CAVIUM, INC.
Form 10-Q
May 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-33435

CAVIUM, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	77-0558625
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2315 N. First Street	
San Jose, California	95131
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (408) 943-7100

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

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

The number of shares of the Registrant's Common Stock, $0.001 par value, outstanding as of April 25, 2018 was: 70,022,937

CAVIUM, INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAVIUM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(unaudited)

	As of March 31, 2018	As of December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$181,601	$140,498
Accounts receivable, net	204,524	230,143
Inventories	102,171	93,674
Prepaid expenses and other current assets	29,121	22,794
Total current assets	517,417	487,109
Property and equipment, net	193,742	192,515
Intangible assets, net	633,017	664,769
Goodwill	237,692	237,692
Other assets	7,182	7,240
Total assets	$1,589,050	$1,589,325
Liabilities and Stockholders' equity		
Current liabilities:		
Accounts payable	$83,952	$91,318
Accrued expenses and other current liabilities	42,648	38,753
Deferred revenue	6,751	9,236
Current portion of long-term debt	3,278	3,270
Capital lease and technology license obligations	39,583	31,435
Total current liabilities	176,212	174,012
Long-term debt	592,131	592,963
Capital lease and technology license obligations, net of current portion	9,506	15,370
Deferred tax liability	2,751	2,686
Other non-current liabilities	31,141	25,948
Total liabilities	811,741	810,979

Commitments and contingencies (Note 11)

Stockholders' equity		
Common stock, par value $0.001:		
70,022,937 and 69,155,793 shares issued and outstanding, respectively	70	69
Additional paid-in capital	1,223,035	1,183,819
Accumulated deficit	(446,606)	(406,352)
Accumulated other comprehensive income	810	810
Total stockholders' equity	777,309	778,346
Total liabilities and stockholders' equity	$1,589,050	$1,589,325

The accompanying notes are an integral part of these condensed consolidated financial statements.

CAVIUM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net revenue	$230,761	$229,577
Cost of revenue	113,080	137,454
Gross profit	117,681	92,123
Operating expenses:		
Research and development	110,619	90,713
Sales, general and administrative	43,621	40,397
Total operating expenses	154,240	131,110
Loss from operations	(36,559)	(38,987)
Other expense, net:		
Interest expense	(6,733)	(10,124)
Other, net	(66)	(133)
Total other expense, net	(6,799)	(10,257)
Loss before income taxes	(43,358)	(49,244)
Provision for (benefit from) income taxes	(1,371)	1,279
Net loss	$(41,987)	$(50,523)
Earnings per share:		
Net loss per common share, basic	$(0.60)	$(0.75)
Shares used in computing basic net loss per common share	69,650	67,640
Net loss per common share, diluted	$(0.60)	$(0.75)
Shares used in computing diluted net loss per common share	69,650	67,640

The accompanying notes are an integral part of these condensed consolidated financial statements.

CAVIUM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Net loss	$(41,987)	$(50,523)
Foreign currency translation adjustments	-	913
Comprehensive loss	$(41,987)	$(49,610)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CAVIUM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,					
	2018			2017		
Cash flows from operating activities:						
Net loss	$	(41,987	)	$	(50,523	)
Adjustments to reconcile net loss to net cash provided by operating activities:						
Stock-based compensation expense		28,464			23,795	
Depreciation and amortization		53,618			52,237	
Deferred income taxes		86			531	
Amortization of deferred debt financing costs		706			3,849	
Loss on disposal of property and equipment		425			109	
Changes in assets and liabilities:						
Accounts receivable, net		22,487			(10,782	)
Inventories		(8,469	)		19,323	
Prepaid expenses, other current and non-current assets		1,281			(3,332	)
Accounts payable		1,889			(1,481	)
Deferred revenue		(753	)		(199	)
Accrued expenses, other current and non-current liabilities		4,650			(8,412	)
Net cash provided by operating activities		62,397			25,115	
Cash flows from investing activities:						
Purchases of property and equipment		(17,695	)		(18,111	)

Purchases of intangible assets		(1,466	)		(3,094	)
Net cash used in investing activities		(19,161	)		(21,205	)
Cash flows from financing activities:						
Proceeds from issuance of common stock upon exercise of options		11,115			2,843	
Payment of taxes withheld on net settled vesting of restricted stock units		(390	)		-	
Principal payment of capital lease and technology license obligations		(11,327	)		(9,783	)
Principal payments of long-term debt		(1,531	)		(86,000	)
Net cash used in financing activities		(2,133	)		(92,940	)
Net increase (decrease) in cash and cash equivalents		41,103			(89,030	)
Cash and cash equivalents, beginning of period		140,498			221,439	
Cash and cash equivalents, end of period	$	181,601		$	132,409	
Supplemental disclosure of cash flows from investing activities:						
Additions to property and equipment and intangible assets included in accounts payable	$	5,683		$	10,776	

The accompanying notes are an integral part of these condensed consolidated financial statements.

CAVIUM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization and Basis of Presentation

Organization

Cavium, Inc. (the "Company") was incorporated in the state of California on November 21, 2000 and was reincorporated in the state of Delaware effective February 6, 2007. The Company designs, develops and markets semiconductor processors for intelligent and secure networks.

Pending Acquisition by Marvell

On November 19, 2017, the Company entered into an Agreement and Plan of Merger with Marvell Technology Group Ltd., a Bermuda exempted company ("Marvell" or "Parent") and Kauai Acquisition Corp., a Delaware corporation and an indirect wholly owned subsidiary of Parent ("Merger Sub") (the "Marvell Merger Agreement"). Pursuant to the Marvell Merger Agreement, Merger Sub will be merged with and into the Company (the "Merger"), with the Company continuing as an indirect wholly owned subsidiary of Parent. Subject to the terms and conditions set forth in the Marvell Merger Agreement, at the effective time of the Merger, each share of common stock of the Company ("Company Share") issued and outstanding immediately prior to the effective time of the Merger (other than (i) Company Shares held by the Company (or held in the Company's treasury) or held by Parent, Merger Sub or any other subsidiary of Parent, (ii) Company Shares held, directly or indirectly, by any subsidiary of the Company, or (iii) Company Shares with respect to which appraisal rights are properly exercised and not withdrawn under Delaware law) will be converted into the right to receive 2.1757 common shares, $0.002 par value per share, of Parent (each, a "Parent Share") and $40.00 in cash, without interest (the "Merger Consideration").

In general, as a result of the Merger, at the effective time of the Merger, (i) each stock option, then outstanding, whether vested or unvested, shall be assumed by Parent and converted into an option to purchase, on the same terms and conditions as were applicable under such company stock option, Parent Shares at a conversion ratio as set forth in the Marvell Merger Agreement; (ii) unvested restricted stock units will be assumed and converted into Marvell restricted stock units at a conversion ratio as set forth in the Marvell Merger Agreement; (iii) vested restricted stock units (including restricted stock units that will vest just prior to or as of the effective time of the Merger) will receive the Merger Consideration based on the number of shares of our common stock underlying the restricted stock unit; and (iv) unvested performance-based restricted stock units will be assumed by Marvell and converted into Marvell restricted stock units (based on target level of performance achieved as of the last trading day prior to the closing of the Merger and the conversion ratio as set forth in the Marvell Merger Agreement).

The Marvell Merger Agreement contains representations, warranties and covenants of the parties customary for a transaction of this type. The consummation of the Merger is subject to customary closing conditions, including, among other things, approval by the Company's shareholders, approval by Parent's shareholders of the issuance of Parent Shares in connection with the Merger (the "Parent Share Issuance"), and the receipt of certain regulatory clearances, including the required clearances from the Committee on Foreign Investment in the United States ("CFIUS"), the Ministry of Commerce of the People's Republic of China ("MOFCOM"), and the Office for Competition and Consumer Protection of Poland ("OCCP"). On March 19, 2018, the Company's shareholders approved the adoption of the Marvell Merger Agreement.

The Marvell Merger Agreement provides Parent and us with certain termination rights, and under certain circumstances, may require Parent or the Company to pay a termination fee. The Marvell Merger Agreement provides that in certain circumstances, the Company’s board of directors have the right to terminate the Marvell Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement requires the Company to pay a termination fee of $180.0 million. The Marvell Merger Agreement provides that, in certain circumstances, the Marvell board of directors have the right to terminate the Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement provides that Marvell pay the Company a termination fee of $180.0 million. In addition, the Merger Agreement provides that Marvell will be required to pay the Company a termination fee of $50.0 million if, under certain specified circumstances, MOFCOM approval has not been obtained and the Marvell Merger Agreement is terminated. The Marvell Merger Agreement also provides that Marvell will be required to pay the Company a termination fee of $180.0 million if, under certain specified circumstances, CFIUS Approval has not been obtained and the Merger Agreement is terminated. The transaction is expected to close in mid-calendar year 2018.

The Company recorded acquisition-related costs of approximately $0.7 million for the three months ended March 31, 2018 and cumulatively $11.9 million as of March 31, 2018, primarily for outside legal and external financial advisory fees associated with the pending acquisition by Marvell. These costs were recorded in sales, general and administrative expenses in the Company's condensed consolidated statements of operations in the respective reporting periods. Additional acquisition-related costs are expected to be incurred through the closing of the Merger.

Basis of Presentation

The condensed consolidated financial statements include the accounts of Cavium, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America, or US GAAP, and pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Accordingly, they do not include all of the information and footnotes required by US GAAP for annual financial statements. For further information, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K (File No. 001-33435) for the year ended December 31, 2017 filed with the SEC on March 1, 2018.

The condensed consolidated financial statements contain all normal recurring adjustments that, in the opinion of management, are necessary to state fairly the Company's condensed consolidated financial position as of March 31, 2018, and the condensed consolidated results of its operations for the three months ended Mach 31, 2018 and 2017, and condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated balance sheet as of December 31, 2017 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by US GAAP.

Significant Accounting Policies

The Company's significant accounting policies are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. There had been no changes to these accounting policies except for the recently adopted accounting guidance discussed below.

Adoption of New Revenue Recognition Standard

The Financial Accounting Standards Board, or FASB, issued accounting standard updates that create a single source of revenue guidance under US GAAP (ASC Topic 606) for all companies, in all industries, effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Under the new standard, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for goods and services. The FASB also issued additional guidance that defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. The FASB has recently issued several amendments to the new standard, including clarification on identifying performance obligations. The amendments include new guidance on Revenue from Contracts with Customers-Principal versus Agent Considerations, which clarifies the implementation guidance for principal versus agent considerations. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the

cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. This new guidance supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the Codification.

Effective January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606. Prior period amounts are not adjusted and continue to be reported in accordance with its historic accounting under Topic 605. The sale of semiconductor products accounts for the substantial majority of the Company's consolidated revenue and recognition for such product sales has remained the same under Topic 606 as that under Topic 605. The Company also derives revenue from licensing software, which was accounted for under software industry specific revenue guidance and primarily contributed to the adjustment to the opening balance of accumulated deficit. Certain license revenue that was historically recognized ratably over time is recognized upfront under Topic 606. The Company recognized the cumulative effect of initially adopting Topic 606 as an adjustment to the opening balance of accumulated deficit as of January 1, 2018. The Company recorded a net reduction to the opening accumulated deficit of $1.7 million as of January 1, 2018. Additionally, the sales returns reserve was historically presented as a contra-asset within accounts receivables on the Company's consolidated balance sheets. Upon the adoption of Topic 606, the Company presents the sales returns reserve as a liability. Historically, the balance of the sales returns reserve for the periods presented was not material to the overall consolidated balance sheets.

The Company's contracts do not include a significant financing component. The primary purpose of the Company's invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive or provide financing. Contract liabilities are primarily related to extended warranty and software post-contract customer support. Advance payments are received at the beginning of warranty or support period, and contract liabilities are reclassified to revenue ratably over the warranty or support period. The balance of contract liabilities approximates the aggregate amount of the transaction price allocated to the unsatisfied performance obligations at the end of reporting period. In the three months ended March 31, 2018, the Company did not recognize any material revenue adjustment related to performance obligations satisfied in prior periods as a result of changes in estimated variable consideration. The Company has elected to apply the optional exemption and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are part of a contract with an expected duration of less than 12 months. Because the majority of the Company's performance obligations in its contracts with customers relate to contracts with a duration of less than one year, transaction price allocated to unsatisfied performance obligations included in contracts with duration of more than 12 months was not material.

The Company has elected to apply the practical expedient to expense commission costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. As a result, no commission costs are capitalized.

Revenue Recognition Policy effective January 1, 2018

The Company recognizes revenue when control of its goods and services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for its services. Sales taxes are excluded from revenue. The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Revenue for semiconductor products is recognized when the control is transferred to the customer, which is typically upon shipment to customers. The Company accounts for the right of returns, rebates and other pricing adjustments as variable consideration and uses the portfolio approach to estimate these amounts based on the expected amount to be

provided to customers and reduce the revenue recognized. The Company estimates sales returns and rebates based on the Company's historical patterns of return and pricing credits.

Software arrangements typically include time-based open-source and proprietary software licenses for 12 months with related support. For proprietary software licenses that constitute functional intellectual properties, revenue will be recognized at the later of when (i) the license term starts and (ii) the software is made available to customers. The revenues from fixed-price support or maintenance performance obligations, including extended warranty and software post-contract customer support, are recognized ratably over the support period consistently with the stand-ready nature of these performance obligations. For fixed-fee professional services arrangements, revenue is recognized over time based on hour-to-hour measure, which best depicts our performance toward complete satisfaction of the performance obligation based on the nature of such professional services.

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on the prices charged to customers except for subscription to its open-source software products, proprietary software development kits bundled with such subscriptions and certain post-contract customer support due to lack or insufficient number of standalone sales of such products. In such cases, the Company determines its standalone selling prices based on the target pricing, by reference to industry practice for pricing similar products or based on cost plus a reasonable margin approach.

Other Recently Adopted Accounting Standards

In May 2017, the FASB issued an update to the guidance on stock-based compensation which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under this updated standard, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, and will be applied prospectively to awards modified on or after the adoption date. The Company adopted this standard effective on January 1, 2018. The Company did not have stock-based compensation accounted for as modifications during the period that requires to be accounted under the updated guidance.

In November 2016, the FASB issued an update to the guidance on statement of cash flows - restricted cash presentation. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period, but any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. The new standard must be adopted retrospectively. The Company adopted this standard effective on January 1, 2018. The Company does not have restricted cash in the periods presented.

In October 2016, the FASB issued an update to the guidance on income taxes. This new guidance requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This new guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this standard effective on January 1, 2018 and it did not result in any material impact on its consolidated financial statements.

In August 2016, the FASB issued new guidance on cash flow classification of certain cash receipts and cash payments. This new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods during the annual period and require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company adopted this standard effective on January 1, 2018. The Company did not have cash receipts and cash payments during the reporting period that requires to be accounted under the updated guidance.

Update to Recently Issued Accounting Standards Not Yet Effective

In January 2017, the FASB issued an update to the guidance to simplify the measurement of goodwill by eliminating the Step 2 impairment test. The update is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted. The Company is currently assessing the impact of this new guidance but does not expect it to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued updated guidance on leases which requires a lessee to recognize the assets and lease liabilities on the balance sheet for certain leases classified as operating leases under previous GAAP. In September 2017, the FASB provided additional clarification and implementation guidance on leases. This updated guidance is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Although the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and will be recognized as operating lease liabilities and right-of-use assets upon adoption.

In January 2016, the FASB issued updated guidance on Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this updated guidance are effective for annual and interim periods beginning after December 15, 2017. The Company will adopt this standard effective on January 1, 2018 and does not expect it to have a material impact on its consolidated financial statements.

2. Business Combination

QLogic Corporation

On August 16, 2016, pursuant to the terms of an Agreement and Plan of Merger dated June 15, 2016, by and among the Company, Quasar Acquisition Corp. (a wholly owned subsidiary of the Company) and QLogic (the “QLogic Merger Agreement”), the Company acquired all outstanding shares of common stock of QLogic (the “QLogic shares”) pursuant to an exchange offer for a total acquisition consideration of $1,379.5 million consisting of $938.9 million in cash and $440.6 million in equity, followed by a merger.

The Company allocated the acquisition consideration to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The final purchase price allocation was as follows (in thousands):

Cash and cash equivalents	$365,065
Marketable securities	375
Accounts receivable	65,576
Inventories	63,300
Prepaid expense and other current assets	11,395
Property and equipment	81,890
Intangible assets	721,700
Other assets	1,559
Goodwill	166,214
Accounts payable	(41,776)
Accrued expense and other current liabilities	(21,884)
Deferred revenue	(603)
Deferred tax liability	(17,237)
Other non-current liabilities	(16,081)
Total acquisition consideration	$1,379,493

The valuation of identifiable intangible assets and their estimated useful lives are as follows:

	Estimated Asset Fair Value	Weighted Average Useful Life (Years)
	(in thousands, except for useful life)	
Existing and core technology	$ 578,400	6
In-process research and development (IPRD)	78,900	n/a
Customer relationships	51,100	10

Tradename and trademark	13,300	5
	$ 721,700	

The IPRD consists of two projects relating to the development of process technologies to manufacture next generation Fibre Channel and Ethernet products. The IPRD are accounted for as an indefinite-lived intangible asset until the underlying projects are completed or abandoned. The IPRD will not be amortized until the completion of the related products which is determined by when the underlying projects reached technological feasibility. Upon completion, the IPRD will be amortized over its estimated useful life; useful lives for IPRD are expected to range between 5 to 6 years. During the second quarter of 2017, the underlying project related to Ethernet had achieved production status and concurrently was introduced to the market. As such, the Company reclassified $18.6 million of the IPRD associated with the Ethernet project to existing and core technology and it is being amortized over the estimated useful life of the asset. The Fibre Channel project is expected to be completed in fiscal year 2019.

3. Net Loss Per Common Share

The following outstanding options and restricted stock units were excluded from the computation of diluted net loss per common share for the periods presented because including them would have had an anti-dilutive effect:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Options to purchase common stock	841	1,232
Restricted stock units	4,231	4,367

4. Fair Value Measurements

As of March 31, 2018 and December 31, 2017, the Company's cash equivalents were comprised of an investment in a money market fund. In accordance with the guidance for fair value measurements and disclosures, the Company determined the fair value hierarchy of its money market fund as Level 1, which approximated $39.4 million and $39.7 million as of March 31, 2018 and December 31, 2017, respectively. The carrying amount of the Company's accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair value due to their short-term maturities.

There are no other financial assets and liabilities, except those disclosed in Note 10 of Notes to Condensed Consolidated Financial Statements that require Level 2 or Level 3 fair value hierarchy measurements and disclosures.

5. Balance Sheet Components

Inventories

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
Work-in-process	$ 57,141	$ 54,835
Finished goods	45,030	38,839
	$ 102,171	$ 93,674

Property and equipment, net

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
Test equipment and mask costs	$184,344	$174,710
Software, design tools, computer and other equipment	109,114	114,322
Furniture, office equipment and leasehold improvements	50,703	50,754
Construction in progress	20,029	20,368
	364,190	360,154
Less: accumulated depreciation and amortization	(170,448)	(167,639)
	$193,742	$192,515

Depreciation and amortization expense was $21.0 million and $20.8 million for the three months ended March 31, 2018 and 2017, respectively.

The Company leases certain design tools under financing arrangements which are included in property and equipment, which total cost, net of accumulated amortization amounted to $50.6 million and $43.7 million as of March 31, 2018 and December 31, 2017, respectively. Amortization expense related to assets recorded under capital lease and certain financing arrangements was $6.3 million and $4.3 million for the three months ended March 31, 2018 and 2017, respectively.

Assets written-down

The Company decided to rationalize certain product lines in March 2017. As a result, the Company wrote-down certain assets during the three months ended March 31, 2017 totaling $21.5 million which was recorded in the condensed consolidated statements of operations within cost of revenue of $20.5 million, research and development expense of $0.4 million and sales, general and administrative expense of $0.6 million. The assets written-down included inventories of $16.4 million, property and equipment of $4.5 million, and intangibles and other assets of $0.6 million.

Accrued expenses and other current liabilities

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
Accrued compensation and related benefits	$23,086	$ 18,576
Other	19,562	20,177
	$42,648	$ 38,753

Other non-current liabilities

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
Accrued rent	$21,393	$ 12,813
Other	9,748	13,135
	$31,141	$ 25,948

6. Intangible Assets, Net

	As of March 31, 2018			
	Gross	Accumulated Amortization	Net	Weighted average

				Weighted average remaining amortization period (years)
	(in thousands)			
Existing and core technology - product	$638,738	$ (201,025)	$437,713	4.42
Technology licenses	159,534	(76,281)	83,253	3.98
Customer contracts and relationships	53,288	(10,514)	42,774	8.37
Trade name	15,596	(6,619)	8,977	3.38
Total amortizable intangible assets	$867,156	$ (294,439)	$572,717	4.19
IPRD	60,300	-	60,300	
Total intangible assets	$927,456	$ (294,439)	$633,017	

	As of December 31, 2017			
	Gross	Accumulated Amortization	Net	Weighted average remaining amortization period (years)
	(in thousands)			
Existing and core technology - product	$638,738	$ (176,199)	$462,539	4.67
Technology licenses	158,997	(70,759)	88,238	4.11
Customer contracts and relationships	53,288	(9,238)	44,050	8.62
Trade name	15,596	(5,954)	9,642	3.63
Total amortizable intangible assets	$866,619	$ (262,150)	$604,469	4.42
IPRD	60,300	-	60,300	
Total intangible assets	$926,919	$ (262,150)	$664,769	

Amortization expense was $32.7 million and $31.4 million for the three months ended March 31, 2018 and 2017, respectively.

The following table presents the estimated future amortization expense of amortizable intangible assets as of March 31, 2018 (in thousands):

Remainder of 2018	$99,443
2019	130,315
2020	125,827
2021	117,536
2022	80,336
2023 and thereafter	19,260
	$572,717

7. Stockholders' Equity

Equity Incentive Plans

The following table summarizes the stock option activity for the three months ended March 31, 2018:

	Number of Options Outstanding	Weighted Average Exercise Price Per Share
Balance as of December 31, 2017	1,130,016	44.65
Options granted	1,175	89.80
Options exercised	(290,593)	38.25
Options cancelled and forfeited	-	-
Balance as of March 31, 2018	840,598	46.93

Stock options granted during the quarter ended March 31, 2018 was not material. As of March 31, 2018, there was $4.7 million of unrecognized compensation cost related to stock options granted. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.31 years.

The following table summarizes the restricted stock unit award, or RSU, activity for the three months ended March 31, 2018:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance as of December 31, 2017	3,622,824	58.35
Granted	1,282,753	89.71
Vested	(580,950)	56.00
Cancelled and forfeited	(93,590)	64.85
Balance as of March 31, 2018	4,231,037	68.04

In January 2018, the Company granted two-year performance based RSUs with grant date fair value of $4.6 million. The Company recorded the related stock-based compensation expense based on its evaluation of the probability of achieving the milestones of all of the outstanding performance-based RSUs at each reporting period.

The Company also granted three-year vesting market-based RSU in January 2018 with grant date fair value of $1.6 million. This market-based RSU will vest if: (i) during the performance period, the Company’s total stockholder return is equal to or greater than that of the industry index set by the Compensation Committee of the Board of Directors; and (ii) the recipient remains in continuous service with the Company through such vesting period. The fair value of the market-based RSU was determined by management using the Monte Carlo simulation method which took into account multiple input variables that determine the probability of satisfying the market conditions stipulated in the award.

As of March 31, 2018, there was $256.0 million of unrecognized compensation costs related to RSUs. The unrecognized compensation cost is expected to be recognized over a weighted average period of 2.58 years.

Stock-Based Compensation

The following table presents the detail of stock-based compensation expense amounts included in the condensed consolidated statements of operations for each of the periods presented:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Cost of revenue	$ 836	$ 681
Research and development	18,508	15,066
Sales, general and administrative	9,120	8,048
	$ 28,464	$ 23,795

The total stock-based compensation cost capitalized as part of inventory as of March 31, 2018 and December 31, 2017 was not material.

8. Income Taxes

The quarterly provision for (benefit from) income taxes is based on applying the estimated annual effective tax rate to the year to date pre-tax income (loss), plus any discrete items. The Company updates its estimate of its annual effective tax rate at the end of each quarterly period. The estimate takes into account annual forecasted income (loss) before income taxes, the geographic mix of income (loss) before income taxes and any significant permanent tax items.

The following table presents the provision for or benefit from income taxes and the effective tax rates for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Loss before income taxes	$(43,358)	$(49,244)
Provision for (benefit from) income taxes	(1,371)	1,279
Effective tax rate	3.2 %	(2.6)%

The benefit from income taxes for the three months ended March 31, 2018 was mainly due to a partial release of unrecognized tax benefit liability resulting from a settlement of a tax audit. This tax benefit was partially offset by the provision for income taxes on earnings in foreign jurisdictions. The provision for income taxes for the three months ended March 31, 2017 was primarily related to tax on earnings in foreign jurisdictions. The difference between the provision for income taxes that would be derived by applying the statutory rate to our loss before income taxes and the benefit for income taxes recorded in three months ended March 31, 2018 was primarily attributable to the release of unrecognized tax benefit as a result of a settlement of a tax audit and the difference in foreign tax rates. The difference

between the provision for income taxes that would be derived by applying the statutory rate to our loss before income taxes and the provision for income taxes recorded in the three months ended March 31, 2017 was primarily attributable to the difference in foreign tax rates and change in deferred tax liability related to the indefinite lived intangible assets.

The Company’s net deferred tax assets relate predominantly to its United States tax jurisdiction. A full valuation allowance against the Company’s federal and state net deferred tax assets has been in place since 2012. The Company periodically evaluates the realizability of its net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. The Company weighed both positive and negative evidence and determined that there is a continued need for a valuation allowance on its federal and state deferred tax assets as of March 31, 2018.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Act"), which significantly changes the existing U.S. tax laws. Major reforms in the legislation include reduction in the corporate tax rate and a move from a worldwide tax system to a territorial system. As a result of the enactment of the legislation, the Company recognized a tax benefit of $11.6 million in its consolidated statement of operations in the fourth quarter of 2017 primarily due to reduction of its net long-term deferred tax liabilities recorded on the Company's consolidated balance sheet. The enactment of the Act provides a one-time deemed repatriation tax, or "transition tax" on undistributed foreign earnings which required the Company to reclassify its deferred tax liabilities related to undistributed foreign earnings to income tax payable. The one-time transition tax is based on the Company's total post-1986 earnings and profits, or "E&P". The Company recorded a provisional amount for the transition tax resulting in a reduction of net operating loss carryforwards. However, given the net operating losses and the full valuation allowance on the Company's net deferred income tax assets in the U.S., the Company will have no cash tax impact in the U.S. The Company has not finalized its calculation of the E&P for these foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the Company finalizes the calculation of E&P previously deferred from U.S. federal taxation and finalizes the amounts held in cash or other specified assets. Under the provisions of the Act, all foreign earnings are subject to U.S. taxation. As a result, the Company intends to repatriate substantially all foreign earnings that have been taxed in the U.S. to the extent that the foreign earnings are not restricted by local laws or accounting rules, and there are no substantial incremental costs associated with repatriating the foreign earnings. The Company continues to maintain its indefinite reinvestment policy with respect to immaterial earnings from certain subsidiaries and the associated tax cost is insignificant.

The changes included in the Act are broad and complex. The final transition impacts of the Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act, or any updates or changes to estimates that the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates, cumulative unrepatriated foreign earnings and foreign exchange rates of foreign subsidiaries. The SEC has issued guidance that would allow for a measurement period of up to one year after the enactment date of the Act to finalize the recording of the related tax impacts. Any adjustments to these provisional amounts will be reported as a component of income tax expense or benefit in the reporting period in which any such adjustments are determined, which will be no later than the fourth quarter of 2018. The Company has not made any additional measurement-period adjustments related to these items during the quarter. However, the Company is continuing to gather additional information to complete its accounting for these items and expects to complete its accounting within the prescribed measurement period.

Because of the complexity of the new Global Intangible Low Tax Income ("GILTI") rules, the Company is continuing to evaluate this provision of the Act. Under U.S. GAAP, the Company can make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company has not recorded any potential deferred tax effects related to GILTI in its consolidated financial statements and has not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. However, the Company included the estimated 2018 current GILTI impact in its annual effective tax rate estimate for 2018.

9. Segment and Geographic Information

The Company manages and operates as one reportable segment. The Company categorizes its net revenue in the following different markets:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Enterprise, service provider, broadband and consumer markets	$181,809	$177,888
Datacenter market	48,952	51,689
	$230,761	$229,577

Revenues by geographic area are presented based upon the ship-to location of the original equipment manufacturers, the contract manufacturers or the distributors who purchased the Company’s products. For sales to the distributors, their geographic location may be different from the geographic locations of the ultimate end customers.

Net revenues by geographic area are as follows:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
United States	$55,734	$65,907
China	49,050	50,890
Korea	36,244	20,696
Other countries	89,733	92,084
Total	$230,761	$229,577

The following table sets forth tangible long-lived assets, which consist of property and equipment, net by geographic regions:

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
United States	$165,392	$161,249
All other countries	28,350	31,266
Total	$193,742	$192,515

10. Debt

On August 16, 2016, in connection with the acquisition of QLogic, the Company incurred substantial indebtedness pursuant to a Credit Agreement. The Credit Agreement provides for a $700.0 million Initial Term B Loan Facility which will mature on August 16, 2022 and requires quarterly principal payments commencing on December 31, 2016 equal to 0.25% of the aggregate original principal amount, with the balance payable at maturity (in each case subject to adjustment for prepayments). In January 2017, the Company made prepayments of $86.0 million towards the outstanding principal balance of the Initial Term B Loan Facility and recorded additional amortization of the debt financing costs of $2.5 million associated with these principal payments in the first quarter of 2017.

The interest rates applicable to loans outstanding under the original Credit Agreement with respect to the Initial Term B Loan Facility are, at the Company's option, equal to either a base rate plus a margin of 2.00% per annum or LIBOR plus a margin of 3.00% per annum. In no event shall the LIBOR for any interest period be less than 0.75% with respect to the Initial Term B Loan Facility. On March 20, 2017, the Company entered into an amendment to its Credit Agreement. The amendment provides for, among other things, a reduction of the interest rate margin by 0.75% per annum, substantially all of which was treated as a debt modification. As such, the Company wrote-off an immaterial amount of the deferred financing costs associated with the extinguished portion of the debt in the first quarter of 2017

and continues to amortize the remaining unamortized deferred financing costs over the remaining term of the Initial Term B Loan Facility.

As of March 31, 2018 and December 31, 2017, the carrying value of the Term Facility approximates the fair value basis. The Company classified the Term Loan B Facility under Level 2 of the fair value measurement hierarchy as the borrowings are not actively traded and have variable interest structure based upon market rates currently available to the Company for debt with similar terms and maturities. The following table summarizes the outstanding borrowings from the Initial Term B Loan Facility as of the periods presented:

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
Principal outstanding	$607,658	$609,189
Unamortized deferred financing costs	(12,249)	(12,956)
Principal outstanding, net of unamortized deferred financing costs	$595,409	$596,233
Current portion of long-term debt	$3,278	$3,270
Long-term debt	$592,131	$592,963

For the three months ended March 31, 2018 and 2017, the Company recognized contractual interest expense on debt of $5.9 million and $5.9 million, respectively, and amortization of deferred financing costs of $0.7 million and $3.8 million, respectively. Unamortized deferred financing costs was recorded as a reduction to principal outstanding in the condensed consolidated balance sheets and is being amortized over the term of the Term Facility.

The Credit Agreement contains customary representations and warranties and affirmative and negative covenants that, among other things, restrict the ability of the Company and its subsidiaries to create or incur certain liens, incur or guarantee additional indebtedness, merge or consolidate with other companies, payment of dividends, transfer or sell assets and make restricted payments. These covenants are subject to a number of limitations and exceptions set forth in the Credit Agreement. The Company was in compliance with these covenants as of March 31, 2018.

11. Commitments and Contingencies

Operating and Capital Leases

The Company leases its facilities under non-cancelable operating leases, which contain renewal options and escalation clauses, and expire on various dates ending in October 2027. Rent expense incurred under operating leases was $5.0 million and $4.3 million for the three months ended March 31, 2018 and 2017, respectively. The Company acquired certain assets under capital lease and technology license obligations. The capital lease and technology license obligations include future cash payments payable primarily for license agreements with various vendors.

On February 16, 2018, the Company signed a new purchase agreement with a third-party vendor for $23.2 million, payable in quarterly installments up to June 2019, in exchange for a 20-month license to certain design tools. This new purchase agreement replaced the purchase agreement entered into by the Company in September 2016 with the same third-party company for $31.5 million in exchange for a three-year license to certain design tools. The present value of the aggregate total consideration was recorded as design tools under property and equipment which will be amortized over the term of the license and the related liability was recorded under capital lease and technology license obligations. As a result of the cancellation of the September 2016 purchase agreement in February 2018, the Company wrote-off the related design tools within property and equipment and the unpaid installment obligations under capital lease and technology license obligations.

Minimum commitments under non-cancelable operating and capital lease agreements as of March 31, 2018 are as follows:

	Capital lease and technology license	Operating leases	Total

	obligations (in thousands)		
Remainder of 2018	$34,313	$14,517	$48,830
2019	15,806	19,591	35,397
2020	-	18,726	18,726
2021	-	18,292	18,292
2022	-	42,974	42,974
2023 thereafter	-	57,000	57,000
	$50,119	$171,100	$221,219
Less: Interest component	1,030		
Present value of minimum lease payment	49,089		
Current portion of the obligations	$39,583		
Long-term portion of obligations	$9,506		

Merger Termination Fee

As discussed in Note 1 of Notes to Condensed Consolidated Financial Statements, the Marvell Merger Agreement provides Marvell and the Company with certain termination rights and, under certain circumstances specified in the Marvell Merger Agreement, the Company could be required to pay Marvell a termination fee of up to $180.0 million.

Legal Proceedings

Four putative class actions challenging the Merger have been filed on behalf of the Company's shareholders in the United States District Court for the Northern District of California. On January 2, 2018, a putative class action was filed by Scott Fineberg (Fineberg v. Cavium et al.). On January 8, 2018, a putative class action was filed by Tammy Raul (Raul v. Cavium et al.). Also, on January 8, 2018, a putative class action was filed by Shiva Stein (Stein v. Cavium et al.). Finally, on January 12, 2018, a putative class action was filed by Jordan Rosenblatt (Rosenblatt v. Cavium et al.). All four complaints assert claims for violation of section 14(a), Rule 14a-9 and section 20(a) based on allegations that the Registration Statement on Form S-4 filed by Marvell with the SEC on December 21, 2017 omits material information. Two of the complaints are filed against the Company and its directors; the other two complaints name those defendants as well as the Marvell entities. All complaints also assert control person claims against the members of Company's board of directors. The Company believes the allegations and claims asserted in the complaints in the four putative class actions are without merit, and the Company intends to vigorously defend its position.

A fifth putative class action challenging the Merger was filed on January 29, 2018 in the Superior Court of California, Monterey County, by Paul Berger ("the Plaintiff") on behalf of the Company's shareholders (Berger v. Ali et al.). The Berger complaint asserts claims for breach of fiduciary duty against the Company and its directors based on allegations that the Merger provides shareholders insufficient value and that the proxy statement omits material information. On February 13, 2018, the plaintiff in the Berger action filed a motion for a temporary restraining order, seeking to enjoin the shareholder vote pending a hearing on a yet-to-be-filed preliminary injunction motion. On March 5, 2018, the Company entered into a Memorandum of Understanding (the "MOU") with the Plaintiff in the Lawsuit. In the MOU, the Plaintiff acknowledged that the Lawsuit has become moot because the Defendants disclosed additional information sought by Plaintiff in his complaint in the Joint Proxy Statement/Prospectus. The Plaintiff agreed to withdraw his previously filed application for a temporary restraining order seeking to enjoin the Proposed Merger and to dismiss the Lawsuit. On March 5, 2018, the Plaintiff filed a stipulation with the Superior Court of the State of California for the County of Monterey (i) withdrawing his application for a temporary restraining order and (ii) dismissing the claims asserted on his behalf with prejudice and on behalf of the purported class of the Company's stockholders without prejudice. As set forth in the stipulation, counsel for the Plaintiff has reserved the right to seek an award of attorneys' fees and reimbursement of expenses based on the creation of a benefit to the Company's shareholders through the disclosure of additional information prompted by the pendency and prosecution of the Lawsuit. The Company has reserved the right to contest the amount of any fee and expense petition that the Plaintiff may pursue. If the parties cannot agree on a fee award for the Plaintiff's counsel, the Superior Court of the State of California for the County of Monterey will ultimately determine the amount of fee award for the Plaintiff's counsel, if any. The fee award for the Plaintiff's counsel will not affect the amount of merger consideration to be paid by Marvell in connection with the Proposed Merger.

Shareholders may file additional lawsuits challenging the Merger, which may name the Company, Marvell, members of the boards of directors of either party, or others as defendants. No assurance can be made as to the outcome of such lawsuits or the lawsuits described above, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may delay the completion of the Merger in the expected timeframe, or may prevent the Merger from being completed altogether.

From time to time, the Company may be involved in other legal proceedings arising in the ordinary course of its business. The Company is not currently a party to any other legal proceedings, the outcome of which, if determined adversely to the Company, the Company believes would have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

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

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the related notes that appear elsewhere in this document.

The information in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”), which are subject to the “safe harbor” created by those sections. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “would,” “estimate,” “project,” “predict,” “potential,” “continue,” “strategy,” “believe,” “anticipate,” “plan, and similar expression intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Quarterly Report on Form 10-Q in greater detail under the heading “Risk Factors.” Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

OCTEON®, OCTEON Fusion-M®, OCTEON XL®, OCTEON TX®, LiquidIO®, LiquidSecurity ®, NITROX®, ThunderX®, ThunderX2®, Xpliant®, XPA®, QLogic® and FastLinQ® are trademarks or registered trademarks of Cavium, Inc.

Overview

We are a provider of highly integrated semiconductor processors that enable intelligent processing for wired and wireless infrastructure and cloud for networking, communications, storage and security applications. We sell our products to networking original equipment manufacturers, or OEMs, that sell into the enterprise, datacenter, service provider, broadband and consumer markets. We also sell our products through channels, original design manufacturers, or ODMs, as well as direct sales to mega datacenters. Several of our products are systems on a chip, or SoCs, which incorporate single or multiple processor cores, a highly integrated architecture and customizable software that is based on a broad range of standard operating systems. We focus our resources on the design, sales and marketing of our products, and outsource the manufacturing of our products. Our server data and storage connectivity product portfolio was expanded by our acquisition of QLogic. These products facilitate the rapid transfer of data and enable efficient resource sharing between servers, networks and storage. We also have a broad portfolio of multi-core processors to deliver integrated and optimized hardware and software embedded solutions to the market. Our software and service revenue is primarily from the sale of software subscriptions of embedded Linux operating system, related development tools, application software stacks, support and professional services.

We primarily sell our products to OEMs, either directly or through their contract manufacturers. Contract manufacturers purchase our products only when an OEM incorporates our product into the OEM’s product, not as commercial off-the-shelf products. Our customers’ products are complex and require significant time to define, design and ramp to volume production. Accordingly, our sales cycle is long. This cycle begins with our technical marketing, sales and field application engineers engaging with our customers’ system designers and management, which is

typically a multi-month process. If we are successful, a customer will decide to incorporate our product in its product, which we refer to as a design win. Because the sales cycles for our products are long, we incur expenses to develop and sell our products, regardless of whether we achieve the design win and well in advance of generating revenue, if any, from those expenditures. We do not have long-term purchase commitments from any of our customers, as sales of our products are generally made under individual purchase orders. We have experienced revenue growth due to an increase in the number of our products, an expansion of our customer base, an increase in the number of average design wins within any one customer and an increase in the average revenue per design win. We also earn revenue from the sale of software subscriptions of embedded Linux operating system, related development tools, support and professional services. The net revenue for our software and services operations is primarily derived from the sale of time-based software licenses, software maintenance and support, and from professional services arrangements and training.

Pending Acquisition by Marvell

On November 19, 2017, we entered into an Agreement and Plan of Merger with Marvell Technology Group Ltd., a Bermuda exempted company ("Marvell" or "Parent") and Kauai Acquisition Corp., a Delaware corporation and an indirect wholly owned subsidiary of Parent ("Merger Sub") (the "Marvell Merger Agreement"). Pursuant to the Marvell Merger Agreement, Merger Sub will be merged with and into us (the "Merger"), with us continuing as an indirect wholly owned subsidiary of Parent. Subject to the terms and conditions set forth in the Marvell Merger Agreement, at the effective time of the Merger, each share of our common stock ("Company Share") issued and outstanding immediately prior to the effective time of the Merger (other than (i) Company Shares held by us (or held in our treasury) or held by Parent, Merger Sub or any other subsidiary of Parent, (ii) Company Shares held, directly or indirectly, by any subsidiary of us, or (iii) Company Shares with respect to which appraisal rights are properly exercised and not withdrawn under Delaware law) will be converted into the right to receive 2.1757 common shares, $0.002 par value per share, of Parent (each, a "Parent Share") and $40.00 in cash, without interest (the "Merger Consideration").

In general, as a result of the Merger, at the effective time of the Merger, (i) each stock option, then outstanding, whether vested or unvested, shall be assumed by Parent and converted into an option to purchase, on the same terms and conditions as were applicable under such company stock option, Parent Shares at a conversion ratio as set forth in the Marvell Merger Agreement; (ii) unvested restricted stock units will be assumed and converted into Marvell restricted stock units at a conversion ratio as set forth in the Marvell Merger Agreement; (iii) vested restricted stock units (including restricted stock units that will vest just prior to or as of the effective time of the Merger) will receive the Merger Consideration based on the number of shares of our common stock underlying the restricted stock unit; and (iv) unvested performance-based restricted stock units will be assumed by Marvell and converted into Marvell restricted stock units (based on target level of performance achieved as of the last trading day prior to the closing of the Merger and the conversion ratio as set forth in the Marvell Merger Agreement).

The Marvell Merger Agreement contains representations, warranties and covenants of the parties customary for a transaction of this type. The consummation of the Merger is subject to customary closing conditions, including, among other things, approval by our shareholders, approval by Parent's shareholders of the issuance of Parent Shares in connection with the Merger (the "Parent Share Issuance"), and the receipt of certain regulatory clearance, including the required clearances from CFIUS, MOFCOM, and the OCCP. On March 19, 2018, our shareholders approved the adoption of the Marvell Merger Agreement.

The Marvell Merger Agreement provides Parent and us with certain termination rights, and under certain circumstances, may require Parent or us to pay a termination fee. The Marvell Merger Agreement provides that in certain circumstances, our board of directors have the right to terminate the Marvell Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement requires us to pay a termination fee of $180.0 million. The Marvell Merger Agreement provides that, in certain circumstances, the Marvell board of directors have the right to terminate the Merger Agreement in order to enter into a definitive agreement relating to a superior offer. In that event, the Marvell Merger Agreement provides that Marvell pay us a termination fee of $180.0 million. In addition, the Merger Agreement provides that Marvell will be required to pay us a termination fee of $50.0 million if, under certain specified circumstances, MOFCOM approval has not been obtained and the Marvell Merger Agreement is terminated. The Marvell Merger Agreement also provides that Marvell will be required to pay us a termination fee of $180.0 million if, under certain specified circumstances, CFIUS Approval has not been obtained and the Merger Agreement is terminated. The transaction is expected to close in mid-calendar year 2018.

The foregoing description of the Marvell Merger Agreement and the Merger does not purport to be complete and is subject to, and qualified in its entirety by, (i) the full text of the Marvell Merger Agreement, a copy of which is attached as Exhibit 2.1 to the Form 8-K filed by us on November 22, 2017. Additionally, the Registration Statement on Form S-4/A filed by Marvell on January 24, 2018, as may be amended (“the Registration Statement”) describes the Marvell Merger Agreement and the Merger in more detail. Investors and security holders are urged to read the prospectus/joint proxy statement included in the Registration Statement and any other relevant documents that have been or will be filed with the SEC carefully and in their entirety because they contain or will contain important information about the Merger.

Results of Operations

Our net revenue, cost of revenue, gross profit and gross margin for the periods presented were:

	Three Months Ended March 31,			
	2018	2017	Change	%
	(in thousands)			
Net revenue	$230,761	$229,577	$1,184	0.5 %
Cost of revenue	113,080	137,454	(24,374)	-17.7%
Gross Profit	$117,681	$92,123	$25,558	27.7 %
Gross Margin	51.0 %	40.1 %	10.9 %	

Net Revenue. Our net revenue consists primarily of sales of our semiconductor products to providers of networking equipment and their contract manufacturers and distributors. Initial sales of our products for a new design are usually made directly to providers of networking equipment as they design and develop their product. Once their design enters production, they often outsource their manufacturing to contract manufacturers that purchase our products directly from us or from our distributors. We price our products based on market and competitive conditions and periodically reduce the price of our products, as market and competitive conditions change, and as manufacturing costs are reduced. We do not experience different margins on direct sales to providers of networking equipment and indirect sales through contract manufacturers because in all cases we negotiate product pricing directly with the providers of networking equipment. To date, substantially all of our revenue has been denominated in United States dollars. A portion of our products are sold to customers who experience seasonality and uneven sales patterns in their business. Further, some of our customers may purchase products strategically in advance of demand to take advantage of favorable pricing or mitigate the risk around product availability.

We adopted the new revenue recognition standard using the modified retrospective method effective January 1, 2018. The adoption of the new revenue recognition standard did not result in a material change to our consolidated financial statements, nor did it change the timing of recognition of revenue for the sale of semiconductor products, which represent the substantial majority of our consolidated revenue. See Note 1 of Notes to Condensed Consolidated Financial Statements for detailed discussions of the adoption of the new revenue recognition standard.

Three customers together accounted for 40.0% and 37.6% of our net revenue for the three months ended March 31, 2018 and 2017, respectively. No other customer accounted for more than 10% of our net revenue in the three months ended March 31, 2018 and 2017. We use distributors to support some of our sales logistics including importation and credit management. While we have purchase agreements with our distributors, the distributors do not have long-term contracts with any of the equipment providers. Our distributor agreements limit the distributor’s ability to return product up to a portion of purchases in the preceding quarter. Given our experience, along with our distributors’ limited contractual return rights, we are able to reasonably estimate expected returns from our existing distributors and recognize sales through existing distributors at the time of shipment, reduced by our estimate of expected returns. The inventory at these distributors at the end of the period may fluctuate from time to time mainly due to the OEM production ramps or new customer demands. Total net revenue through distributors accounted for 21.0% and 19.8% in the three months ended March 31, 2018 and 2017, respectively.

The increase in net revenue in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 was attributable mainly to the increases in sales in our enterprise, service provider, broadband and consumer markets of $3.9 million. This was partially offset by the decrease in sales in our datacenter market by $2.7 million. The overall increase and decrease in revenue in the respective markets were primarily due to fluctuation in demand for our products as a result of the timing of our customers' volume production of our design wins.

Our net revenue by markets for periods indicated was as follows:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Enterprise, service provider, broadband and consumer markets	$181,809	$177,888
Datacenter market	48,952	51,689
	$230,761	$229,577

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Revenues by geographic area are presented based upon the ship-to location of the original equipment manufacturers, the contract manufacturers or the distributors who purchased our products. For sales to the distributors, their geographic location may be different from the geographic locations of the ultimate end customers. Net revenues by geographic area are as follows:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
United States	$55,734	$65,907
China	49,050	50,890
Korea	36,244	20,696
Other countries	89,733	92,084
Total	$230,761	$229,577

Cost of Revenue and Gross Margin. We outsource wafer fabrication, assembly and test functions of our products. A significant portion of our cost of revenue consists of payments for the purchase of wafers and for assembly and test services, amortization related to capitalized mask costs and amortization of acquired intangibles. To a lesser extent, cost of revenue includes expenses relating to our internal operations that manage our contractors, stock-based compensation, the cost of shipping and logistics, royalties, inventory valuation expenses for excess and obsolete inventories, warranty costs and changes in product cost due to changes in sort, assembly and test yields. In general, our cost of revenue associated with a particular product declines over time as a result of yield improvements, primarily associated with design and test enhancements.

We use third-party foundries and assembly and test contractors, which are primarily located in the Asia-Pacific region, to manufacture, assemble and test our semiconductor products. We currently outsource a substantial percentage of our integrated circuit wafer manufacturing to Global Foundries, Samsung Electronics and Taiwan Semiconductor Manufacturing Company. We also outsource the sort, assembly, final testing and other processing of our product to third-party contractors, primarily ASE Electronics in Taiwan, Malaysia and Singapore, as well as ISE Labs, Inc., in the United States. We negotiate wafer fabrication on a purchase order basis. There are no long-term agreements with any of these foundries, assembly, test or processing third-party contractors. For our board products, we use third-party contract manufacturers, primarily Venture Corporation Ltd. and Gigabyte Technology Co., Ltd., for material procurement, assembly, test and inspection in a turnkey model, prior to shipment to our customers. These contract manufacturers are primarily located outside the United States. To the extent that we rely on these contract manufacturers, we are not able to directly control product delivery schedules and quality assurance. A significant disruption in the operations of one or more of these third-party contractors would impact the production of our products for a substantial period of time, which could have a material adverse effect on our business, financial condition and results of operations.

Our gross margin has been and will continue to be affected by a variety of factors, including the product mix, average sales prices of our products, the amortization expense associated with the acquired intangible assets, expense from manufacturing profit in acquired inventories, the timing of cost reductions for fabricated wafers and assembly and test service costs, inventory valuation charges, the cost of fabrication masks that are capitalized and amortized, and the timing and changes in sort, assembly and test yields. Overall gross margin is impacted by the mix between higher

performance, higher margin products and services and lower performance, lower margin products and services. In addition, we typically experience lower yields and higher associated costs on new products, which improve as production volumes increase.

Cost of revenue includes amortized cost of certain identifiable intangible assets from our business acquisitions to the extent those identifiable intangible assets are directly associated with cost of revenue. The total amortization expense from identifiable intangible assets acquired from business acquisitions included in the cost of revenue was $27.9 million and $27.1 million in the three months ended March 31, 2018 and 2017, respectively. In the three months ended March 31, 2017, we recorded additional cost of revenue of $20.5 million associated with the write-down of assets due to rationalization of certain product lines.

Gross profit increased in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 generally as a result of the increase in product sales. Gross margin in the three months ended March 31, 2018 increased by 10.9 percentage points compared to the three months ended March 31, 2017 mainly due to additional cost of revenue recorded in the three months ended March 31, 2017 as a result of rationalization of certain product lines. In addition, our gross margin was also slightly impacted by a shift of product sales mix. Generally, higher performance products yield higher gross margins compared to our lower performance products.

Research and Development Expenses. Research and development expenses primarily include personnel costs, engineering design development software and hardware tools, allocated facilities expenses and depreciation of equipment used in research and development and stock-based compensation. We expect research and development expenses to continue to increase in total dollars to support the development of new products and improvement of existing products. Additionally, as a percentage of revenue, these costs fluctuate from one period to another. Total research and development expenses for the periods presented were:

	Three Months Ended March 31,			
	2018	2017	Change	%
	(in thousands)			
Research and development expenses	$110,619	$90,713	$19,906	21.9%
Percent of total net revenue	47.9 %	39.5 %	8.4 %	

The increase in research and development expenses in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 was mainly due to an increase in salaries and employee benefits of $9.5 million and an increase in stock-based compensation expense and related taxes of $4.0 million, both primarily as a result of the increase in headcount. Depreciation and amortization expense also increased by $2.0 million due to additional property and equipment and intangible assets used for research and development. The outsourced engineering services, facilities and other research and development expenses increased by $4.4 million, primarily due to the timing of the recognition of development funding credits, increase in headcount and timing of our research and development work for several product families.

Sales, General and Administrative Expenses. Sales, general and administrative expenses primarily include personnel costs, accounting and legal advisory fees, information systems, sales commissions, trade shows, marketing programs, depreciation, allocated facilities expenses and stock-based compensation. We expect sales, general and administrative expenses to increase in absolute dollars to support our growing sales and marketing activities resulting from our expanded product portfolio. Total sales, general and administrative costs for the periods presented were:

	Three Months Ended March 31,			
	2018	2017	Change	%
	(in thousands)			
Sales, general and administrative expenses	$43,621	$40,397	$3,224	8.0%
Percent of total net revenue	18.9 %	17.6 %	1.3 %	

The increase in sales, general and administrative expenses in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 was mainly due to increase in salaries and employee benefits by $1.0 million and increase in stock-based compensation expense and related taxes by $1.2 million, which were both primarily as a result of the increase in headcount. Outside services, facilities and other sales, general and administrative expenses increased by $1.0 million mainly due to higher outside services costs incurred in connection with the pending merger with

Marvell and higher other miscellaneous expenses.

Other Expense, net. Other expense, net primarily includes interest expense associated with the debt, notes payable and capital lease and technology license obligations, amortization of deferred financing costs, interest income on cash and cash equivalents and foreign currency gains and losses. Total other expense, net for the periods presented were:

	Three Months Ended March 31,			
	2018	2017	Change	%
	(in thousands)			
Interest expense	$(6,733)	$(10,124)	$3,391	-33.5%
Other, net	(66)	(133)	67	-50.4%
Total other expense, net	$(6,799)	$(10,257)	$3,458	-33.7%

The decrease in other expense, net in the three months ended March 31, 2018 compared to the three months ended March 31, 2017 was mainly due to higher amortization of debt financing cost in the three months ended March 31, 2017 as a result of the principal prepayments made towards the outstanding principal balance of the Initial Term B Loan Facility during the first quarter of 2017.

Provision for Income Taxes. The quarterly provision for (benefit from) income taxes was based on our estimated annual effective tax rate, plus any discrete items, and taking into account valuation allowance, as necessary, in compliance with applicable guidance. We update our estimated annual effective tax rate at the end of each quarterly period. Our estimate takes into account estimations of annual pre-tax income, the geographic mix of pre-tax income, our interpretations of tax laws and the possible outcomes of current and future audits. The following table presents the provision for or benefit from income taxes and the effective tax rates for the respective periods presented:

	Three Months Ended March 31,			
	2018	2017	Change	%
	(in thousands)			
Loss before income taxes	$(43,358)	$(49,244)	$5,886	(12.0)%
Provision for (benefit from) income taxes	(1,371)	1,279	(2,650)	-207.2%
Effective tax rate	3.2 %	(2.6)%	5.8 %	

The benefit from income taxes for the three months ended March 31, 2018 was mainly due to a partial release of unrecognized tax benefit liability resulting from a settlement of a tax audit. This tax benefit was partially offset by the provision for income taxes on earnings in foreign jurisdictions. The provision for income taxes for the three months ended March 31, 2017 was primarily related to tax on earnings in foreign jurisdictions. The difference between the provision for income taxes that would be derived by applying the statutory rate to our loss before income taxes and the benefit for income taxes recorded in the three months ended March 31, 2018 was primarily attributable to the release of unrecognized tax benefit as a result of a settlement of a tax audit and the difference in foreign tax rates. The difference between the provision for income taxes that would be derived by applying the statutory rate to our loss before income taxes and the provision for income taxes recorded in the three months ended March 31, 2017 was primarily attributable to the difference in foreign tax rates and change in deferred tax liability related to the indefinite lived intangible assets.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (the "Act"), which significantly changes the existing U.S. tax laws. Major reforms in the legislation include reduction in the corporate tax rate and a move from a worldwide tax system to a territorial system. As a result of the enactment of the legislation, we recognized a tax benefit of $11.6 million on our consolidated statement of operations in the fourth quarter of 2017 primarily due to reduction of our net long-term deferred tax liabilities recorded on our consolidated balance sheet. The enactment of the Act provides a one-time deemed repatriation tax, or "transition tax" on undistributed foreign earnings which required us to reclassify our deferred tax liabilities related to undistributed foreign earnings to income tax payable. The one-time transition tax is based on our total post-1986 earnings and profits, or "E&P". We recorded a provisional amount for the transition tax resulting in a reduction of our net operating loss carryforwards. However, given the net operating losses and the full valuation allowance on our net deferred income tax assets in the U.S., we will have no cash tax impact in the U.S. We have not finalized our calculation of the E&P for our foreign subsidiaries. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when we finalize the calculation of E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. Under the provisions of the Act, all foreign earnings are subject to U.S. taxation. As a result, we intend to repatriate substantially all foreign earnings that have been taxed in the U.S. to the extent that the foreign earnings are not restricted by local laws or accounting rules, and there are no substantial incremental costs associated with repatriating the foreign earnings. We continue to

maintain our indefinite reinvestment policy with respect to immaterial earnings from certain subsidiaries and the associated tax cost is insignificant.

The changes included in the Act are broad and complex. The final transition impacts of the Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act, or any updates or changes to estimates that we have utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates, cumulative unrepatriated foreign earnings and foreign exchange rates of foreign subsidiaries. The SEC has issued guidance that would allow for a measurement period of up to one year after the enactment date of the Act to finalize the recording of the related tax impacts. Any adjustments to these provisional amounts will be reported as a component of income tax expense or benefit in the reporting period in which any such adjustments are determined, which will be no later than the fourth quarter of 2018. We have not made any additional measurement-period adjustments related to these items during the quarter. However, we are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

Because of the complexity of the new Global Intangible Low Tax Income ("GILTI") rules, we are continuing to evaluate this provision of the Act. Under U.S. GAAP, we can make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). We have not recorded any potential deferred tax effects related to GILTI in our consolidated financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. However, we included the estimated 2018 current GILTI impact in our annual effective tax rate estimate for 2018.

Liquidity and Capital Resources

Following is a summary of our working capital, cash and cash equivalents as of the periods presented:

	As of March 31, 2018	As of December 31, 2017
	(in thousands)	
Working capital	$341,205	$313,097
Cash and cash equivalents	181,601	140,498

Following is a summary of our cash flows from operating activities, investing activities and financing activities for the periods presented:

	Three Months Ended March 31,	
	2018	2017
	(in thousands)	
Net cash provided by operating activities	$62,397	$25,115
Net cash used in investing activities	(19,161)	(21,205)
Net cash used in financing activities	(2,133)	(92,940)

Cash Flows from Operating Activities

Net cash flows from operating activities increased by $37.3 million from net cash provided from operating activities of $25.1 million in the three months ended March 31, 2017 compared to $62.4 million in the three months ended March 31, 2018. Total cash inflow from operations after adjustments of certain non-cash items in the three months ended March 31, 2018 and 2017 was $41.3 million and $30.0 million, respectively. The increase was primarily due to higher operating income as a result of the increase in gross margin. Changes in assets and liabilities resulted in net cash inflow of $21.1 million in the three months ended March 31, 2018 compared to cash outflow of $4.9 million in the three months ended March 31, 2017. The significant changes in assets and liabilities in the three months ended March 31, 2018 were mainly due to lower accounts receivable resulting from the timing of shipments to and collections from the customers and higher inventories due to timing of inventory build-up. The significant changes in

assets and liabilities in the three months ended March 31, 2017 were lower inventories mainly due to write-down of inventories resulting from the rationalization of certain product lines and timing of inventory build-up, higher accounts receivable resulting from the timing of shipments to customers and lower accounts payable due to the timing of payments to vendors.

Cash Flows from Investing Activities

Net cash used in investing activities in the three months ended March 31, 2018 was $19.2 million compared to $21.2 million in the three months ended March 31, 2017. Net cash used in investing activities in the three months ended March 31, 2018 resulted from the cash payments for the purchases of property and equipment of $17.7 million and intangible assets of $1.5 million. Net cash used in investing activities in the three months ended March 31, 2017 resulted from the cash payments for the purchases of property and equipment of $18.8 million and intangible assets of $3.1 million.

Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended March 31, 2018 was $2.1 million compared to $92.9 million in the three months ended March 31, 2017. The cash used in financing activities in the three months ended March 31, 2018 was mainly due to principal payments of capital lease and technology license obligations of $11.3 million, principal payments of debt of $1.5 million and payment of taxes withheld on net settled vesting of restricted stock units of $0.4 million, partially offset by the proceeds from the issuance of common stock upon exercise of options of $11.1 million. The cash used in financing activities in the three months ended March 31, 2017 was mainly due to the principal payments of $86.0 million towards the outstanding principal balance of the debt and principal payments of capital lease and technology license obligations of $9.8 million, which were partially offset by the proceeds received from the issuance of common stock upon exercise of options of $2.8 million.

Capital Resources

Our cash equivalents consist of an investment in a money market fund. We believe that our $181.6 million of cash and cash equivalents as of March 31, 2018, and expected cash flow from operations, if any, will be sufficient to fund our projected operating requirements for the next 12 months.

As of March 31, 2018, our international subsidiaries held $144.1 million of our total cash and cash equivalents. We continue to repatriate cash from certain offshore operations in accordance with management's review of our cash position and anticipated cash needs for investment in our core business, including interest charges and principal prepayments to our outstanding Term Loan Facility. We intend to repatriate substantially all foreign earnings that have been taxed in the U.S. to the extent that the foreign earnings are not restricted by local laws or accounting rules, and there are no substantial incremental costs associated with repatriating the foreign earnings. We continue to maintain our indefinite reinvestment policy with respect to immaterial earnings from certain subsidiaries and the associated tax cost is insignificant.

As of March 31, 2018, the principal outstanding debt from our Initial Term B Loan Facility amounted to $607.7 million.

Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our engineering, sales and marketing activities, the timing and extent of our expansion into new territories, the timing of introductions of new products and enhancements to existing products and the continuing market acceptance of our products. Although we currently are not a party to any agreement with respect to potential material investments in, or acquisitions of, complementary businesses, services or technologies, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Indemnities

In the ordinary course of business, we have entered into agreements with customers that include indemnity provisions. Based on historical experience and information known through the filing of this report, we believe our exposure related to the above indemnities as of March 31, 2018, was not material. We also enter into indemnification agreements with our officers and directors and our certificate of incorporation and bylaws include similar indemnification obligations to our officers and directors. It is not possible to determine the amount of our liability related to these indemnification agreements and obligations to our officers and directors due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of March 31, 2018, we had no material off-balance sheet arrangements other than our facility operating leases.

Contractual Obligations

The table below describes our contractual payment obligations and commitments, excluding liability related to uncertain tax positions as of March 31, 2018:

	Payments Due By Period				
	Less than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
	(in thousands)				
Principal payment of credit facilities	$4,592	$ 12,245	$ 590,821	$ -	$607,658
Estimated interest on credit facilities (LIBOR minimum)	13,890	36,409	28,986	-	79,285
Operating lease obligations	14,517	38,317	61,266	57,000	171,100
Capital lease and technology license obligations	34,313	15,806	-	-	50,119
Non-cancellable purchase orders	17,225	-	-	-	17,225
Total	$84,537	$ 102,777	$ 681,073	$ 57,000	$925,387

As of March 31, 2018, the liability for uncertain tax positions was $3.3 million. The timing of any payments which could result from these unrecognized tax benefits will depend upon a number of factors. Accordingly, the timing of payment cannot be estimated.

The Merger Agreement with Marvell provides Marvell and us with certain termination rights and, under certain circumstances specified in the Marvell Merger Agreement, we could be required to pay Marvell a termination fee of up to $180.0 million. Also, we recorded acquisition-related costs associated with the pending merger with Marvell primarily for outside legal and external financial advisory fees and expect additional acquisition-related costs will be incurred through the closing of the Merger.

In addition, we have other obligations for goods and services entered into in the normal course of business. These obligations, however, are either not enforceable or legally binding or are subject to change based on our business decisions.

Critical Accounting Policies and Estimates

The preparation of our financial statements and accompanying disclosures in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and the accompanying notes. The Securities and Exchange Commission, or SEC, has defined a company's critical accounting policies as policies that are most important to the portrayal of a company's financial condition and results of operations, and which require a company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified our most critical accounting policies and estimates to be as follows: (1) revenue recognition; (2) stock-based compensation; (3) inventory valuation; (4) accounting for income taxes; (5) mask costs; (6) business combinations and (7) valuation of goodwill and purchased intangible assets. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information not presently available. Actual results may differ significantly from these estimates if the assumptions, judgments and conditions upon which they are based turn out to be inaccurate. Management believes that there have been no significant changes to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018 except for the recently adopted accounting guidance on revenue recognition as discussed in Note 1 of Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

With our outstanding debt following the acquisition of QLogic, we are exposed to various forms of market risk, including the potential loss arising from adverse changes in interest rates on our outstanding Initial Term B Loan Facility. See Note 10 of Notes to Condensed Consolidated Financial Statements for information regarding our outstanding debt. There were no other material changes to our quantitative and qualitative disclosures about market risk related to our investment activities during the three months ended March 31, 2018 as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC on March 1, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of March 31, 2018. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to management as appropriate to allow for timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act of 1934, as amended) during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Four putative class actions challenging the Merger have been filed on behalf of Cavium shareholders in the United States District Court for the Northern District of California. On January 2, 2018, a putative class action was filed by Scott Fineberg (Fineberg v. Cavium et al.). On January 8, 2018, a putative class action was filed by Tammy Raul (Raul v. Cavium et al.). Also, on January 8, 2018, a putative class action was filed by Shiva Stein (Stein v. Cavium et al.). Finally, on January 12, 2018, a putative class action was filed by Jordan Rosenblatt (Rosenblatt v. Cavium et al.). All four complaints assert claims for violation of section 14(a), Rule 14a-9 and section 20(a) based on allegations that the Registration Statement on Form S-4 filed by Marvell with the SEC on December 21, 2017 omits material information. Two of the complaints are filed against Cavium and its directors; the other two complaints name those defendants as well as the Marvell entities. All complaints also assert control person claims against the members of Cavium's board of directors. We believe the allegations and claims asserted in the complaints in the four putative class actions are without merit, and we intend to vigorously defend our position.

A fifth putative class action challenging the Merger was filed on January 29, 2018 in the Superior Court of California, Monterey County, by Paul Berger ("the Plaintiff") on behalf of Cavium shareholders (Berger v. Ali et al.). The Berger complaint asserts claims for breach of fiduciary duty against Cavium and its directors based on allegations that the Merger provides shareholders insufficient value and that the proxy statement omits material information. On February 13, 2018, the plaintiff in the Berger action filed a motion for a temporary restraining order, seeking to enjoin the shareholder vote pending a hearing on a yet-to-be-filed preliminary injunction motion. On March 5, 2018, we entered into a Memorandum of Understanding (the "MOU") with the Plaintiff in the Lawsuit. In the MOU, the Plaintiff acknowledged that the Lawsuit has become moot because the Defendants disclosed additional information sought by Plaintiff in his complaint in the Joint Proxy Statement/Prospectus. The Plaintiff agreed to withdraw his previously filed application for a temporary restraining order seeking to enjoin the Proposed Merger and to dismiss the Lawsuit. On March 5, 2018, the Plaintiff filed a stipulation with the Superior Court of the State of California for the County of Monterey (i) withdrawing his application for a temporary restraining order and (ii) dismissing the claims asserted on his behalf with prejudice and on behalf of the purported class of our stockholders without prejudice. As set forth in the stipulation, counsel for the Plaintiff has reserved the right to seek an award of attorneys' fees and reimbursement of expenses based on the creation of a benefit to our shareholders through the disclosure of additional information prompted by the pendency and prosecution of the Lawsuit. We have reserved the right to contest the amount of any fee and expense petition that the Plaintiff may pursue. If the parties cannot agree on a fee award for the Plaintiff's counsel, the Superior Court of the State of California for the County of Monterey will ultimately determine the amount of fee award for the Plaintiff's counsel, if any. The fee award for the Plaintiff's counsel will not affect the amount of merger consideration to be paid by Marvell in connection with the Proposed Merger.

Shareholders may file additional lawsuits challenging the Merger, which may name Cavium, Marvell, members of the boards of directors of either party, or others as defendants. No assurance can be made as to the outcome of such lawsuits or the lawsuits described above, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may delay the completion of the Merger in the expected timeframe, or may prevent the Merger from being completed altogether.

From time to time, we may be involved in other legal proceedings arising in the ordinary course of our business. We are not currently a party to any other legal proceedings the outcome of which, if determined adversely to us, we believe would individually or in the aggregate have a material adverse effect on our business, operating results, financial condition or cash flows.

Item 1A. Risk Factors

The following risks and uncertainties may have a material adverse effect on our business, financial condition or results of operations. Investors should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are immaterial may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment.

We have marked with an asterisk (*) those risks described below that reflect substantive changes from the risks described under “Item 1.A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018.

Risks Related to Our Business and Industry

The announcement and pendency of our agreement to be acquired by Marvell may have an adverse effect on our business, operating results and our stock price.

On November 19, 2017, we entered into the Merger Agreement with Marvell. The announcement of the Merger with Marvell could cause a material disruption to our business. Additionally, we are subject to additional risks in connection with the announcement and pendency of the Merger, including, but not limited to, the following:

- market reaction to the announcement of the Merger;
- changes in the respective business, operations, financial position and prospects of either company or the combined company following consummation of the Merger;
- market assessments of the likelihood that the Merger will be consummated;
- the amount of cash and the number of shares of Marvell common stock comprising the per share Merger Consideration will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or results of operations during the pendency of the Marvell Merger Agreement, including any successful execution of our current strategy as an independent company or in the event of any change in the market price of, analyst estimates of, or projections relating to, our common stock;
- potential adverse effects on our relationships with our current customers, suppliers and other business partners, or those with which we are seeking to establish business relationships, due to uncertainties about the Merger;
- pursuant to the Marvell Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to consummation of the Merger, which restrictions could adversely affect our ability to realize certain of our business strategies or take advantage of certain business opportunities;
- we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger, and many of these fees and costs are payable by us regardless of whether the Merger is consummated;
- potential adverse effects on our ability to attract, recruit, retain and motivate current and prospective employees who may be uncertain about their future roles and relationships with us following the completion of the Merger, and the possibility that our employees could lose productivity as a result of uncertainty regarding their employment following the Merger;
- the pendency and outcome of any legal proceedings that have been or may be instituted against us, our directors, executive officers and others relating to the transactions contemplated by the Marvell Merger Agreement;
- the possibility of disruption to our business, including increased costs and diversion of management time and resources that could otherwise have been devoted to other opportunities that may have been beneficial to us; and
- interest rates, general market and economic conditions and other factors generally affecting the market prices of Marvell common stock and our common stock.

Since a portion of the Merger Consideration consists of Marvell common stock, our stock price will be adversely affected by a decline in Marvell’s stock price and any adverse developments in Marvell’s business. Changes in Marvell’s stock price and business may result from a variety of factors, including changes in its business operations and changes in general market and economic conditions. These factors are beyond our control.

The failure of the Merger to be completed, or conditions imposed in connection with obtaining required regulatory clearance, may adversely affect our business and our stock price.

The Merger is subject to a number of conditions, including, among other things, (i) approval by our shareholders, (ii) approval by Parent's shareholders of the Parent Share Issuance, (iii) the receipt of certain regulatory clearances, including required clearances from CFIUS, MOFCOM, and the OCCP, (iv) the issuance of shares of Marvell common stock pursuant to the Merger having been registered pursuant to a registration statement filed by Marvell with the SEC and declared effective by the SEC, (v) shares of Marvell common stock issuable pursuant to the Merger having been authorized for listing on NASDAQ, (vi) the absence of any order or ruling prohibiting the consummation of the Merger, and (vii) subject to certain exceptions, the accuracy of the other party's representations and warranties and compliance with covenants. In addition, the obligation of Marvell to consummate the Merger is also subject to the satisfaction or waiver of the condition that no material adverse effect on the Company shall have occurred since the date of the Marvell Merger Agreement. There may also be conditions imposed in connection with obtaining regulatory clearance for the Merger that may reduce the potential benefits of the Merger or impact the business or financial performance of the combined companies going forward, including potential tax consequences and/or changes in shareholders rights if Marvell makes the determination to re-domesticate as a Delaware corporation or establish a Delaware holding company in connection with its efforts to obtain required regulatory clearances. There can be no assurance that these conditions to the completion of the Offer will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe or at all. In addition, other factors, such as Marvell's ability to obtain the debt financing it needs to consummate the Merger, may affect when and whether the Merger will occur. If the Merger is not completed, we may be subject to negative publicity or be negatively perceived by the investment or business communities and our stock price could fall to the extent that our current stock price reflects an assumption that the Merger will be completed. Furthermore, if the Merger is not completed, we may suffer other consequences that could adversely affect our business and results of our operations.

The Merger Agreement with Marvell limits our ability to pursue alternative transactions, and in certain instances requires payment of a termination fee, which could deter a third-party from proposing an alternative transaction.

The Marvell Merger Agreement contains provisions that, subject to certain exceptions, limit our ability to initiate, solicit or knowingly take any action to facilitate or encourage, or participate or engage in any negotiations, inquiries or discussions with respect to an alternative transaction. In addition, under specified circumstances in which the Marvell Merger Agreement is terminated, we could be required to pay a termination fee of up to $180.0 million. It is possible that these or other provisions in the Marvell Merger Agreement might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of our company from considering or proposing an acquisition or might result in a potential competing acquirer proposing to pay a lower per share price to acquire our common stock than it might otherwise have proposed to pay.

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

We completed the acquisition of QLogic Corporation on August 16, 2016. Further, in the past, we acquired a number of businesses and assets of companies. We may in the future continue to acquire companies, or assets of companies or invest in other companies that we believe to be complementary to our business including for the purpose of expanding our new product design capacity, introducing new design, market or application skills or enhancing and expanding our existing product lines. While we expect to receive benefits from the acquisitions, there can be no assurance that we will actually realize the benefits on a timely basis or at all. Achieving the anticipated benefits of the acquisition will depend, in part, on our ability to integrate the business and operations successfully and efficiently with our existing

business. In addition, acquisitions of companies exposes us to risks, including:

- difficulties entering new markets or manufacturing in new geographies where we have no or limited direct prior experience;
- coordinating sales and marketing efforts to effectively position the combined company's capabilities and the direction of product development;
- successfully managing relationships with our combined supplier and customer base;
- coordinating and integrating independent research and development and engineering teams across technologies and product platforms to enhance product development while reducing costs;
- difficulties that may occur in assimilating and integrating complex operations including multiple manufacturing sites, personnel, technologies, and products of acquired companies or businesses;
- the financial return on the acquisition may not support the expenditure incurred to acquire such business or develop the business;

- to the extent we acquire a company with existing products, those products may have lower gross margins than our customary products, which could adversely affect our gross margin and operating results;
- assuming the legal obligations of the acquired business;
- the effect that internal control processes of the acquired business might have on our financial reporting;
- retaining key employees; and
- minimizing the diversion of management attention from other important business objectives.

Acquisitions, divestitures and investment strategies may also result in unanticipated accounting charges or otherwise adversely affect our business, financial condition and results of operation.

If we do not successfully manage these issues and the other challenges inherent in integration, then we may not achieve the anticipated benefits of the acquisition and our revenue, expenses, operating results and financial condition could be materially adversely affected.

We have made, and could make in the future, investments in technology companies, including privately-held companies in a development stage. Many of these private equity investments are inherently risky because the companies' businesses may never develop, and we may incur losses related to these investments. In addition, we may be required to write down the carrying value of these investments to reflect other-than-temporary declines in their value, which could have a material adverse effect on our financial condition and results of operations.

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

On August 16, 2016, in connection with our acquisition of QLogic we incurred substantial indebtedness pursuant to a Credit Agreement. The Credit Agreement provides for a $700.0 million Initial Term B Loan Facility. Our obligations under the Credit Agreement are guaranteed by a number of our subsidiaries. The Initial Term B Loan Facility will mature on August 16, 2022 and requires quarterly principal payments, with the balance payable at maturity. On March 20, 2017, we entered into an amendment to the Credit Agreement. The amendment provides for, among other things, a reduction of the interest rate margin on our outstanding Initial Term B Loan Facility by 0.75% per annum. As of March 31, 2018, the outstanding principal balance of the Initial Term B Loan Facility amounted to $607.7 million.

Our substantial indebtedness could have important consequences to us including:

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

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

We receive debt ratings from the major credit rating agencies in the United States. Factors that may impact our credit ratings include debt levels, planned asset purchases or sales and near-term and long-term production growth

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

Our Credit Agreement imposes restrictions on our business.

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

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

Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on, and to refinance our debt, depends on our future performance, which is subject to financial, competitive, economic, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to make necessary capital expenditures or to satisfy our obligations under the Credit Agreement and any future indebtedness that we may incur. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. We may not be able to engage in any of these activities or engage in these activities on desirable terms when needed, which could result in a default on our indebtedness.

*We have a limited history of profitability, and we may not achieve or sustain profitability in the future, on a quarterly or annual basis.

We have a history of losses during certain quarterly or annual periods since our incorporation. As of March 31, 2018, our accumulated deficit was $446.6 million. We expect to make significant expenditures related to the development of our products and expansion of our business, including research and development and sales and administrative expenses. Additionally, we may encounter unforeseen difficulties, complications, product delays and other unknown factors that may require additional expenditures. As a result of these expenditures, we may not generate sufficient revenue to achieve profitability. Our revenue growth trend may not be sustainable, and accordingly, we may incur losses in the future.

We expect our operating results to fluctuate, which could adversely affect the price of our common stock.

We expect our revenues and expense levels to vary in the future, making it difficult to predict our future operating results. In particular, we experience variability in demand for our products as our customers manage their product introduction dates and their inventories. As a portion of our net revenue in each fiscal quarter results from orders booked in that quarter, it is difficult for us to forecast sales levels and historical information may not be indicative of future trends. Further, the market for our Fibre Channel products is mature and has declined during recent periods. The lack of growth in the market for our Fibre Channel products may be the result of a shift in the information technology datacenter deployment model, as more enterprise workloads are moving to cloud datacenters, which primarily use Ethernet solutions as their connectivity protocol. To the extent the market for our Fibre Channel products declines, our quarterly operating results would be negatively impacted.

Factors that could cause our results to fluctuate include, but are not limited to:

- fluctuations in demand, sales cycles, product mix and prices for our products;
- any mergers, acquisitions or divestitures of assets undertaken by us, including the acquisition of QLogic Corporation;
- the variability in lead time between the time when a customer begins to design in one of our products and the time when the customer’s end system goes into production and they begin purchasing our products;
- the forecasting, scheduling, rescheduling or cancellation of orders by our customers;
- our dependence on a few significant customers;
- sales discounts and customer incentives;
- our ability to retain, recruit and hire key executives, technical personnel and other employees in the positions and numbers, and with the experience and capabilities that we need;

- our ability to successfully define, design and release new products in a timely manner that meet our customers' needs;
- changes in manufacturing costs, including wafer, test and assembly costs, mask costs, manufacturing yields, cost of components and product quality and reliability;
- the timing and availability of adequate manufacturing capacity from our manufacturing suppliers;
- the timing of announcements and introductions of products by our competitors or us;
- future accounting pronouncements and changes in accounting policies;
- actual events, circumstances, outcomes and amounts differing from judgments, assumptions and estimates used in determining the value of certain assets (including the amounts of related valuation allowances), liabilities and other items reflected in our consolidated financial statements;
- the timing of recognition of non-recurring engineering credits. From time to time, we enter into research and development collaboration agreements with certain customers. Subject to the terms of the agreements, the consideration is recognized as a credit to our research and development expenses. The timing of the recognition of such credit may be subject to certain milestones specified in the agreement.
- volatility in our stock price, which may lead to higher stock compensation expenses;
- general economic and political conditions in the countries in which we and our suppliers operate or our products are sold or used;
- costs associated with litigation, especially related to intellectual property; and
- productivity and growth of our sales and marketing force.

Unfavorable changes in any of the above factors, many of which are beyond our control, could significantly harm our business and results of operations, and therefore our stock price. In addition, a significant portion of our operating expenses are relatively fixed. Therefore, if we are unable to accurately forecast quarterly and annual revenues we could experience budgeting and cash flow management problems, unexpected fluctuations in our results of operations and other difficulties, any of which could make it difficult for us to attain and maintain profitability and could increase the volatility of the market price of our common stock.

The average selling prices of products in our markets have historically decreased over time and will likely do so in the future, which could harm our revenues and gross profits. Also any increase in the manufacturing cost of our products could reduce our gross margins.

Average selling prices of semiconductor products in the markets we serve have historically decreased over time. The average unit prices of our products may decline in the future as a result of competitive pricing pressures, increased sales discounts and customer incentives, new product introductions by us or our competitors, or other factors. Our gross profits and financial results will suffer if we are unable to offset any reductions in our average selling prices by reducing our costs, developing new or enhanced products on a timely basis with higher selling prices or gross profits, or increasing our sales volumes. Additionally, because we do not operate our own manufacturing, assembly or testing facilities, we may not be able to reduce our costs rapidly and may not be able to decrease our spending to offset any unexpected shortfall in revenue. If this occurs, our revenue, gross margins and profitability could decline.

Fluctuations in gross margins, primarily due to the mix of products sold, may adversely affect our financial results.

Because of the wide price differences among our products, the mix and types of performance capabilities of products sold affect the average selling price of our products and have a substantial impact on our revenue. Generally, sales of higher performance products have higher gross margins than sales of lower performance products. We currently offer both higher and lower performance products in a number of our different product families. If the sales mix shifts towards lower performance, lower margin products, our overall gross margins will be negatively affected and a decrease in our gross margins could adversely affect the market price of our common stock. Fluctuations in the mix and types of our products may also affect the extent to which we are able to recover our fixed costs and investments that are associated with a particular product, and as a result can negatively impact our financial results.

Our gross margins may also be adversely affected by numerous factors, including:

- entry into new markets, which may have lower gross margins;
- changes in manufacturing volumes over which fixed costs are absorbed;
- increased price competition;

- introduction of new products by us or our competitors, including products with advantages in price, performance or features;
- our inability to reduce manufacturing-related or component costs;
- amortization and impairments of purchased intangible assets;
- sales discounts and customer incentives;
- excess inventory and inventory holding charges;
- changes in distribution channels;
- increased warranty costs; and
- acquisitions and dispositions of businesses, technologies or product lines.

The semiconductor business experiences ongoing competitive pricing pressure from customers and competitors. Accordingly, any increase in the cost of our products, whether by adverse purchase price variances or adverse manufacturing cost variances, may not be able to be passed on to our customers and we may experience reduced gross margins and operating profit. We do not have any long-term supply agreements with our manufacturing suppliers and we typically negotiate pricing on a purchase order by purchase order basis. Consequently, we may not be able to obtain price reductions or anticipate or prevent future price increases from our suppliers.

We face intense competition and expect competition to increase in the future, which could reduce our revenues, gross margin and/or customer base.

The market for our products is highly competitive and we expect competition to intensify in the future. This competition could make it more difficult for us to sell our products, and result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, delayed or reduced customer adoption of our new products, and failure to increase, or the loss of, market share or expected market share, any of which would likely seriously harm our business, operating results and financial condition. For instance, semiconductor products have a history of declining prices as the cost of production is reduced. However, if market prices decrease faster than product costs, gross and operating margins can be adversely affected. In the enterprise, datacenter, service provider, and broadband and consumer markets, we consider our primary competitors to be other companies that provide processor products to one or more of our markets, including NXP Semiconductors N.V. (“NXP Semiconductors”), Intel Corporation (“Intel”), Marvell Technology Group Ltd. (“Marvell”), Qualcomm Incorporated (“Qualcomm”), and Hisilicon Technologies Co., Ltd. (“HiSilicon”). In the high-speed Ethernet adapter and ASIC markets, which include converged networking products such as iSCSI, we compete primarily with Broadcom Limited (“Broadcom”), Mellanox Technologies, Ltd. (“Mellanox”) and Intel. In the traditional enterprise storage Fibre Channel adapter and ASIC markets, our primary competitor is Broadcom. And in the Ethernet switch silicon market, our primary competitors are Broadcom and Mellanox. A few of our current competitors operate their own fabrication facilities and have, and some of our potential competitors could have, longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we have. Should these competitors leverage these competitive advantages, our results of operations could be materially and adversely affected. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features.

We expect increased competition from other established and emerging companies both domestically and internationally. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties. If so, new competitors or alliances that include our competitors may emerge that could acquire significant market share. In the future, further development by our competitors, and development by our potential competitors, could cause our products to become obsolete.

Further, for several years there has been increased consolidation in our industry. Our customers could acquire current or potential competitors. In addition, competitors could acquire current or potential customers. As a result of such transactions, demand for our products could decrease, which could have a material adverse effect on our revenue and financial condition.

Our ability to compete depends on a number of factors, including:

- our success in identifying new and emerging markets, applications and technologies and developing products for these markets;
- our products’ performance and cost effectiveness relative to that of our competitors’ products;
- our ability to deliver products in large volume on a timely basis at a competitive price;

- our success in utilizing new and proprietary technologies to offer products and features previously not available in the marketplace;
- our ability to recruit design and application engineers and sales and marketing personnel; and
- our ability to protect our intellectual property.

In addition, we cannot assure you that existing customers or potential customers will not develop their own products, purchase competitive products or acquire companies that have competing products. Any of these competitive threats, alone or in combination with others, could seriously harm our business, operating results and financial condition.

Our customers may cancel their orders, change production quantities or delay production, and if we fail to forecast demand for our products accurately, we may incur product shortages, delays in product shipments or excess or insufficient product inventory.

We generally do not obtain firm, long-term purchase commitments from our customers. Because production lead times often exceed the amount of time required to fulfill orders, we often must build in advance of orders, relying on an imperfect demand forecast to project volumes and product mix.

Our demand forecast accuracy can be adversely affected by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, adverse changes in our product order mix and demand for our customers' products. Even after an order is received, our customers may cancel these orders or request a decrease in production quantities. Any such cancellation or decrease subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls and excess or obsolete inventory which we may be unable to sell to other customers. Alternatively, if we project customer requirements to be less than the demand that materializes, we may not build enough products, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources, which could affect our ongoing relationships with these customers. In the past, we have had customers dramatically increase their requested production quantities with little or no advance notice. Either underestimating or overestimating demand could lead to insufficient, excess or obsolete inventory, which could harm our operating results, cash flow and financial condition, as well as our relationships with our customers.

*We receive a substantial portion of our revenues from a limited number of customers, and the loss of, or a significant reduction in, revenue from one or a few of our major customers would adversely affect our operations and financial condition.

We receive a substantial portion of our revenues from a limited number of customers. We received an aggregate of approximately 55.2% and 55.2% of our net revenue from our top five customers in the three months ended March 31, 2018 and 2017, respectively. Three customers together accounted for 40.0% and 37.6% of our net revenue in the three months ended March 31, 2018 and 2017, respectively. No other customer accounted for more than 10% of our net revenue in the three months ended March 31, 2018 and 2017. We anticipate that we will continue to be dependent on a limited number of customers for a significant portion of our revenues in the immediate future and that the portion of our revenues attributable to some of these customers may increase in the future. We may not be able to maintain or increase sales to some of our top customers for a variety of reasons, including the following:

- our agreements with our customers do not require them to purchase a minimum quantity of our products;
- some of our customers can stop incorporating our products into their own products with limited notice to us and suffer little or no penalty; and
- many of our customers have pre-existing or concurrent relationships with our current or potential competitors that may affect the customers' decisions to purchase our products.

In the past, we have relied in significant part on our relationships with customers that are technology leaders in our target markets. We intend to continue expanding these relationships and forming new relationships but we cannot

assure you that we will be able to do so. These relationships often require us to develop new products that may involve significant technological challenges. Our customers frequently place considerable pressure on us to meet their tight development schedules. Accordingly, we may need to devote a substantial amount of our resources to our relationships, which could detract from or delay our completion of other important development projects. Delays in development could impair our relationships with our other large customers and negatively impact sales of the products under development.

Major customers also have significant leverage over us and may attempt to change the sales terms, including pricing, customer incentives and payment terms, which could have a material adverse effect on our business, financial condition or results of operations. As our customers are pressured to reduce prices as a result of competitive factors, we may be required to contractually commit to price reductions for our products before we know how, or if, cost reductions can be achieved. If we are unable to achieve these cost reductions, our gross margins could decline and such a decline could have a material adverse effect on our business, financial condition or results of operations. In addition, the ongoing consolidation in the technology industry could adversely impact our business. There is a possibility that one of our large customers could acquire one of our current or potential competitors. As a result of such transactions, demand for our products could decrease, which could have a material adverse effect on our business, financial condition and results of operations.

It is also possible that our customers may develop their own product or adopt a competitor's solution for products that they currently buy from us. If that happens, our sales would decline and our business, financial condition and results of operations could be materially and adversely affected.

The loss of a major customer, a reduction in sales to any major customer or our inability to attract new significant customers could seriously impact our revenue and materially and adversely affect our business, financial condition, and results of operations.

We may be unsuccessful in developing and selling new products or in penetrating new markets.

We operate in a dynamic environment characterized by rapidly changing technologies and industry standards and technological obsolescence. Our competitiveness and future success depend on our ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. A fundamental shift in technologies in any of our product markets could harm our competitive position within these markets. Our failure to anticipate these shifts, to develop new technologies or to react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenues and a loss of design wins to our competitors. The success of a new product depends on accurate forecasts of long-term market demand and future technological developments, as well as a variety of specific implementation factors, including:

- timely and efficient completion of process design and transfer to manufacturing, assembly and test processes;
- the quality, performance and reliability of the product;
- competitive pricing of the product; and
- effective marketing, sales and service.

If we fail to introduce new products that meet the demand of our customers or penetrate new markets in which we expend significant resources, our revenues will likely decrease over time and our financial condition could suffer. Additionally, if we concentrate resources on a new market that does not prove profitable or sustainable, our financial condition could decline.

Adverse changes in general economic or political conditions in any of the major countries in which we do business could adversely affect our operating results.

As our business has grown to both customers located in the United States as well as customers located outside of the United States, we have become increasingly subject to the risks arising from adverse changes in both domestic and global economic and political conditions. If economic growth in the United States and other countries' economies slows, the demand for our customers' products could decline, which would then decrease demand for our products. Furthermore, if economic conditions in the countries into which our customers sell their products deteriorate, some of our customers may decide to postpone or delay some of their development programs, which would then delay their

need to purchase our products. This could result in a reduction in sales of our products or in a reduction in the growth of our product sales. Any of these events would likely harm our financial condition and results of operations. This could also make it difficult for us to forecast future revenue and if we do not achieve anticipated levels of revenue our operating results could be adversely affected.

The semiconductor and communications industries have historically experienced significant fluctuations with prolonged downturns, which could impact our operating results, financial condition and cash flows.

The semiconductor industry has historically exhibited cyclical behavior, which at various times has included significant downturns in customer demand. Because a significant portion of our expenses are fixed in the near term or are incurred in advance of anticipated sales, we may not be able to decrease our expenses rapidly enough to offset any unanticipated shortfall in revenues. If this situation were to occur, it could adversely affect our operating results, cash flow and financial condition. Furthermore, the semiconductor industry has periodically experienced periods of increased demand and production constraints. If this happens in the future, we may not be able to produce sufficient quantities of our products to meet the increased demand. We may also have difficulty in obtaining sufficient wafer, assembly and test resources from our subcontract manufacturers. Any factor adversely affecting the semiconductor industry in general, or the particular segments of the industry that our products target, may adversely affect our ability to generate revenue and could negatively impact our operating results.

The communications industry has, in the past, experienced pronounced downturns, and these cycles may continue in the future. To respond to a downturn or weakness in a particular market or geography, customers may slow their research and development activities, cancel or delay new product development, reduce their inventories and take a cautious approach to acquiring our products, which would have a significant negative impact on our business. If this situation were to occur, it could adversely affect our operating results, cash flow and financial condition. In the future, any of these trends may also cause our operating results to fluctuate significantly from year to year, which may increase the volatility of the price of our stock.

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

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

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

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

- our customers usually require a comprehensive technical evaluation of our products before they incorporate them into their designs;

- it can take from six months to three years from the time our products are selected to commence commercial shipments; and
- our customers may experience changed market conditions or product development issues.

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

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

Our products must meet exact specifications, and defects and failures may occur, which may cause customers to return or stop buying our products.

Our customers generally establish demanding specifications for quality, performance and reliability that our products must meet. However, our products are highly complex and may contain defects and failures when they are first introduced or as new versions are released. If defects and failures occur in our products during or after the design phase, we could experience lost revenues, increased costs, including warranty expense and costs associated with customer support, delays in or cancellations or rescheduling of orders or shipments, product returns or discounts, diversion of management and technical resources or damage to our reputation and brand equity, and in some cases consequential damages, any of which could harm our operating results. In addition, delays in our ability to fill product orders as a result of quality control issues may negatively impact our relationship with our customers.

Some of our operations and a significant portion of our suppliers, customers and contract manufacturers are located outside of the United States, which subjects us to additional risks, including increased complexity and costs of managing international operations and geopolitical instability.

We have international sales offices and research and development facilities and we conduct, and expect to continue to conduct, a significant amount of our business with companies located outside the United States, particularly in Asia and Europe. Even customers based in the United States often use contract manufacturers based in Asia to manufacture their systems, and it is the contract manufacturers that often purchase products directly from us. In addition, a significant portion of our suppliers are located outside of the United States. As a result, we face numerous challenges, including:

- increased complexity and costs of managing international operations;
- longer and more difficult collection of receivables;
- difficulties in enforcing contracts generally;
- geopolitical and economic instability and military conflicts;
- limited protection of our intellectual property and other assets;
- compliance with local laws and regulations and unanticipated changes in local laws and regulations, including tax laws and regulations;
- trade and foreign exchange restrictions and higher tariffs;
- travel restrictions;
- timing and availability of import and export licenses and other governmental approvals, permits and licenses, including export classification requirements;
- foreign currency exchange fluctuations relating to our international operating activities;
- transportation delays and limited local infrastructure and disruptions, such as large-scale outages or interruptions of service from utilities or telecommunications providers;
- difficulties in staffing international operations;
- heightened risk of terrorism;
- local business and cultural factors that differ from our normal standards and practices;
- differing employment practices and labor issues;
- regional health issues and natural disasters; and
- work stoppages.

Our international sales are invoiced in United States dollars and, accordingly, if the relative value of the United States dollar in comparison to the currency of our foreign customers should increase, the resulting effective price increase of our products to such foreign customers could result in decreased sales. In addition, a significant portion of our inventory is purchased from international suppliers, who invoice us in United States dollars. If the relative value of the United States dollar in comparison to the currency of our foreign suppliers should decrease, our suppliers may increase prices, which could result in a decline of our gross margin. Any of the foregoing factors could have a material

adverse effect on our business, financial condition or results of operations.

We outsource our wafer fabrication, assembly, testing, warehousing and shipping operations to third parties, including contract manufacturers, and rely on these parties to produce and deliver our products according to requested demands in specification, quantity, cost and time.

We rely on third parties, including contract manufacturers, for substantially all of our manufacturing operations, including wafer fabrication, assembly, testing, warehousing and shipping. We depend on these parties to supply us with material of a requested quantity in a timely manner that meets our standards for yield, cost and manufacturing quality. We do not have any long-term supply agreements with our manufacturing suppliers or contract manufacturers. Any problems with our manufacturing supply chain could adversely impact our ability to ship our products to our customers on time and in the quantity required, which in turn could cause an unanticipated decline in our sales and possibly damage our customer relationships.

The fabrication of integrated circuits is a complex and technically demanding process. Our foundries could, from time to time, experience manufacturing defects and reduced manufacturing yields. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by our foundries could result in lower than anticipated manufacturing yields or unacceptable performance. Many of these problems are difficult to detect at an early stage of the manufacturing process and may be time consuming and expensive to correct. In addition, our manufacturing processes with our foundries are unique and not within the customary manufacturing processes of these foundries, which may lead to manufacturing defects, reduced manufacturing yields and/or increases in manufacturing costs.

Poor yields from our foundries, or defects, integration issues or other performance problems in our products could cause us significant customer relations and business reputation problems, harm our financial results and result in financial or other damages to our customers. Our customers could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend.

Availability of foundry capacity has in the past been reduced due to strong demand. The ability of each foundry to provide us with semiconductor devices is limited by its available capacity and existing obligations. Foundry capacity may not be available when we need it or at reasonable prices which could cause us to be unable to meet customer needs or delay shipments, which could result in a decline in our sales and harm our financial results. To secure sufficient foundry capacity when demand is high, we may enter into various arrangements with suppliers that could be costly and harm our operating results, such as nonrefundable deposits with or loans to foundries in exchange for capacity commitments and contracts that commit us to purchase specified quantities of integrated circuits over extended periods. We may not be able to make any such arrangement in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility, and not be on terms favorable to us. Moreover, if we are able to secure foundry capacity, we may be obligated to use all of that capacity or incur penalties. These penalties may be expensive and could harm our financial results.

A significant portion of our sales are to customers that practice just-in-time order management from their suppliers, which gives us a very limited amount of time in which to process and complete these orders. As a result, delays in our production or shipping by the parties to whom we outsource these functions could reduce our sales, damage our customer relationships and damage our reputation in the marketplace, any of which could harm our business, financial condition and results of operations.

Our products are manufactured at a limited number of locations and if we experience manufacturing problems at a particular location, we could experience a delay in obtaining our manufactured products, which could harm our business and reputation.

Although we use several independent foundries to manufacture substantially all of our semiconductor products, most of our components are not manufactured at more than one foundry at any given time, and our products typically are

designed to be manufactured in a specific process at only one of these foundries. Accordingly, if one of our foundries is unable to provide us with components as needed or chooses to significantly change its relationship with us, we could experience significant delays in securing sufficient supplies of those components from other sources, which could have a material adverse effect on our results of operations. In addition, the loss of our largest third-party contract manufacturer could significantly impact our ability to produce products for an indefinite period of time.

Converting or transferring manufacturing from a primary location or supplier to a backup facility could be expensive and could take one to two quarters. During such a transition, we would be required to meet customer demand from our then-existing inventory, as well as any partially finished goods that can be modified to the required product specifications. We do not seek to maintain sufficient inventory to address a lengthy transition period because we believe it is uneconomical to keep more than minimal inventory on hand. Qualifying a new contract manufacturer and commencing volume production is a lengthy and expensive process. Some customers will not purchase any products, other than a limited number of evaluation units, until they qualify the manufacturing line for the product. As a result, we may not be able to meet customer needs during such a transition, which could delay shipments, cause a production delay or stoppage for our customers, result in a decline in our sales and damage our customer relationships.

We cannot assure you that any of our existing or new foundries and manufacturers will be able to produce products with acceptable manufacturing yields, or be able to deliver enough products to us on a timely basis, or at reasonable prices. These and other related factors could impair our ability to meet our customers' needs and have a material and adverse effect on our operating results, competitive position and relationships with customers.

We rely on third-party technologies for the development of our products and our inability to use these technologies in the future would harm our ability to remain competitive.

We rely on third parties for technologies that are integrated into our products, such as wafer fabrication and assembly and test technologies used by our contract manufacturers, as well as licensed MIPS and Arm architecture technologies. If we are unable to continue to use or license these technologies on reasonable terms, or if these technologies fail to operate properly, we may not be able to secure alternatives in a timely manner and our ability to remain competitive would be harmed, which could harm our business, financial condition and results of operations. In addition, if we are unable to successfully license technology from third parties to develop future products, we may not be able to develop such products in a timely manner or at all.

Sales and purchasing patterns with our customers and suppliers are uneven and subject to seasonal fluctuations.

A portion of our products are sold to customers who experience seasonality and uneven sales patterns in their own businesses. As a result, we experience similar seasonality and uneven sales and purchasing patterns with certain of our customers and suppliers. We believe the variability in sales and purchasing patterns results from many factors, including:

- spikes in sales during the fourth quarter of each calendar year typically experienced by our customers, which in turn leads to higher sales volume in our fourth quarter;
- the tendency of our customers to close a disproportionate percentage of their sales transactions in the last month, weeks and days of each quarter, which in turn leads to an increase in our sales during those same time periods; and
- strategic purchases, including entering into non-cancelable purchase commitments, by us or our customers in advance of demand to take advantage of favorable pricing or to mitigate risks around product availability.

This variability makes it extremely difficult to predict the demand and buying patterns of our customers and, in turn, causes challenges for us in sourcing goods and services from our suppliers, adjusting manufacturing capacity, and forecasting cash flow and working capital needs. If we predict demand that is substantially greater than actual customer orders, we will have excess inventory. Alternatively, if customer orders substantially exceed predicted demand, the ability to assemble, test and ship orders received in the last weeks and days of each quarter may be limited, or be completed at an increased cost, which could have a material adverse effect on our business, financial condition or results of operations.

The loss of any of our key personnel could seriously harm our business, and our failure to attract or retain specialized technical, management or sales and marketing talent could impair our business.

We believe our future success will depend in large part upon our ability to attract, retain and motivate highly skilled managerial, engineering, sales and marketing personnel. The loss of any key employees or the inability to attract, retain or motivate qualified personnel, including engineers and sales and marketing personnel, could delay the development and introduction of, and harm our ability to sell our products which would materially and adversely affect our business, financial condition and results of operations. For instance, if any of these individuals were to leave our company unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity during the search for and while any successor is integrated into our business and operations. Further, if we are unable to integrate and retain personnel acquired through our various acquisitions, we may not be able to fully capitalize on such acquisitions.

We believe that the market for key personnel in the industries in which we compete is highly competitive and we anticipate that competition for such personnel will increase in the future. Our key technical personnel represent a significant asset and serve as the source of our technological and product innovations. Changes to United States immigration policies that restrict our ability to attract and retain technical personnel may negatively affect our research and development efforts. We may not be successful in attracting, retaining and motivating sufficient numbers of technical personnel to support our anticipated growth.

To date, we have relied primarily on our direct marketing and sales force to drive new customer design wins and to sell our products. Because we are looking to expand our customer base and grow our sales, we will need to hire additional qualified sales personnel in the near term and beyond if we are to achieve revenue growth. The competition for qualified marketing and sales personnel in our industry, and particularly in Silicon Valley, is very intense. If we are unable to hire, train, deploy and manage qualified sales personnel in a timely manner, our ability to grow our business will be impaired. In addition, if we are unable to retain our existing sales personnel, our ability to maintain or grow our current level of revenues will be adversely affected.

We rely on stock-based awards as one means for recruiting, motivating and retaining highly skilled talent. If the value of the stock awards does not appreciate as measured by the performance of the price of our common stock or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, our ability to attract, retain, and motivate employees could be weakened, which could harm our business, financial condition and results of operations.

We are subject to governmental export and import controls that may adversely affect our business.

We and our customers are subject to various import and export laws and regulations. Government export regulations apply to the encryption or other features contained in some of our products. Although our processes and procedures are designed to maintain compliance, we cannot assure you that we have been or will be at all times in complete compliance with these laws and regulations. On January 30, 2015, we submitted an initial notification of a voluntary self-disclosure to the United States Department of Commerce, Bureau of Industry and Security, or BIS. The notification reported our discovery that hardware and software, with encryption functionality, may have been exported without the required BIS export license. With the assistance of outside counsel, we conducted a review of past export transactions during the past five years, and on July 17, 2015, we reported our findings in a full voluntary self-disclosure to BIS. The findings reported that we exported certain encryption hardware and software to fifteen government end-users in the People’s Republic of China, Taiwan, Hong Kong, Singapore, India and South Korea, as well as one party on BIS' entity list, without the required BIS export license. The aggregate billings for the reported exports were not material. The disclosure also addressed our remedial and corrective actions. BIS is reviewing our voluntary self-disclosure and we are cooperating fully with BIS. Violations of the export control laws may result in civil, administrative or criminal fines or penalties, loss of export privileges, debarment or a combination of these penalties. At this time we are unable to determine the outcome of the government’s investigation or its possible effect on the Company.

If we fail to receive licenses or otherwise comply with import and export laws and regulations, we may be unable to manufacture the affected products at foreign foundries or ship these products to some customers; we may be subject to investigations or notices of non-compliance; we may incur penalties or fines and civil and criminal liabilities or other sanctions; or we may experience adverse publicity and reputational damage. In addition, changes in import or export laws and regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products or cause decreased use of our products by customers with international operations, each of which would adversely affect our business and results of operations.

Changes in and compliance with regulations could materially and adversely affect us.

Our business, results of operations or financial condition could be materially and adversely affected if new laws, regulations or standards relating to us or our products are implemented or existing ones are changed, including laws, regulations or standards affecting licensing practices, competitive business practices, the use of our technology or products, protection of intellectual property, trade, foreign investments or loans, taxation, privacy and data protection, environmental protection or employment. In addition, our compliance with existing regulations may have a material adverse impact on us. For example, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted in 2010. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act, including the disclosure requirements relating to the sourcing of so-called conflict minerals from the Democratic Republic of Congo and certain other adjoining countries. Our disclosures regarding conflict minerals have been and will be predicated upon the timely receipt of accurate information from suppliers, who may be unwilling or unable to provide us with the relevant information, which may harm our reputation and our relationships with our customers. In addition, these requirements could adversely affect the sourcing, availability and pricing of minerals used in the manufacture of our products.

We are subject to laws, rules and regulations in the United States and other countries relating to the collection, use and security of personal information and data. We have incurred, and will continue to incur, expenses to comply with privacy and security standards, protocols and obligations imposed by applicable laws, regulations, industry standards and contracts. Any inability to comply with applicable privacy or data protection laws, regulations or other obligations, could result in significant cost and liability, damage our reputation, and adversely affect our business.

Under applicable federal securities laws, including the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal control structure and procedures for financial reporting. Should we or our independent auditors determine that we have material weaknesses in our internal controls, our business, financial condition or results of operations may be materially and adversely affected and our stock price may decline. We may not be able to effectively and timely implement necessary control changes and employee training to ensure continued compliance with the Sarbanes-Oxley Act and other regulatory and reporting requirements. Our rapid growth in recent years, including through acquisitions, and our possible future expansion through acquisitions, present challenges to maintain the internal control and disclosure control standards applicable to public companies. If we fail to maintain effective internal controls, we could be subject to regulatory scrutiny and sanctions and investors could lose confidence in the accuracy and completeness of our financial reports.

In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by regulations applicable to us, such as the Foreign Corrupt Practices Act and other anti-bribery laws. Although we have policies and procedures designed to ensure compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business, financial condition or results of operations.

We face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the chemical and material composition of our products, their safe use, the energy consumption associated with those products and product take-back legislation (i.e., legislation that makes producers of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products). We could incur substantial costs, our products could be restricted from entering certain jurisdictions, and we could face other sanctions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws.

The migration of our customers toward new products could adversely affect our results of operations.

As new or enhanced products are introduced, we must successfully manage the transition from older products in order to minimize the effects of product inventories that may become excess and obsolete, as well as ensure that sufficient supplies of new products can be delivered to meet customer demand. Our failure to manage the transition to newer products in the future could adversely affect our business or results of operations. When we introduce new products and product enhancements, we face additional risks relating to product transitions, including risks relating to forecasting demand and longer lead times associated with smaller product geometries and more complex production operations. Any such adverse event or increased costs could have a material adverse effect on our business, financial condition or results of operations.

In the event one of our distributor arrangements terminates, it could lead to a loss of revenues and possible product returns.

A portion of our sales is made through third-party distribution agreements. Termination of a distributor relationship, either by us or by the distributor, could result in a temporary loss of revenues until a replacement distributor can be established to service the affected end-user customers, or a permanent loss of revenues if no replacement can be established. We may not be successful in finding suitable alternative distributors on satisfactory terms or at all and this could adversely affect our ability to sell in some locations or to some end-user customers. Additionally, if we terminate our relationship with a distributor, we may be obligated to repurchase unsold products. We record a reserve for estimated returns and price credits. If actual returns and credits exceed our estimates, our operating results could be harmed.

Our failure to protect our intellectual property rights adequately could impair our ability to compete effectively or to defend ourselves from litigation, which could harm our business, financial condition and results of operations.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as confidentiality and nondisclosure agreements and other methods, to protect our proprietary technologies and know-how. There can be no assurance that these protections will be adequate to protect our proprietary rights, that others will not independently develop or otherwise acquire equivalent or superior technology, or that we can maintain such technology as trade secrets.

The failure of our patents and other intellectual property protections to adequately protect our technology might make it easier for our competitors to offer similar products or technologies, which would harm our business. For example, our patents could be opposed, contested, circumvented or designed around by our competitors or be declared invalid

or unenforceable in judicial or administrative proceedings. Our foreign patent protection is generally not as comprehensive as our United States patent protection and may not protect our intellectual property in some countries where our products are shipped, sold or may be sold in the future. Many United States-based companies have encountered substantial intellectual property infringement in foreign countries, including countries where we sell products. Even if foreign patents are granted, effective enforcement in foreign countries may not be available.

We enter into confidentiality agreements with our employees, consultants and strategic partners. We also control access to and distribution of our technologies, documentation and other proprietary information. However, internal or external parties may copy, disclose, obtain or use our proprietary information without our authorization. Further, current or former employees or third parties may attempt to misappropriate our proprietary information.

Monitoring unauthorized use of our intellectual property and the intellectual property of our customers and strategic partners is difficult and costly. It is possible that unauthorized use of our intellectual property may have occurred or may occur without our knowledge. We cannot assure you that the steps we have taken will prevent unauthorized use of our intellectual property.

Our failure to effectively protect our intellectual property could reduce the value of our technology in licensing arrangements or in cross-licensing negotiations, and could harm our business, financial condition, and results of operations. We may in the future need to initiate infringement claims or litigation to defend or enforce our intellectual property rights. Litigation, whether we are a plaintiff or a defendant, can be expensive, time consuming and may divert the efforts of our technical staff and managerial personnel, which could harm our business, whether or not such litigation results in a determination favorable to us.

Assertions by third parties of infringement by us of their intellectual property rights could result in significant costs and cause our operating results to suffer.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights and positions, which has resulted in protracted and expensive litigation for many companies. From time to time we receive communications that allege we have infringed specified patents, trade secrets or other intellectual property rights owned by others. Any of these allegations, regardless of merit, could cause us to incur significant costs in responding to, defending and resolving these allegations. Any lawsuits resulting from these allegations could subject us to significant liability for damages and invalidate our proprietary rights. Any potential intellectual property infringement allegations or litigation also could force us to do one or more of the following:

- stop selling products or using technology that contain the allegedly infringing intellectual property;
- lose the opportunity to license our technology to others or to collect royalty payments based upon successful protection and assertion of our intellectual property against others;
- incur significant legal expenses;
- pay substantial damages or settlement amounts to a third-party;
- redesign those products that contain the allegedly infringing intellectual property; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

Any significant impairment of our intellectual property rights from any litigation we face could harm our business and our ability to compete.

Our customers have in the past and may in the future also become the target of allegations of infringement or litigation relating to the patent and other intellectual property rights of others. This could trigger technical support and indemnification obligations in some of our licenses or customer agreements. These obligations could result in substantial expenses, including the payment by us of costs and damages relating to claims of intellectual property infringement. In addition to the time and expense required for us to provide support or indemnification to our customers, litigation could disrupt the businesses of our customers, which in turn could hurt our relationships with our customers and cause the sale of our products to decrease. We cannot assure you that claims for indemnification will not be made or that if made, the claims would not have a material adverse effect on our business, operating results or financial conditions.

A breach of our security systems or a cyber-attack may have a material adverse effect on our business.

Our security systems are designed to maintain the physical security of our facilities and protect our customers', suppliers' and employees' confidential information. However, we are also dependent on a number of third-party "cloud-based" service providers of critical corporate infrastructure services relating to, among other things, human resources, electronic communication services and some finance functions, and we are, of necessity, dependent on the security systems of these providers. Accidental or willful security breaches, including cyber-attacks, or other unauthorized access by third parties to our facilities, our information systems or the systems of our cloud-based service providers or the existence of computer viruses in our or their data or software could expose us to a risk of information loss and misappropriation of proprietary and confidential information. Any theft or misuse of this

information could result in, among other things, unfavorable publicity, damage to our reputation, disclosure of our intellectual property and/ or confidential customer, supplier or employee data, difficulty in marketing our products, allegations by our customers that we have not performed our contractual obligations, litigation by affected parties and possible financial obligations for liabilities and damages related to the theft or misuse of this information, any of which could have a material adverse effect on our business, profitability and financial condition. Since the techniques used to obtain unauthorized access or to sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

We may need to raise additional capital, which might not be available or which, if available, may be on terms that are not favorable to us.

We believe our existing cash and cash equivalent balances and cash expected to be generated from our operations will be sufficient to meet our working capital, capital expenditures and other needs for at least the next 12 months. In the future, we may seek to raise additional funds, and we cannot be certain that we will be able to obtain additional financing on favorable terms, if at all. If we issue equity securities to raise additional funds, the ownership percentage of our stockholders would be reduced, and the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. We may also increase our debt in the future for which we may incur additional significant interest charges, which could harm our profitability. Holders of debt would also have rights, preferences or privileges senior to those of existing holders of our common stock. If we cannot raise needed funds on acceptable terms, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could harm our business, operating results and financial condition.

We rely on our ecosystem partners to enhance our product offerings and our inability to continue to develop or maintain these relationships in the future would harm our ability to remain competitive.

We have developed relationships with third parties, which we refer to as ecosystem partners, which provide operating systems, tool support, reference designs and other services designed for specific uses with our SoCs. We believe that these relationships enhance our customers' ability to get their products to market quickly. If we are unable to continue to develop or maintain these relationships, we may not be able to enhance our customers' ability to commercialize their products in a timely fashion and our ability to remain competitive would be harmed, which would negatively impact our ability to generate revenue and our operating results.

If we fail to carefully manage the use of "open source" software in our products, we may be required to license key portions of our products on a royalty-free basis or expose key parts of our source code.

Certain of our software may be derived from "open source" software that is generally made available to the public by its authors and/or other third parties. Such open source software is often made available to us under licenses, such as the GNU General Public License, that impose certain obligations on us in the event we were to distribute derivative works of the open source software. These obligations may require us to make source code for the derivative works available to the public and license such derivative works under a particular type of license, rather than the forms of licenses customarily used to protect our intellectual property. In the event the copyright holder of any open source software were to successfully establish in court that we had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public or stop distributing that work.

Our facilities and the facilities of our suppliers, third-party contractors and customers are located in regions that are subject to natural disasters and other risks. Any disruption to the operations of these could cause significant delays in the production or shipment of our products.

Our California facilities, including our principal executive offices, are located near major earthquake faults. Any personal injury at, or damages to, the facilities as a result of such occurrences could have a material adverse effect on our business, results of operations or financial condition. Additionally, a substantial portion of our products are manufactured by third-party contractors located in the Asia-Pacific (or APAC) region. The risk of an earthquake in the APAC region is significant due to the proximity of major earthquake fault lines to the facilities of our foundries and assembly and test subcontractors. For example, several major earthquakes have occurred in Taiwan and Japan since our incorporation in 2000, the most recent being the major earthquake and tsunami that occurred in March 2011 in Japan. Although our third-party contractors did not suffer any significant damage as a result of these most recent

earthquakes, the occurrence of additional earthquakes or other events causing closures could result in the disruption of our foundry or assembly and test capacity.

We have additional operations, suppliers, third-party contractors and customers in regions that have historically experienced natural disasters. Any disruption resulting from a natural disaster could cause significant delays in the production or shipment of our products which could adversely affect our business, results of operations and financial condition. Further, as a result of a natural disaster, our major customers may face shortages of components that could negatively impact their ability to build the devices into which our products are integrated, thereby negatively impacting the demand for our products even if the supply of our products is not directly affected by the natural disaster.

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

To remain competitive, we expect to continue to transition our semiconductor products to increasingly smaller line width geometries. This transition requires us to modify our designs to work with the manufacturing processes of our foundries. We periodically evaluate the benefits, on a product-by-product basis, of migrating to new process technologies to reduce cost and improve performance. We may face difficulties, delays and expenses as we continue to transition our products to new processes. We are dependent on our relationships with our foundry contractors to transition to new processes successfully. We cannot assure you that the foundries that we use will be able to effectively manage the transition or that we will be able to maintain our existing foundry relationships or develop new ones. If any of our foundry contractors or we experience significant delays in this transition or fail to efficiently implement this transition, we could experience reduced manufacturing yields, delays in product deliveries and increased expenses, all of which could harm our relationships with our customers and our results of operations. As new processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third-party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis.

We may incur impairments to goodwill or long-lived assets.

We review our long-lived assets, including goodwill and other intangible assets, for impairment annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Significant negative industry or economic trends, including a significant decline in the market price of our common stock, reduced estimates of future cash flows for our reporting units or disruptions to our business could lead to an impairment charge of our long-lived assets, including goodwill and other intangible assets.

Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely heavily on projections of future operating performance. If our actual results, or the plans and estimates used in future impairment analyses are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges. We operate in highly competitive environments and projections of future operating results and cash flows may vary significantly from results. Additionally, if our analysis results in impairment to our goodwill, we may be required to record a charge to earnings in our financial statements during a period in which such impairment is determined to exist, which may negatively impact our business, financial condition and results of operations.

Our future effective tax rates could be affected by the allocation of our income among different geographic regions, which could affect our future operating results, financial condition and cash flows.

As a global company, we are subject to taxation in the United States and various other countries and states. Significant judgment is required to determine and estimate worldwide tax liabilities. We may further expand our international operations and staff to better support our international markets. As a result, we anticipate that our consolidated pre-tax income will be subject to tax at relatively lower tax rates when compared to the United States federal statutory tax rate. Further, because we have established valuation allowance against our deferred tax assets in the United States, combined with lower foreign tax rates, our effective income tax rate is expected to be lower than the United States federal statutory rate. Our future effective income tax rates could be adversely affected if tax authorities were to successfully challenge our international tax structure or if the relative mix of United States and international income changes for any reason, or United States or foreign tax laws were to change. Accordingly, there can be no assurance that our income tax rate will continue to be less than the United States federal statutory rate.

Any significant change in our future effective tax rates could adversely impact our consolidated financial position, results of operations and cash flows. Our future effective tax rates may be adversely affected by a number of factors including:

- changes in tax laws in the countries in which we operate or the interpretation of such laws including the Base Erosion Profit Shifting, or BEPS, project being conducted by the Organization for Economic Co-operation and Development and the appeal of the United States tax court's recent opinion on the exclusion of stock compensation expense in inter-company cost sharing arrangements;
- increase in expenses not deductible for tax purposes;
- changes in share-based compensation expense;
- change in the mix of income among different taxing jurisdictions;
- audit examinations with adverse outcomes;
- changes in generally accepted accounting principles; and
- our ability to use tax attributes such as research and development tax credits and net operating losses.

In December 2017, both houses of the U.S. Congress passed legislation that was approved and signed into law. This legislation could have a material benefit or material adverse impact on our effective tax rate, tax expense and cash flows in the future. Any benefits associated with lower U.S. corporate tax rates could be reduced or outweighed by other tax changes adverse to our business or operations, such as new or additional taxes imposed on earnings and/or reinvested earnings of our foreign subsidiaries. The aggregate impact of such legislation could have a material adverse impact on our cash flows and results of operations.

We are subject to examination of our income tax returns by the United States Internal Revenue Service and other tax authorities, which may result in the assessment of additional income taxes. Although we reserve for uncertain tax positions, including related penalties and interest, the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and therefore could have a material impact on our tax provision, net income and cash flows. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to record additional income tax expense or establish an additional valuation allowance, which could materially impact our financial position and results of operations.

Changes in valuation allowance of deferred tax assets may affect our future operating results

We record a valuation allowance to reduce our net deferred tax assets to the amount that we believe is more-likely-than-not to be realized. In assessing the need for a valuation allowance, we consider historical levels of income, expectations and risks associated with estimates of future taxable income. We periodically evaluate our deferred tax asset balance for realizability. To the extent we believe it is more-likely-than-not that some portion of our deferred tax assets will not be realized, we will increase the valuation allowance against the deferred tax assets. Realization of our deferred tax assets is dependent primarily upon future taxable income in related tax jurisdictions. If our assumptions and consequently our estimates change in the future, the valuation allowances may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

Risks Related to our Common Stock

The market price of our common stock may be volatile, which could cause the value of your investment to decline.

The market price of our common stock has fluctuated substantially and there is no assurance that such volatility will not continue. Several factors that could impact our stock price are:

- quarterly variations in our results of operations or those of our competitors;
- changes in financial estimates including our ability to meet our future revenue and operating profit or loss projections;
- general economic conditions and slow or negative growth of related markets;
- announcements by us or our competitors of design wins, acquisitions, new products, significant contracts, commercial relationships or capital commitments;
- our ability to develop and market new and enhanced products on a timely basis;
- commencement of, or our involvement in, litigation;
- disruption to our operations;
- the emergence of new sales channels in which we are unable to compete effectively;
- any major change in our board of directors or management;
- changes in governmental regulations; and
- changes in earnings estimates or recommendations by securities analysts.

Furthermore, the stock market in general, and the market for semiconductor and other technology companies in particular, have experienced price and volume fluctuations that have often been unrelated or disproportionate to the

operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. These trading price fluctuations may also make it more difficult for us to use our common stock as a means to make acquisitions or to use our common stock to attract and retain employees. In addition, in the past, following periods of volatility in the overall market and the market price of a company’s securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management’s attention and resources.

Delaware law and our amended and restated certificate of incorporation and bylaws contain provisions that could delay or discourage takeover attempts that stockholders may consider favorable.

Provisions in our amended and restated certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the division of our board of directors into three classes;
- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or due to the resignation or departure of an existing board member;
- the prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for the advance notice of nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders' meeting;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the ability of the board of directors to issue, without stockholder approval, up to 10,000,000 shares of preferred stock with terms set by the board of directors, which rights could be senior to those of our common stock;
- the elimination of the rights of stockholders to call a special meeting of stockholders and to take action by written consent in lieu of a meeting;
- the required approval of at least 66 2/3% of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors and the inability of stockholders to take action by written consent in lieu of a meeting; and
- the required approval of at least a majority of the shares entitled to vote at an election of directors to remove directors without cause.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, particularly those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our amended and restated certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts, could reduce the price that investors are willing to pay for shares of our common stock in the future and could potentially result in the market price being lower than they would without these provisions.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index which follows the signature page of this Quarterly Report on Form 10-Q, which is incorporated here by reference.

EXHIBIT INDEX

Exhibit Number	Description
2.1*	Agreement and Plan of Merger between Marvell Technology Group Ltd., Kauai Acquisition Corporation and the Registrant, dated November 19, 2017 (1)
2.2*	Agreement and Plan of Merger and Reorganization between the Registrant, Quasar Acquisition Corporation and QLogic Corporation, dated June 15, 2016 (2)
3.1	Restated Certificate of Incorporation of the Registrant (3)
3.2	Amended and Restated Bylaws of the Registrant(4)
4.1	Reference is made to Exhibits 3.1 and 3.2
4.2	Form of the Registrant's Common Stock Certificate (5)
31.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Syed B. Ali, President and Chief Executive Officer
31.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Arthur D. Chadwick, Chief Financial Officer
32.1**	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Syed B. Ali, President and Chief Executive Officer and Arthur D. Chadwick, Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (No. 001-33435), filed with the SEC on November 22, 2017, and incorporated herein by reference.

(2) Filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (No. 001-33435), filed with the SEC on June 15, 2016, and incorporated herein by reference.

(3)

Filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K (No. 001-33435), filed with the SEC on June 20, 2011, and incorporated herein by reference.

(4) Filed as Exhibit 3.5 to the Registrant's Registration Statement on Form S-1/A (No. 333-140660), filed with the SEC on April 13, 2007, as amended, and incorporated herein by reference.

(5) Filed as Exhibit 4.2 to the Registrant's Registration Statement on Form S-1/A (No. 333-140660), filed with the SEC on April 24, 2007, as amended, and incorporated herein by reference.

* Certain schedules related to identified agreements have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant undertakes to furnish supplemental copies of any omitted schedules upon request by the SEC.

** This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

		CAVIUM, INC.
Date: May 2, 2018	By:	/S/ ARTHUR D. CHADWICK
		Arthur D. Chadwick
		Chief Financial Officer and Vice President of Finance and Administration

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