patent No. 5,487,069. In September 2006, CSIRO filed an answer and counterclaims alleging that plaintiffs products that employ those wireless standards infringe the CSIRO patent and seeking damages, including enhanced damages and attorneys fees and costs, and an injunction against sales of infringing products. In December 2006, the district court granted CSIRO s motion to transfer the case to the United States District Court for the Eastern District of Texas, where CSIRO had brought a similar lawsuit against another company. As a result of CSIRO s counterclaims for patent infringement, a customer of the Company has sought indemnification from it. Also in December 2006, CSIRO filed suit in the United States District Court for the Eastern District of Texas against several manufacturers and suppliers of wireless products, including customers of the Company s 802.11a or 802.11g wireless LAN products. The complaint alleges that the manufacture, use and sale of wireless products compliant with the IEEE 802.11a or 802.11g wireless standards infringes on the CSIRO patent. As a result of CSIRO s claim for patent infringement, another customer of the Company has sought indemnification from it. 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 CSIRO patent is invalid and unenforceable and that the Company and its customers do not infringe the CSIRO 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 wireless LAN products are found to infringe and the CSIRO patent is found to be valid and enforceable. CSIRO has not yet responded to the complaint.

Shareholder Derivative Litigation. Between July 7, 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. Pursuant to stipulations among the parties and orders of the court, our motion is currently scheduled to be heard on November 2, 2007.

On February 12, 2007, a new purported derivative action was filed in the United States District Court for the Northern District of California. Like *In re Marvell Technology Group Ltd. Derivative Litigation*, this lawsuit names the Company as a nominal defendant and a number of our 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.

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 misleading statements and omissions relating to the grants of stock options. The complaints seek, on behalf of persons who purchased our common stock 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*. By an order of the court dated February 28, 2007, the plaintiffs must file a consolidated complaint no later than 45 days after the Company files restated financial statements with the SEC.

SEC and United States Attorney Inquiries. In July 2006, the Company received a letter of informal inquiry from the Securities and Exchange Commission (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 is now conducting a formal investigation in this matter. On June 8, 2007, the Company received a document subpoena from the SEC. The Company has cooperated with the SEC and the United States Attorney regarding these matters and intends to continue to do so. The Company cannot predict the outcome of these investigations.

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, the Company does not believe that these matters will result in the payment of monetary damages, net of any applicable insurance proceeds, that in the aggregate would be material in relation to the Company s consolidated financial position or results of operations. However, 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

Stock Plans

In April 1995, the Company adopted the 1995 Stock Option Plan (the Option Plan). The Option Plan, as amended, had 324,289,786 shares of common stock reserved for issuance thereunder as of October 28, 2006. Options granted under the Option Plan generally have a term of ten years and generally must be issued at prices not less than 100% and 85% for incentive and nonqualified stock options, respectively, of the fair market value of the stock on the date of grant. Incentive stock options granted to shareholders who own greater than 10% of the outstanding stock are for periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant. The options generally vest 20% one year after the vesting commencement date, and the remaining shares vest one-sixtieth per month over the remaining forty-eight months. Options granted under the Option Plan prior to March 1, 2000 may be exercised prior to vesting. The Company has the right to repurchase such shares at their original purchase price if the optionee is terminated from service prior to vesting. Such right expires as the options vest over a five-year period. Options granted under the Option Plan subsequent to March 1, 2000 may only be exercised upon or after vesting.

In August 1997, the Company adopted the 1997 Directors Stock Option Plan (the Directors Plan). The Directors Plan had 3,600,000 shares of common stock reserved thereunder as of October 28, 2006. Under the Directors Plan, an outside director is granted 30,000 options upon appointment to the Board of Directors. These options vest 20% one year after the vesting commencement date and remaining shares vest one-sixtieth per month over the remaining forty-eight months. An outside director is also granted 6,000 options on the date of each annual meeting of the shareholders. These options vest one-twelfth per month over twelve months after the fourth anniversary of the vesting commencement date. Options granted under the Directors Plan may be exercised prior to vesting. The Company has the right to repurchase such shares at their original purchase price if the director is terminated or resigns from the Board of Directors prior to vesting. Such right expires as the options vest over a five-year period.

Employee Stock Purchase Plan

In June 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan had 33,871,612 shares of common stock reserve for issuance thereunder as of October 28, 2006. Under the Purchase Plan, employees are granted the right to purchase shares of common stock at a price per share that is 85% of the lesser of the fair market value of the shares at (i) the participant s entry date into the two-year offering period, or (ii) the end of each six-month purchase period within the offering period. Participants purchase stock using payroll deductions, which may not exceed 20% of their total cash compensation. Offering and purchase periods begin on December 1 and June 1 of each year. For the three and nine months ended October 28, 2006, the stock-based compensation expense related to the activity under the Purchase Plan was $0 and $8.6 million, respectively. The Company issued 895,170 shares under the Purchase Plan in the nine months ended October 28, 2006. As of October 28, 2006, there was no unrecognized compensation cost related to the Purchase Plan which will be recognized over the next two years.

Stock option activity under the Company s stock option plans for the nine months ended October 28, 2006 is summarized below (in thousands, except per share amounts):

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Restricted Stock Outstanding
	(In thousands)			(In thousands)	(In thousands)
Balance at January 28, 2006	94,244	$ 9.88			
Options granted	17,569	$ 28.35			4
Options forfeited/canceled/expired	(4,306)	$ 15.06			
Options exercised	(3,716)	$ 6.03			
Balance at October 28, 2006	103,791	$ 12.93			4
Vested or expected to vest at October 28, 2006	98,904	$ 12.50	6.7 years	$ 723,961	4
Exercisable at October 28, 2006	37,887	$ 7.30	5.4 years	$ 401,627	

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Included in the preceding table are 1,690,000 shares of option granted to certain officers at an exercise price of $24.80 during the second quarter of fiscal 2007 that will become exercisable only upon the achievement of specified annual earnings per share targets through fiscal 2010.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the aggregate difference between the closing stock price of the Company s common stock on October 27, 2006 of $17.65 and the exercise price for in-the-money options) that would have been received by the option holders if all options had been exercised on October 28, 2006. The total intrinsic value of options exercised in the three and nine months ended October 28, 2006 was $4.1 million and $76.1 million, respectively. Cash received from option exercises for the nine months ended October 28, 2006 was $22.4 million.

Included in the preceding table is activity related to the nonvested portion of the stock based arrangements as follows:

	Nonvested Options Outstanding		Weighted Average Grant Date Fair Value		Nonvested Restricted Stock Units Outstanding		Weighted Average Grant Date Fair Value
Balance at January 28, 2006	71,813	$	6.39			$	
Granted	17,568	$	14.87		144	$	32.12
Vested	(11,670)	$	5.79			$	
Canceled/Forfeited	(4,288)	$	8.80			$	
Balance at October 28, 2006	73,423	$	8.37		144	$	32.12

As of October 28, 2006, there was $410.5 million of unrecognized compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 1.6 years. The Company s current practice is to issue new shares to satisfy share option exercises.

Under applicable securities laws, the Company suspended all stock option exercise transactions under its Stock Option Plan effective on the close of business on September 7, 2006. On September 8, 2006, management communicated the trading suspension, which was expected to last until the Company filed its delinquent SEC reports, to all option holders. As a result, the exercisability of all outstanding options, including vested awards held by certain separated employees, was modified. Incremental compensation costs, representing the excess of the fair value of the modified award over the fair value of the original award immediately before the filing of the Company s delinquent SEC reports, on affected awards will be recognized in the second half of fiscal 2008.

In December 2006, the options granted to five officers and directors of the Company were reformed to reflect higher exercise prices. There was no incremental compensation cost resulting from the modification.

Total tax benefit attributable to options exercised in the nine months ended October 28, 2006 was $0.9 million. The excess tax benefits from stock-based compensation of $0.9 million as reported on the condensed consolidated statement of cash flows in financing activities represents the reduction, in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods.

Stock Award Activity

In the first nine months of fiscal 2007, the Company granted 140,000 restricted stock awards to its employees under the 1995 Stock Option Plan. Such awards generally vest over a period of five years from the date of grant. The restricted stock awards have the voting rights of common stock and the shares underlying the restricted are considered issued and outstanding. The Company expenses the value of the restricted stock awards determined based on the fair market value of the shares at the date of grant, ratably over the period during which the restrictions lapse. The grant of restricted stock awards is deducted from the shares available for grant under the Company s stock option plan. Restricted stock activity under the Company s stock option plans for the nine months ended October 28, 2006 is summarized below (in thousands, except per share amounts):

		Restricted Stock Outstanding		Weighted Average Grant Date Fair Value	
Balance at January 28, 2006				$	
Restricted stock granted		140		32.21	

Restricted stock forfeited						
Restricted stock vested						
Balance at October 28, 2006		140		$	32.21	

No restricted stock awards vested during the nine months ended October 28, 2006. Based on the closing price of the Company s stock of $17.65, on October 27, 2006, the total pretax intrinsic value of all outstanding restricted stock was $2.5 million.

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

	Three Months Ended		Nine Months Ended	
	October 28, 2006	**October 29, 2005 (restated)**	**October 28, 2006**	**October 29, 2005 (restated)**
Cost of goods sold	$ 2,602	$ 503	$ 8,497	$ 2,849
Research and development	26,322	4,878	93,003	24,682
Selling and marketing	6,502	1,415	23,198	6,655
General and administrative	6,702	2,771	21,796	14,608
	$ 42,128	$ 9,567	$ 146,494	$ 48,794

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**	
	October 28, 2006	**October 29, 2005 (restated)**	**October 28, 2006**	**October 29, 2005**
Volatility		61 %	41 %	73 %
Expected life (in years)		4.0	1.3	1.3
Risk-free interest rate		4.2 %	5.0 %	3.3 %
Dividend yield				

	Stock Option Plans Nine Months Ended		**ESPP Nine Months Ended**	
	October 28, 2006	**October 29, 2005 (restated)**	**October 28, 2006**	**October 29, 2005**
Volatility	59 %	70 %	41 %	73 %
Expected life (in years)	4.7	4.4	1.3	1.3
Risk-free interest rate	4.7 %	4.0 %	5.0 %	3.3 %
Dividend yield				

In refining 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 Marvell s historical daily stock price volatility and average implied volatility.

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. From January 29, 2006, stock-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those stock-based awards that are expected to vest. Previously under APB 25, previously recognized expense was reversed for the portion of awards forfeited prior to vesting as and when forfeitures occurred.

No options were granted in the three month period ended October 28, 2006. The weighted average fair value per share of the options granted in the three month period ended October 29, 2005 was $10.81. The weighted average fair values per share of the options granted in the nine month period ended October 28, 2006 and October 29, 2005 was $15.13 and $10.54, respectively.

The Company has granted performance based options to executives contingent upon achieving pro forma earnings per share targets (EPS). Pro forma EPS will be calculated by adjusting diluted net income per share under generally accepted accounting principles (GAAP EPS) for the impact of (i) non-cash stock-based compensation charges by adding to GAAP EPS non-cash stock-based compensation expense recognized under SFAS 123R, and (ii) non-cash charges associated with purchase accounting, including purchase accounting adjustments for inventory and other write-off related expenses by adding to GAAP EPS amortization and write-off of acquired intangible assets and other and acquired in-process research and development. Share options were granted at the fair market value on the date of grant and fully vest upon achievement of these earnings per share targets within a four-year period. The contractual lives of the options are 10 years from the date of grant. The fair value of the each performance option grant that is expected to vest under these conditions was estimated on the date of grant using the same option valuation model for options granted under the Company s Option Plan. If such goals are not met, no compensation expense is recognized and any recognized compensation expense is reversed.

Prior to the adoption of SFAS 123R, the Company provided disclosures required under SFAS 123. The following table illustrates the effect on loss and net loss per share, net of tax effects for the first quarter of fiscal 2006 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock based awards (in thousands, except for per share data):

	Three Months Ended October 29, 2005 (restated)	**Nine Months Ended October 29, 2005 (restated)**
Net income:		
As reported	$ 83,355	$ 184,401
Adjustments:		
Stock-based employee compensation expense included in reported net income, net of tax effects	9,567	48,794
Stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(46,435)	(135,125)
Pro forma	$ 46,487	$ 98,070
Basic net income per share:		
As reported	$ 0.15	$ 0.33
Pro forma	$ 0.08	$ 0.17
Diluted net income per share:		
As reported	$ 0.13	$ 0.29
Pro forma	$ 0.07	$ 0.16

Note 9. Related Party Transactions

During the third quarters of fiscal 2007 and 2006, the Company incurred approximately $1,000 and $0.2 million, respectively of expenses from an unrelated third-party entity, ACM Aviation, Inc. (ACM) for charter aircraft services provided to MSI for Estopia Air LLC (Estopia Air). During the first nine months of fiscal 2007 and 2006, the Company incurred approximately $0.5 million and $0.6 million, respectively, of expenses from ACM, for charter aircraft services provided to MSI. The aircraft provided by ACM to the Company for such services is owned by Estopia Air. The Company s President and Chief Executive Officer, Dr. Sehat Sutardja and the Company s Executive Vice President and Chief Operating Officer, Weili Dai, through their control and ownership of Estopia Air, own the aircraft provided by ACM. The expenses incurred were the result of the Company s use of the aircraft for business travel purposes. The cost of such usage was determined based on market prices.

On February 19, 2005, the Company, through its subsidiaries MSI and Marvell Asia Pte. Ltd. (MAPL), entered into a development agreement with MagnetoX Inc. (MagnetoX). The development agreement is substantially on similar terms as other development agreements with other parties. The Company did not recognize any revenue from the development agreement or product revenue during the first nine months of fiscal 2007. Total revenue expected to be recognized from the development agreement is $1.0 million. Herbert Chang, one of the Company s directors, is a shareholder of MagnetoX and its Chairman of the Board, President and Chief Executive Officer.

Estopia LLC (Estopia) is also a shareholder of MagnetoX. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of MagnetoX.

On August 19, 2005, the Company, through its subsidiaries MSI and Marvell International Ltd., entered into a License and Manufacturing Services Agreement (the License Agreement) with C2 Microsystems, Inc. (C2Micro). The License Agreement is on substantially similar terms as other license and manufacturing services agreements with other third parties. The Company did not recognize any revenue from C2Micro during the third quarter of fiscal 2007 and 2006, respectively. The Company recognized $0.3 million of revenue from the License Agreement with C2 Microsystems during the first nine months of fiscal 2007. Dr. Sehat Sutardja and Weili Dai, through their ownership and control of Estopia, are indirect shareholders of C2Micro. The Company had recorded a receivable of $154,000 and deferred revenue of $42,000 from C2Micro as of October 28, 2006. Herbert Chang, through his ownership and control of C-Squared venture entities, is also an indirect shareholder of C2Micro. Dr. Pantas Sutardja, the Company s Chief Technology Officer, is also a shareholder of C2Micro.

Note 10. Subsequent Events

On November 8, 2006, the Company completed its acquisition of the communications and applications business of Intel Corporation (ICAP Business) and paid $600.0 million in cash upon closing of the transaction. The Company recorded a one-time charge for purchased in-process research and development expenses related to the acquisition of $77.8 million in the fourth fiscal quarter of fiscal 2007. In addition to the asset purchase, Marvell and the third party agree to enter into certain additional agreements, including a supply agreement. Under the terms of the agreement the Company has committed to purchase and Intel has agreed to supply a minimum number of wafers at fixed prices. If at the end of any fiscal quarter for Intel, there is a shortfall between the quantity of supply ordered by the Company and the quantities of supply required under the supply agreement commitment, Intel will invoice the Company for the shortfall and will deliver the corresponding quantity upon receipt of payment from the Company. The agreement requires the Company to prepay for certain wafers six months in advance of delivery and requires it to issue non cancellable purchase orders at least six months in advance of requested delivery dates for all purchases under the supply agreement.

In November 2006, the Company borrowed $400.0 million from a group of lenders in the form of term loans to partially finance the acquisition of the ICAP Business. Amounts borrowed under the credit agreement bear interest at the higher of the lender s prime rate or 0.5% per annum above the Federal Funds Effective Rate, as defined in the agreement, plus a 1% margin. In the case of Eurodollar loans, amounts borrowed bear interest at a rate equal to Adjusted LIBOR plus 2% margin. Such margins are subject to reductions or increases depending on the Company s credit rating. The credit agreement also contains customary covenants, including financial covenants. The Company may repay the term loans at any time without premium or penalty. The Company must also prepay the term loans depending on certain specified events. Certain of the Company s subsidiaries have guaranteed the obligations under the credit agreement. In connection with the credit agreement, the Company and three of its subsidiaries entered into pledge agreements with the lender to which each such entity has granted the lender a security interest in the equity interests held by such entity in certain affiliates.

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

The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, allows, 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 signifcantly 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;

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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; the amount of our future sales in Asia; our intention to continue to invest significant resources for research and development; our expected results, cash flows, and expenses, including those related to sales and marketing, research and development 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; our expectations regarding the growth in business and operations; our expectations regarding our compliance with SEC periodic reporting requirements and NASDAQ listing requirements; our expectations regarding the impact of the restatement of our financial statements in connection with the internal review of our historical stock option granting; our plans regarding remedition of 2007 material weakness and expectations regarding the effectiveness of those remediation efforts; our plan regarding dividends; our plan regarding forward exchange contracts; and the effect of recent accounting pronouncements and changes in taxation rules. 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; 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 weaknesses 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. These forward-looking statements speak only as of the date hereof. Unless required by law, we undertake no obligation to update publicly 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 January 2001, we acquired Galileo Technology Ltd. (now Marvell Semiconductor Israel Ltd, or MSIL) in a stock-for-stock transaction for aggregate consideration of approximately $2.5 billion. MSIL develops high-performance internetworking and switching products for the broadband communications market. In June 2003, we acquired RADLAN Computer Communications Ltd. (RADLAN), a leading provider of embedded networking software, for aggregate consideration to date of approximately $134.7 million. In November 2005, we acquired the hard disk and tape drive controller business of QLogic Corporation for approximately $232.5 million. The acquired business designs and supplies controller chips for data storage peripherals, such as hard disk and tape drives. In February 2006, we acquired the semiconductor design business of UTStarcom, Inc. for $40.8 million. The semiconductor design business of UTStarcom designs and supplies chipsets for cellular phone applications. In May 2006, we acquired the printer semiconductor business of Avago Technologies Limited for $263.0 million and potential additional earnout payments. This business designs and develops system-on-chip and system level solutions for both inkjet and laser jet printer systems. In November 2006, we completed the acquisition of the communications and application processor business of Intel Corporation for $600.0 million. The communications and application processor business of Intel designs and develops cellular baseband processors for multi-mode, multi-band wireless handheld devices such as handsets, PDAs and smartphones.

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

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

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

Restatement Adjustments - Stock Based Compensation

Background

On about May 23, 2006, our Chief Executive Officer initiated a review of our past stock option granting practices. Then on May 25, 2006, the Board appointed a committee, chaired by and consisting solely of an independent and disinterested member of the Audit Committee who had no prior involvement in the stock option process, to conduct the internal review of our historical stock option practices and related accounting matters. This committee retained outside legal counsel at the time to assist with this internal review. In June and July 2006, this committee identified various stock option grants as having been potentially selected with the benefit of hindsight. During this time we were also named as a nominal defendant, and a number of our current and former directors and officers were named as defendants, in purported shareholder derivative actions.

During this time, we were informed that our outside legal counsel at the time could not represent both the independent committee and us, particularly if that independent committee was going to evaluate and address matters raised by the derivative actions. Our Board met on July 19, 2006 and appointed a successor special committee, titled the Special Committee Regarding Derivative Litigation, to assume responsibility for the stock option review and to evaluate and address matters raised by the derivative action (the Special Committee). The same independent director continued as the sole member of the Special Committee and, after consideration of a number of firms, selected new, independent counsel to represent the Special Committee. The Special Committee subsequently retained a second independent law firm (collectively Independent Counsel). Independent Counsel retained forensic accounting experts to assist in the internal review.

The Special Committee reported its preliminary findings on quantitative issues to the Audit Committee and the Board on September 28, 2006. Based on the report of the Special Committee, and upon the recommendation of management and the Audit Committee, the Board concluded on October 2, 2006, that we would need to restate our historical financial statements to record additional non-cash charges for stock-based compensation expense related to past option grants and that the historical financial statements and all earnings press releases and similar communications issued by us relating to periods beginning on or after our initial public offering in June 2000 should no longer be relied upon. We reported these conclusions in a current report on Form 8-K filed on the same day.

On February 7, 2007, the former General Counsel of our U.S. subsidiary, Marvell Semiconductor, Inc. (MSI), who was a subject of the internal review, raised allegations regarding the independence of the sole member of the Special Committee. Our Audit Committee thereafter formed a subcommittee consisting of the Chairman of the Audit Committee to investigate the matter. The subcommittee appointed a former federal judge to serve as independent reviewer for the subcommittee who in turn retained independent counsel. Although the independent reviewer made no findings as to the truth of the allegations themselves and expressed substantial doubt regarding their credibility, he nevertheless concluded that the independent director should step down from the Special Committee to ensure compliance with the stringent independence standards developed by courts reviewing the independence of special litigation committees formed to assess the merits of shareholder derivative litigation. The subcommittee also found that the

General Counsel violated our Code of Ethics and Business Conduct for not reporting the allegations timely. The subcommittee accepted the findings of the independent reviewer. We have since terminated the General Counsel for the violation. On March 30, 2007, the independent director resigned from the Special Committee and the Board appointed two independent non-director members to the Special Committee to continue the review of our historical stock option practices and related accounting matters, which action is permitted under our bye-laws. As a result, the Special Committee thereafter comprised two non-directors.

On April 27, 2007, the Special Committee reported its findings to the Board of Directors and to the Implementation Committee, which consists of three independent members of the Board. The Implementation Committee was formed by the Board on April 26, 2007 to make such decisions and take such action as the committee determines to be appropriate in light of the Special Committee s findings and recommendations. On May 8, 2007, we disclosed on Form 8-K the completion of the independent review.

Findings of the Special Committee

From our initial public offering through June 9, 2006 (the Relevant Period), option grants awarded to employees who were not then executive officers, as defined in Section 16 of the Securities Exchange Act of 1934, as amended (Section 16 Officers), were awarded either by the Board of Directors or the Stock Option Committee of the Board. The Stock Option Committee was formed by the Board of Directors in December 2000 and consisted of the Chief Executive Officer and the former Executive Vice President and Chief Operating Officer. Pursuant to authority delegated by the Board of Directors under Marvell s 1995 Stock Option Plan, the Stock Option Committee was empowered to act jointly. The Stock Option Committee awarded all grants to non-executive employees after its formation until June 9, 2006.

The Special Committee concluded that only one member of the Stock Option Committee was actively involved in the grant approval process. Of the 59 minutes of meetings of the Stock Option Committee, all of which were prepared by or under the direction of the former General Counsel of MSI, only the first set of minutes were separately prepared for each member s signature and signed by each of them; subsequently the minutes were only prepared for one member to sign and only one member signed those minutes. Additionally, the Special Committee determined that the Stock Option Committee conducted no meetings with respect to option grants and that minutes reflecting such meetings were false.

The Special Committee determined that in a substantial number of instances grant dates were chosen with the benefit of hindsight, so as to provide exercise prices lower than the fair market value on the actual measurement date.

In addition to the foregoing, the review determined that false documentation supporting new hires was employed to reflect start dates that preceded the actual first day of employment, and to reflect secondary grant authorizations as if they occurred on dates prior to the original grant date, which facilitated giving the employees favorable prices.

From our initial public offering in June 2000 through February 28, 2002, grants to our former Chief Financial Officer were awarded only by the Stock Option Committee. The Stock Option Committee was not advised that it lacked the authority to make such awards. Furthermore, the first award made to our former Chief Financial Officer by the Executive Compensation Committee dated October 16, 2002 was backdated and the Special Committee found that the former General Counsel misled the Executive Compensation Committee with respect to the facts and circumstances surrounding the grant, including the grant date.

During the Relevant Period, option grants to Section 16 Officers and members of the Board of Directors were approved by the Board of Directors or the Executive Compensation Committee or made pursuant to the Automatic Director Grant Program under the 1997 Directors Stock Option Plan. In the absence of a meeting, grant approvals by the Executive Compensation Committee were documented via written consents, which were dated as of a specified date but signed at a later time. The Executive Compensation Committee comprised three to four independent members of the Board over the Relevant Period. The Special Committee found that current board members who had served or are serving on the Executive Compensation Committee had not engaged in impropriety or intentional backdating with the benefit of hindsight.

The Special Committee found evidence of recommendations made by representatives of Human Resources and Finance and our external auditors between 2000 and 2004 to grant options on fixed grant dates. In August 2004, we implemented revisions to our stock option grant processes and procedures for new hire and secondary grants that generally followed a fixed grant date schedule.

For the period from our initial public offering in June 2000 through June 2006, the Special Committee found a systemic failure in controls over the stock option process, and that corporate documents, including our SEC filings on Form 10-K and Form 10-Q and proxy statements, were false in relation to the accounting and related disclosure covering stock option matters.

The Special Committee found that certain individuals had varying degrees of responsibility for the lack of controls and the inappropriate grant practices. As to the following individuals, the Special Committee concluded among other things:

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Matthew Gloss, MSI s corporate counsel from April 2000 until February 2001 and thereafter its Vice President and subsequently, General Counsel until his termination in March 2007, failed to properly advise upper management, including Dr. Sutardja and Ms. Dai, about their responsibilities and duties regarding stock options and other financial filings. The minutes of the Stock Option Committee were prepared by or at the direction of Matthew Gloss. Mr. Gloss was also found to have misled the Executive Compensation Committee by creating false minutes and unanimous written consents including in one instance adding or directing the addition of a grant date to a unanimous written consent after that unanimous written consent was were executed, or by creating minutes that were incomplete, inaccurate or misleading. He also failed to establish proper controls over the stock option process despite being on notice of various control problems.

George A. Hervey, Marvell s Vice President and Chief Financial Officer throughout the Relevant Period until his resignation in May 2007, failed to properly advise upper management, including Dr. Sutardja and Ms. Dai, about their responsibilities and duties regarding stock options and other financial filings. Mr. Hervey also was found to have been aware of awarding options to two employees prior to their start date. He also failed to establish a system of proper controls despite being on notice of repeated concerns raised by others regarding the stock option process. He signed inaccurate external documents, including our SEC filings and financial statements.

Weili Dai, Marvell s former Board member, whoserved as our Executive Vice President and General Manager of the Communications **Business Group from 1999 to April 2006** and thereafter also as our Chief Operating Officer until she resigned from such positions in May 2007, played a central role in all Stock Option Committee grants. Ms. Dai participated in the selection of grant dates with the benefit of hindsight and signed false minutes and other employee related corporate documents. The Special Committee also found that she failed to establish proper internal controls and failed to exercise proper review and inquiry as an officer. Certain individuals involved in the process said that they did not feel able to provide her with frank advice. She signed inaccurate external documents, including 10-K s and proxy statements. She did not personally benefit from any of the grants she approved.

Dr. Sehat Sutardja, Marvell s Chairman of the Board, President and Chief Executive Officer, was found to have had a limited role in the stock option process and to have participated in only a few instances in awards with incorrect measurement dates with respect to which he had received no or inadequate advice. He signed inaccurate external documents, including our SEC filings, financial statements, and proxy statements. The Special Committee found that he failed to establish proper internal controls and that certain individuals involved in the process to some extent did not feel able to provide him with frank advice. He did not personally benefit from any of the grants he approved.

Remediation

With respect to the following employees, the Special Committee made recommendations and Marvell s Implementation Committee has implemented or is in the process of implementing the following remedial steps:

Marvell accepted the resignation of George A. Hervey on May 2, 2007. All unvested stock options previously awarded to him were cancelled.

The Implementation Committee of our Board of Directors determined, contrary to the recommendation of the Special Committee that Ms. Dai have no continuing role with the Company, that retaining the services of Ms. Dai in a substantially reduced capacity as Director of Strategic Marketing and Business Development, an individual contributor in a non-managerial role, and under the auspices of the Implementation Committee better serves the interests of all shareholders. Ms. Dai will have no authority to undertake any decisions affecting internal controls or financial matters of the Company. The Implementation Committee will provide periodic compliance updates to our Board of Directors on Ms. Dai s activities. Additionally, all of Ms. Dai s outstanding options that were unvested as of May 6, 2007 have been cancelled and the exercisability of already vested options have been limited, notwithstanding her continued employment.

Dr. Sehat Sutardja will remain as Chief Executive Officer and as a member of the Board, but will step down as Chairman of the Board in favor of a non-executive Chairman. Dr. Sutardja agreed to reduce the number of shares received in his December 26, 2003 option grant by 500,000 pre-split shares (2,000,000 post-split shares), which is the amount of underlying shares mistakenly awarded by the Executive Compensation Committee in excess of that authorized under the applicable stock option plan.

In April 2007, the Stock Option Committee was formally dissolved; however, it ceased to function during June 2006 and has granted no options since that time. Currently, the Executive Compensation Committee, comprising two independent Board members, holds periodic meetings to approve equity award grants. The process requires that any proposed equity awards be reviewed in advance by the Human Resources, Legal, Finance and Internal Audit Departments, and requires communication of the details of proposed equity awards to committee members prior to each monthly meeting, as well as awarding recipients promptly after the meeting. Equity awards are priced and valued based upon the closing price of our common stock on the date of the meeting. Decisions of the committee meeting are documented by minutes. Additionally, the Executive Compensation Committee adopted a policy regarding the granting of equity-based compensation awards. Following the Special Committee s recommendations, we are conducting a search for a new Chief Operating Officer, Chief Financial Officer, General Counsel and Vice President of Compliance. Additionally, the Board s Governance Committee is conducting a search for three new independent directors to fill existing vacancies. One of these independent directors will succeed Dr. Sutardja as Chairman of the Board.

Pre-tax Financial Impact of the Equity Award Review

Approximately 74% of shares granted during the Relevant Period were backdated or resulted in additional accounting charges. Of these re-measured grants, the stock prices on the original grant date were lower than the prices on the appropriate measurement dates for 97% of such shares. Substantially all options granted (99% of shares granted during the Relevant Period) have been evaluated for appropriate re-measurement dates under APB 25.

The types of grant discrepancies uncovered by the internal review (by both the Special Committee and management) and the additional pre-tax stock-compensation expense arising from these adjustments, quantified under APB 25 for periods through fiscal 2006, are summarized as follows (in thousands):

	Cumulative through January 28, 2006	**Year Ended January 28, 2006**	**Year Ended January 29, 2005**	**Year Ended January 31, 2004**	**Year Ended February 1, 2003**	**Year Ended February 2, 2002**	**Year Ended January 27, 2001 and prior**
Board of Director Grants (a)	$ 1	$ 1	$	$	$	$	$
Officer Grants (b)	19,577	6,317	12,023	836	270	127	4
Re-priced Officer Grants (c)	39,658	24,827	9,888	4,943			
New Hire Grants effective hire dates (d)	19,879	249	1,530	2,729	4,754	7,278	3,339
Other New Hire (e)	49,876	5,313	13,235	13,437	10,322	7,061	508
Secondary Grants (e)	18,165	2,360	3,713	3,016	4,432	3,975	669
Re-priced New Hire Grants (f)	100,575	49,798	23,727	25,254	(1,885)	3,681	-
Evergreen Grants (g)	60,838	9,870	11,082	12,634	17,911	9,312	29
Non-employee Grants * (h)	8,800	121	486	1,166	(264)	1,884	5,407
Termination related charges (i)	10,006						10,006
	$ 327,375	$ 98,856	$ 75,684	$ 64,015	$ 35,540	$ 33,318	$ 19,962

* The restated financial statements include charges for non-employee grants of $1,062,000 for fiscal 2000, $139,000 for fiscal 1999, $41,000 for fiscal 1998, $12,000 for fiscal 1997 and $1,000 for fiscal 1996.

(a) *Board of Director Grants:* Non-employee directors receive initial and annual grants in their capacity as directors. A grant of

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24,000 shares to a non-employee director, issued on an annual general meeting date in accordance with the terms of his appointment letter, was outside the 1997 Directors Stock Option Plan and therefore, required approval from the Board. The Board approval was obtained at a later date. For accounting purposes, the grant was re-measured based on our stock price at the date of the Board s ratification.

In December 2006, the terms of this option were reformed to reflect the revised stock option exercise price.

(b) Officer Grants: During the Relevant Period, we granted options on 13 different dates (including the Re-priced Officer Grants) to the then-Section 16 Officers Dr. Sehat Sutardja, Weili Dai, Dr. Pantas Sutardja and George Hervey. We recorded additional compensation costs for one grant on December 26, 2003 (which represented 75% of options granted) for three of the Officers who were also our founders (Founder Officers) and six grants (which represented 96% of options granted) for George Hervey. For accounting purposes, the grant of 12,640,000 shares to the Founder Officers was re-measured based on the stock price at the date the Executive Compensation Committee meeting occurred to approve the grants. Grants to George Hervey totaling 1,279,892 shares of options originally priced at the as of dates of the written consents have been re-measured to the last documented date of approval received from members of the Executive Compensation Committee.

In December 2006, the terms of the options deemed to have been issued at a discount were reformed to reflect the revised stock option exercise prices for all affected Section 16 Officer grants. Of these 5.4 million reformed options, we received from the Officers the incremental exercise prices for the portion of these options which had previously been exercised totaling $9.6 million. The reformation of these options did not result in incremental compensation cost in the fourth quarter of fiscal 2007.

The amounts above do not include $7.5 million in unrecognized stock-based compensation that will be recorded in the second quarter of fiscal 2008 in connection with the cancellation of certain officer grants to Dr. Sehat Sutardja and Weili Dai.

(c) Re-priced Officer Grants: The minutes of the May 22, 2002 Executive Compensation Committee meeting reflect the Executive Compensation Committee s approval of a grant to the Founder Officers totaling 1.6 million shares, to be effective on the execution of a unanimous written consent. In June 2002, the Executive Compensation Committee members executed a unanimous written consent dated June 6, 2002 and effective as of May 22, 2002. The Special Committee found that on September 10, 2002 after the former General Counsel had a discussion with two of the Founder Officers who indicated that the setting of the price as of May 22, 2002 was inaccurate, the grant was repriced to the fair market value on June 6, 2002. The Special Committee found that the former General Counsel had misled the Executive Compensation Committee as to the reasons for the change. The Special Committee further found that the amendment was falsely characterized as a documentation error rather than a grant modification. While the affected options were not considered to be issued at a discount on the date of the modification, these shares were subject to variable accounting until our adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R) at the beginning of fiscal 2007.

(d) New Hire Grants effective hire dates: The internal review identified that 4,669,200 options to 30 new hire recipients which required revision to reflect a later date of effective employment. In all cases, the stock price on the original grant date was lower than the price on the appropriate measurement date. For accounting purposes, the new hire start dates had to be reconstructed through payroll records and evaluated to determine appropriate re-measurement dates.

(e) Other New Hire and Secondary Grants: In addition to grants issued to new hires at the commencement of their employment, we occasionally issue secondary grants to employees for outstanding performance, retention or other discretionary reasons outside of the annual performance review cycle. During the Relevant Period, we granted new hire and secondary options on 86 different dates, excluding assumption of acquisition-related options. These dates included grants made from August 2004 onwards when a fixed grant date schedule was set on the first Friday of each month. As a result of the internal review, we recorded additional compensation costs for grants relating to 37 different grant dates, impacting approximately two-thirds of our new hire and secondary grants (totaling 48,708,478 options). The original grant date with respect to a such grant preceded the appropriate measurement date and in substantially all instances, the stock price on the former date was lower than the price on the appropriate measurement date. Generally, the terms of new hire grants, except for their exercise prices, are stated in employee offer letters which are acknowledged by employees. For new hire grants, re-measurement dates were determined based on the first instance when the Stock Option Committee grant date was picked. For secondary grants, as there was no other reliable documentation available to support the measurement date, we applied the date the grant was submitted to stock administration for processing, which typically indicated the conclusion of the grant process. The last date of submission was used unless the submitted change was proven to be purely administrative in nature and unrelated to the terms of the grant. Absent such submission documentation, we used the date the grant entry was created in our option database, as this was the most objectively verifiable date when the terms of the grant were known, in accordance with the SEC Chief Accountant s letter issued on September 19, 2006, outlining the SEC staff s interpretation of specific accounting guidance for registrants under APB 25.

(f) Re-priced New Hire Grants: Of the new hire grants in the Relevant Period, grant prices were re-set for a segment of grants on three grant dates. Consequently, affected awards totaling 6,224,200 options were subject to variable accounting until our adoption of SFAS 123R. The re-pricing resulted from the Stock Option Committee s originally designated grant date being modified to a later grant date.

(g) Evergreen Grants: During the Relevant Period, there were eight Evergreen grant dates. Substantially all employees are entitled to these grants for retention purposes. There were two Evergreen grant dates in both fiscal 2003 and 2004. There was evidence of amendments to the recipients and for the number of options subsequent to the grant date. In all cases, the definitive lists of award recipients grant date could not be reasonably determined until after the original grant date, impacting 54,702,828 options. Consequently, all Evergreen grants were re-measured on subsequent dates when the granting process was considered to be finalized. For purposes of the restatement, we used the date the grant was submitted to stock administration for processing, which typically indicated the conclusion of the grant process. The last date of submission was used unless the submitted change was proven to be purely administrative in nature and unrelated to the terms of the grant. Absent this supporting documentation, the date the grant entry was created in our option database was used. In substantially all instances, the stock price on the former date was lower than the price on the appropriate measurement date. The last Evergreen grant (totaling 7,215,056 options) occurred during fiscal 2007 and the effects on the restatement were included in the restated fair value of the affected grants under SFAS 123R, increasing the grant date fair value of affected options by $0.31 per share.

(h) Non-employee Grants: Since our inception, 3,819,000 options were granted to 13 recipients who were not employees or directors. These grants were erroneously accounted for under APB 25 as if they had been made to employees. Of these, four recipients that were granted a total of 1,483,000 options subsequently became employees or directors. As a result, the affected awards were accounted for as non-employee grants under EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, which resulted in the application of variable accounting on these options until exercised or cancelled. Options held by consultants who became employees or directors have been accounted for under FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, which addresses a change in grantee status.

(i) Termination-related charges: With respect to option grants to an employee, the post-service exercise period for 605,332 vested stock options was effectively extended by an unpaid leave of absence arrangement which appears to have lacked substance. We applied APB 25 as if the leave of absence arrangement was a constructive modification extending the exercise period of vested awards. We recorded $10.0 million in additional deferred compensation charges in fiscal 2001.

Notwithstanding the foregoing, the lack of conclusive evidence in the case of certain grants required our management to apply significant judgment in establishing revised measurement dates. We determined that the total cumulative, pre-tax, non-cash, stock-based compensation expense resulting from revised measurement dates under APB 25 was $327.4 million for periods through fiscal 2006. There was no impact on revenue. We adopted SFAS 123R at the beginning of fiscal 2007.

Tax Impact of the Equity Award Review and Other

The majority of the additional $327.4 million stock option compensation is expensed on the financial statements of the entities located in tax jurisdictions having a lower tax rate than that of the U.S. The tax benefits associated with all but $12.0 million of the $327.4 million total expense is reocrded in Bermuda at zero percent tax rate. The $12.0 million of compensation expense and associated tax benefits have resulted in a cumulative deferred tax asset of $2.5 million as of January 2006 and a deferred provision benefit of $4.8 million. The tax impact of the adjustments arising from the equity award review is summarized as follows (in thousands):

	Cumulative through January 28, 2006	**Year Ended January 28, 2006**	**Year Ended January 29, 2005**	**Year Ended January 31, 2004**	**Year Ended February 1, 2003**	**Year Ended February 2, 2002**	**Year Ended January 27, 2001**
Operating costs and expenses - Payroll tax *(a)	$ 7,628	$ 4,384	$ 2,306	$ 921	$ 17	$	$
Provision for income tax Deferred Income Tax Benefit (b)	(4,806)	(1,822)	(1,150)	(1,170)	(405)	(259)	
Provision for income tax Section 162(m) and utilization of deferred tax assets ** (c)	27,206	27,206					
Tax impact of the equity awarded review	$ 30,028	$ 29,768	$ 1,156	$ (249)	$ (388)	$ (259)	$
Reduction to deferred tax asset for exemption benefit (d)	$ 5,275	$ 3,249	$ 2,026				

* $3.0 million of additional employer and employee withholding taxes relating to exercises of affected options, including penalty and interest, and $24.2 million of Section 409A expenses of employee s, including penalties and interest was also recorded in fiscal 2007.

** $4.9 million of penalty and interest associated with section 162(m) liability was also recorded in fiscal 2007.

(a) Payroll Tax - The revised federal and state measurement dates for certain stock options as discussed in this filing may result in adverse federal and state tax consequences to holders of those options under IRC Section 409A which was enacted in 2004 to impose certain restrictions on deferred compensation arrangements. The adverse tax consequences are that Section 409A may subject the option holder of the re-measured retroactively priced stock options to a penalty tax and interest on the exercise of the options vesting after December 31, 2004. In addition to similar penalty taxes and interest under California and other state income tax laws upon the exercise of the option grant will apply.

• *Exercised options*. The option grants had been originally issued as incentive stock options. Due to the re-measurement caused by the re-pricing, they have become non-statutory stock options. We have accrued employment taxes for the exercise in each of the years due to the conversion of the options from incentive to non-statutory. Included in the restated results through fiscal 2006 are additional employer and employee withholding taxes relating to exercises of affected options totaling $7.6 million, including penalties and interest. The amounts represent additional compensation expense and have been classified in their respective functional categories. On a calendar year basis the amounts total: calendar 2003 of $0.8 million, calendar 2004 of $1.9 million, calendar 2005 of $3.7 million, and calendar 2006 of $4.2 million. The above table reflects the amounts on a fiscal year basis. The full amount of compensation, taxes, interest and penalties has been accrued as reflected above as well as in fiscal 2007. The total amount accrued through fiscal 2007 is $10.6 million.

- *Section 409A*

We have informed employees who exercised options in 2006 that any additional tax costs accruing to such employees from Section 409A, ISO disqualification, and employment taxes will be reimbursed by us and grossed up.

For the Section 409A affected options exercised during calendar year 2006, the IRS issued guidelines that would allow employers to enter into a global settlement of Section 409A issues on behalf of their employees. California and other states have offered a similar program. This liability does not appear in the above table, but has been accured in fiscal year 2007 as explained in the remainder of this section.

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Because all holders of re-measured stock options issued generally were not involved in or aware of the retroactive pricing, the Board of Directors approved our plan to deal with the adverse tax consequences that may be incurred by the holders of the re-measured options in the fourth quarter of fiscal 2007. Therefore, we recorded in the last quarter of fiscal 2007 Section 409A expenses for the adverse tax consequences of the re-measured options exercised during calendar year 2006 of approximately $24.2 million, including estimated penalties and interest. The amount represents additional compensation expense and has been classified in the respective functional categories. We have sent timely notices to the IRS and the California Franchise Tax Board that we have elected to participate in these programs.

- *Unexercised options*. The IRS has provided taxpayers with the following two ways of correcting unexercised discounted stock options: 1) setting a fixed exercise date; or 2) increasing the exercise price of the option up to the fair market price on the date of grant. We are actively evaluating these options. The discount associated with unexercised stock options outstanding as of January 27, 2007 amounted to $51.7 million. We have not determined the tax consequences associated with these potential future remedies.

(b) Deferred Tax Asset for Stock Based Compensation: We recorded adjustments for the creation of additional deferred tax asset for stock based compensation that is deductible at later periods for U.S. income tax purposes on our balance sheets for year end dates of each of fiscal 2002 through fiscal 2006. As a result, additional benefits for income tax arising from stock based compensation was recognized in fiscal 2006 of $1.8 million, fiscal 2005 of $1.1 million, fiscal 2004 of $1.2 million, fiscal 2003 of $0.4 million and fiscal 2002 of $0.3 million. The total gross stock-based compensation cost that results in a deferred tax benefit is $12.0 million of the total expense of $327.4 million.

In addition, we evaluated the impact of the restatement on our global tax provision. Our parent company and its subsidiaries file tax returns in multiple tax jurisdictions around the world. In the U.S. jurisdiction one of our subsidiaries claims a tax deduction relative to stock options with regard to the U.S. distributor business. In accordance with FAS 123R for this jurisdiction where the deduction is claimed during fiscal 2007, we have recorded a deferred tax asset totaling $3.5 million at January 27, 2007, to reflect future tax deductions to the extent we believe such asset is recoverable.

(c) Income Tax - Section 162(m) and utilization of deferred tax assets: We have accrued for the current and deferred tax impact of $104.5 million of non-deductible officer compensation related to Internal Revenue Section 162(m) (Section 162(m)) in fiscal 2006. Section 162(m) limits the deductibility of compensation in excess of one million dollars, but exempts stock option comensation where the option was issued at fair market value on the date of grant. We have determined that $104.5 million of executive compensation in fiscal 2006 does not meet the exclusion criteria under Section 162(m), under existing IRS interpretations, and have therefore accrued $21.8 million of current tax expense and $5.4 million of deferred tax expense associated with the utilization of net operating losses. We have accrued the penalty and interest totaling $4.9 million associated with this liability in fiscal 2007.

(d) Other: We recorded adjustments to correct an overstatement of deferred tax asset related to the Singapore entity. The original deferred tax asset had not reflected the benefit of the Pioneer status of this entity.

Accumulated Deficit Impact of Equity Award Review and Other Tax Adjustments

The table below reflects the breakdown by year of the cumulative adjustment to retained earnings. Our consolidated financial statements for periods through fiscal 2006 included in previously filed periodic reports with the SEC for such periods have not been amended. The consolidated financial statements, included in this Form 10-Q, have been restated as follows (in thousands):

	Net income as reported	Stock-based compensation expense	Estimated additional payroll tax expense	Additional deferred income tax benefit	Additional deferred income tax provision	Section 162(m) and utilization of deferred tax assets	Cumulative effect of change in accounting principle, net of tax effect	Total Adjustments, net of tax	Net income as restated
Fiscal 2000 and prior *		$ 1,255	$	$	$	$	$	$ 1,255	
Fiscal 2001		18,707						18,707	
Fiscal 2002		33,318		(259)				33,059	
Fiscal 2003		35,540	17	(405)				35,152	
Fiscal 2004		64,015	921	(1,170)				63,766	
Cumulative effect at January 31, 2004		152,835	938	(1,834)				151,939	
Fiscal 2005	$ 141,661	75,684	2,306	(1,150)	2,026			78,866	$ 62,795
Fiscal 2006:									
Three months ended April 30, 2005		8,719	866					9,585	
Three months ended July 30, 2005		29,120	1,083					30,203	
Three months ended October 29, 2005		9,102	589					9,691	
Three months ended January 28, 2006		51,915	1,846	(1,822)	3,249	27,206		82,394	
Total for Fiscal 2006	331,363	98,856	4,384	(1,822)	3,249	27,206		131,873	199,490
Cumulative effect at January 28, 2006		327,375	7,628	(4,806)	5,275	27,206		362,678	
Three months ended April 29, 2006	75,297	4,225	2,170	(3,325)		3,510	(8,846)	(2,266)	77,563
Cumulative effect at April 29, 2006		$ 331,600	$ 9,798	$ (8,131)	$ 5,275	$ 30,716	$ (8,846)	$ 360,412	

* Comprised $1,062,000 for fiscal 2000, $139,000 for fiscal 1999, $41,000 for fiscal 1998, $12,000 for fiscal 1997 and $1,000 for fiscal 1996.

The restatement adjustments decreased previously reported basic net income per share by $0.24 and $0.14 for fiscal 2006 and 2005, respectively and diluted net income per share by $0.20 and $0.13 for fiscal 2006 and fiscal 2005, respectively.

Cashflows Impact of Equity Award Review

The additional payable for payroll taxes associated with these stock option grants of approximately $10.6 million, additional Section 409A expenses for the adverse tax consequences of the re-measured options exercised during calendar year 2006 of approximately $24.2 million, and

Section 162(m) liabilities of $26.5 million for cumulative period from fiscal 2001 through 2007, represents future cash outflow totaling $61.3 million.

The following tables present the impact of the financial statement adjustments on the previously reported Consolidated Statement of Operations for the three and nine months ended October 29, 2005:

	Three Months Ended October 29, 2005				Nine Months Ended October 29, 2005			
	As Previously Reported	Adjustments		As Restated	As Previously Reported	Adjustments		As Restated
	(In thousands, except per share amounts)							
Net revenue	$ 426,026	$		$ 426,026	$ 1,181,250	$		$ 1,181,250
Operating costs and expenses:								
Cost of goods sold	197,077	503	(A)	197,580	555,967	2,849	(A)	558,816
Research and development	77,689	5,354	(A)	83,043	222,751	26,347	(A)	249,098
Selling and marketing	21,634	1,495	(A)	23,129	63,898	7,392	(A)	71,290
General and administrative	9,029	2,804	(A)	11,833	24,107	14,744	(A)	38,851
Amortization of stock-based compensation	465	(465	)(A)		1,853	(1,853	)(A)	
Amortization and write-off of goodwill and acquired intangible assets and other	19,746			19,746	59,258			59,258
Total operating costs and expenses	325,640	9,691		335,331	927,834	49,479		977,313
Operating income (loss)								