Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties including those discussed under Part I, Item 1A, "Risk Factors." These risks and uncertainties may cause actual results to differ materially from those discussed in the forward-looking statements.

We are a fabless semiconductor provider of high-performance application-specific standard products. Our core strength of expertise is the development of complex SoC and SiP devices, leveraging our extensive technology portfolio of intellectual property in the areas of analog, mixed-signal, digital signal processing, and embedded and standalone integrated circuits. The majority of our product portfolio leverages embedded central processing unit technology. We also develop platforms that we define as integrated hardware along with software that incorporates digital computing technologies designed and configured to provide an optimized computing solution. Our broad product portfolio includes devices for data storage, enterprise-class Ethernet data switching, Ethernet PHY, wireless connectivity, IoT devices and multimedia solutions. Our products serve diverse applications used in carrier, metropolitan, enterprise and PC-client data communications and storage systems. Additionally, we serve the consumer electronics market for the convergence of voice, video and data applications. As a fabless integrated circuit company, we rely on independent, third-party contractors to perform manufacturing, assembly and test functions. This approach allows us to focus on designing, developing and marketing our products, and significantly reduces the amount of capital we need to invest in manufacturing products.

Overview

Fiscal 2016 was a challenging year for Marvell as increasing competitive dynamics in the handset market were compounded by softer demand conditions in PC and enterprise networking markets. Net revenue in fiscal 2016 was $2.7 billion and was 27% lower than net revenue of $3.7 billion in fiscal 2015. Revenues declined in all of our end markets, led by a 31% decrease in storage product sales, and a 27% decline in our mobile and wireless sales, given the downsizing of the mobile handset business and continued challenges in the PC and networking markets. We are focused on our core technologies to improve our position and growth potential in our target markets of storage, networking and wireless connectivity.

- In the storage market, fiscal 2016 was a challenging year for both our HDD and SSD businesses. In HDD, our revenue was negatively affected by a meaningful decline in overall HDD unit demand throughout the year. Although we believe our overall HDD market share did not change appreciably in fiscal 2016, our dependence on mobile HDDs was detrimental to our revenue growth. In SSDs, our sales were negatively affected by a decline in demand from one of our major SSD customers due to a supply chain change at one of its large PC customers. We continue to invest in comprehensive solutions that build upon our leading market position in the storage market.
- In the mobile market, the competitive environment in the mobile baseband market continued to intensify in fiscal 2016, placing tremendous pressure on market prices for handset SoCs and platforms. Given the deteriorating margins in this business, we announced a significant restructuring of our mobile platform business in September 2015.
- In the wireless connectivity market, we continue to gain momentum in enterprise routers, gaming consoles, and set top box/streaming devices with our new generation of WiFi solutions. We believe the increased bandwidth of our solutions will enable a significant upgrade cycle in enterprise, service provider and retail routers.
- In the networking market, sales of our networking solutions declined from fiscal 2016 mainly due to continued soft demand for our networking products. In fiscal 2016, we focused our engineering and marketing efforts on our core networking technologies for Ethernet switches and PHYs, and embedded networking processors. We believe these efforts will allow us to achieve design wins in enterprise, cloud/datacenter and service provider markets.

We believe our financial position is strong and we remain committed to deliver shareholder value through our share repurchase and dividend programs.

- Our cash, cash equivalents and short-term investments were $2.3 billion at January 30, 2016 (prior to giving effect to the settlement with CMU).
- We generated cash flow from operations of $205.4 million during fiscal 2016.
- We paid cash dividends of $0.24 per share for a total of $122.8 million in fiscal 2016 and subsequently, we announced a dividend of $0.06 per share in March 2016 that was paid in April 2016 and a dividend of $0.06 per share in May 2016 that was paid in July 2016.
- We repurchased 19.7 million of our common shares for $260.9 million in fiscal 2016. The Company has made no share repurchases since August 24, 2015.
- We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to cover our working capital needs, capital expenditures, investment requirements, any declared dividends and commitments for at least the next 12 months, as well as payment of $750 million related to our settlement of the patent litigation with CMU.

In connection with the patent litigation action with CMU, we reached settlement with CMU in February 2016 and have agreed to pay an aggregate of $750 million (see “Note 10 — Commitments and Contingencies” and “Note 15 — Subsequent Events” in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K for further discussion of this matter including the charge we recorded in fiscal 2016 and other patent litigation matters).

A significant number of our products are being incorporated into consumer electronics products, including gaming devices and personal computers, which are subject to significant seasonality and fluctuations in demand. Holiday and back to school buying trends may at times negatively impact our results in the first and fourth quarter, and positively impact our results in the second and third quarter of our fiscal years. In addition, consumer electronics sales are heavily dependent on new product launch timelines and product refreshes. For example, our sales of wireless connectivity products may increase significantly during a period when one of our customers launches a new gaming console, and these sales may taper significantly after the initial launch period.

Historically, a relatively small number of customers have accounted for a significant portion of our net revenue. Net revenue from one customer was 18%, 20% and 24% for fiscal 2016, 2015 and 2014, respectively. Net revenue from a second customer was 13%, 13% and 12% for fiscal 2016, 2015 and 2014, respectively. We had net revenue from one distributor representing 11% for fiscal 2015. No distributors accounted for 10% or greater of total net revenue in fiscal 2014 or fiscal 2016. We continuously monitor the creditworthiness of our distributors and believe these distributors’ sales to diverse end customers and geographies further serve to mitigate our exposure to credit risk.

Most of our sales are made to customers located outside of the United States, primarily in Asia. Sales to customers in Asia represented approximately 96% of our net revenues in each of fiscal 2016 and 2015, and 95% of our net revenue for fiscal 2014. Because many manufacturers and manufacturing subcontractors of our customers are located in Asia, we expect that most of our net revenue will continue to be represented by sales to our customers in that region.

A relatively large portion of our sales have historically been made on the basis of purchase orders rather than long-term agreements. In addition, the development process for our products is long, which may cause us to experience a delay between the time we incur expenses and the time revenue is generated from these expenditures. We anticipate that the rate of new orders may vary significantly from quarter to quarter.

Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our operating results for that quarter and future quarters may be adversely affected.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to performance-based compensation, revenue recognition, provisions for sales returns and allowances, inventory excess and obsolescence, investment fair values, goodwill and other intangible assets, restructuring, income taxes, litigation and other contingencies. In addition, we use assumptions when employing the Monte Carlo simulation and Black-Scholes valuation models to calculate the fair value of share-based awards granted. We base our estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances when these carrying values are not readily available from other sources. Actual results could differ from these estimates, and such differences could affect the results of operations reported in future periods. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, and collection is reasonably assured.

Product revenue is generally recognized upon shipment of product to customers, net of accruals for estimated sales returns and rebates. However, some of our sales are made through distributors under agreements allowing for price protection and limited rights of stock rotation on product unsold by the distributors. Although title passes to the distributor upon shipment terms and payment by our distributors is not contingent on resale of the product, product revenue on sales made through distributors with price protection and stock rotation rights are deferred until the distributors sell the product to end customers. Deferred revenue less the related cost of the inventories is reported as deferred income. We do not believe that there is any significant exposure related to impairment of deferred cost of sales, as our historical returns have been minimal and inventory turnover for our distributors generally ranges from 60 to 90 days. Our sales to direct customers are made primarily pursuant to standard purchase orders for delivery of products.

A portion of our net revenue is derived from sales through third-party logistics providers, who maintain warehouses in close proximity to our customer's facilities. Revenue from sales through these third-party logistics providers is not recognized until the product is pulled from stock by the customer.

The provision for estimated sales returns and allowances on product sales is recorded in the same period the related revenues are recorded. These estimates are based on historical sales returns, analysis of credit memo data and other known factors. In addition, payments to our customers, in cases where products with potential quality issues are not returned to us and the related quality issue can otherwise not be verified, or where the amount of the payment is not sufficiently supported by the fair value of the quality issue, may be recorded as a reduction of revenue. Actual returns could differ from these estimates. We account for rebates by recording reductions to revenue in the same period that the related revenue is recorded. The amount of these reductions is based upon the terms agreed to with the customers.

Share-Based Compensation. We measure our share-based compensation at the grant date, based on the fair value of the award, and recognize expense over the requisite service period. We amortize share-based compensation expense for time-based awards under the straight-line attribution method over the vesting period, which is generally four years for annual grants to employees and five years for new hire grants. Performance-based awards are amortized using the accelerated method.

We estimate the fair value of time-based stock option and stock purchase awards on the date of grant using the Black Scholes option-pricing model. The fair value of market-based stock option awards is estimated on the date of grant using a Monte Carlo simulation model. The value of the portion of the awards that is ultimately expected to vest is recognized as expense over the requisite service periods. The Black-Scholes and Monte Carlo models incorporate various highly subjective assumptions including expected term of awards, expected future stock price volatility, expected dividend yield and risk-free interest rate.

In developing estimates used to calculate assumptions, we establish the expected term for employee options, as well as expected forfeiture rates, based on the historical settlement experience and after giving consideration to vesting schedules. Assumptions for stock option exercises and pre-vesting terminations of stock options were stratified by two employee groups and one employee/non-employee group with sufficiently distinct behavior patterns. Expected volatility was developed based on an equally weighted combination of historical stock price volatility and implied volatility derived from traded options on our stock in the marketplace. The expected dividend yield is calculated by dividing annualized dividend payments by the closing stock price on the grant date of the option.

The fair value of each restricted stock unit is estimated based on the market price of the Company's common shares on the date of grant less the expected dividend yield. Additionally, for certain of our performance-based awards, we must make subjective assumptions regarding the likelihood that the related performance metrics will be met. These assumptions are based on various revenue and operating performance criteria. Changes in our actual performance could cause a significant adjustment in future periods for these performance-based awards.

Share-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest. Previously recognized expense is reversed for the portion of awards forfeited prior to vesting as and when forfeitures occurred. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Assumptions for forfeitures are stratified by employee groups with sufficiently distinct behavior patterns. Changes in the estimated forfeiture rate can have a significant effect on reported share-based compensation expense, as the effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The expense we recognize in future periods could be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognized in the current period and/or our forecasts.

Accounting for Income Taxes. We estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual tax exposure together with assessing temporary differences resulting from the differing treatment of certain items for tax return and financial statement purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets.

We recognize income taxes using an asset and liability approach. This approach requires the recognition of taxes payable or refundable for the current year, and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

Evaluating the need for an amount of a valuation allowance for deferred tax assets often requires judgment and analysis of all the positive and negative evidence available, including cumulative losses in recent years and projected future taxable income, to determine whether all or some portion of the deferred tax assets will not be realized. Using available evidence and judgment, we establish a valuation allowance for deferred tax assets, when it is determined that it is more likely than not that they will not be realized. Valuation allowances have been provided primarily against the U.S. research and development credits. Valuation allowances have also been provided against certain acquired operating losses, and the deferred tax assets of a foreign subsidiary. A change in the assessment of the realization of deferred tax assets may materially impact our tax provision in the period in which a change of assessment occurs.

As a multinational corporation, we conduct our business in many countries and are subject to taxation in many jurisdictions. The taxation of our business is subject to the application of various and sometimes conflicting tax laws and regulations as well as multinational tax conventions. Our effective tax rate is highly dependent upon the geographic distribution of our worldwide earnings or losses, the tax regulations and tax holidays in each geographic region, the availability of tax credits and carryforwards, and the effectiveness of our tax planning strategies. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, and the evolution of regulations and court rulings. Consequently, taxing authorities may impose tax assessments or judgments against us that could materially impact our tax liability and/or our effective income tax rate.

We are subject to income tax audits by the respective tax authorities in all of the jurisdictions in which we operate. We recognize the effect of income tax positions only if these positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is more than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense. The calculation of our tax liabilities involves the inherent uncertainty associated with the application of GAAP and complex tax laws. We believe we have adequately provided for in our financial statements additional taxes that we estimate may be required to be paid as a result of such examinations. While we believe that we have adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than our accrued position. These tax liabilities, including the interest and penalties, are released pursuant to a settlement with tax authorities, completion of audit or expiration of various statutes of limitation. The material jurisdictions in which we may be subject to potential examination by tax authorities throughout the world include China, Israel, Singapore, Switzerland and the United States.

The recognition and measurement of current taxes payable or refundable, and deferred tax assets and liabilities require that we make certain estimates and judgments. Changes to these estimates or a change in judgment may have a material impact on our tax provision in a future period.

Inventories. We value our inventory at the lower of cost or market, cost being determined under the first-in, first-out method. We regularly review inventory quantities on hand and record a reduction to the total carrying value of our inventory for any difference between cost and estimated market value of inventory that is determined to be excess, obsolete or unsellable inventory based primarily on our estimated forecast of product demand and production requirements. The estimate of future demand is compared to our inventory levels, including open purchase commitments, to determine the amount, if any, of obsolete or excess inventory. Demand for our products can fluctuate significantly from period to period. A significant decrease in demand could result in an increase in the amount of excess inventory on hand. In addition, our industry is characterized by rapid technological change, frequent new product development and rapid product obsolescence that could result in an increase in the amount of obsolete inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the reduction to the total carrying value of our inventory for excess and obsolete inventory. In the future, if our inventory is determined to be overvalued, we would be required to recognize such costs in our cost of goods sold at the time of such determination. Likewise, if our inventory is determined to be undervalued, we may have over-reported our cost of goods sold in previous periods and would be required to recognize additional gross margin at the time the related inventory is sold. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our results of operations.

Long-lived Assets and Intangible Assets. We assess the impairment of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Circumstances which could trigger a review include, but are not limited to the following:

- significant decreases in the market price of the asset;
- significant adverse changes in the business climate or legal factors;
- accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset;
- current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and
- current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

Whenever events or changes in circumstances suggest that the carrying amount of long-lived assets and intangible assets may not be recoverable, we estimate the future cash flows expected to be generated by the asset from its use or eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Significant management judgment is required in the forecasts of future operating results that are used in the discounted cash flow method of valuation.

As of January 30, 2016, we had a total of $18.0 million in acquired intangible assets. In fiscal 2016, we recorded charges of $0.3 million to write off core technology due to our decision to discontinue the related development project and $0.3 million to write off a trade name that we no longer intend to market. In fiscal 2015, we recorded a charge of $3.4 million to write off IPR&D related to a project that was discontinued. In fiscal 2014, we recorded a charge of $8.1 million for the impairment of an acquired intangible asset.

Goodwill. We record goodwill when the consideration paid for a business acquisition exceeds the fair value of net tangible and intangible assets acquired. We review goodwill for impairment annually on the last business day of our fiscal fourth quarter and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. We have identified that our business operates as a single operating segment which can further be divided into two components; Storage, and Smart Networked Devices and Solutions. Management concluded that goodwill is recoverable from these two components working jointly due to a fact pattern demonstrating significant sharing of assets, corporate resources, and benefits from common research and development. The two components also exhibit similar economic characteristics. Accordingly, management concluded that these two components should be aggregated into a single reporting unit for purposes of testing goodwill impairment.

When testing goodwill for impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Factors we consider important which could trigger a goodwill impairment review include;

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- a significant decline in our stock price for a sustained period; and
- a significant change in our market capitalization relative to our net book value.

If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount or if we note multiple qualitative factors indicating potential impairment, then a two-step quantitative impairment test is performed. The first step requires comparing the fair value of the reporting unit to its net book value, including goodwill. A potential impairment exists if the fair value of the reporting unit is lower than its net book value. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. Our goodwill impairment test uses a weighting of the income method and the market method to estimate a reporting unit's fair value. The income method is based on a discounted future cash flow approach that uses the following assumptions and inputs: revenue based on assumed market segment growth rates and our assumed market segment share, estimated costs, and appropriate discount rates based on our weighted average cost of capital as determined by considering the observable weighted average cost of capital of comparable companies. The market method is based on quoted prices of our shares as well as an implied control premium (the excess of the reporting unit's fair value over Marvell's market capitalization). We evaluate the control premium by comparing it to observable control premiums from recent comparable market acquisition transactions.

The second step of the process is only performed if a potential impairment exists, and it involves determining the implied fair value of the reporting unit's goodwill and comparing it to the carrying value of goodwill. If the carrying value of goodwill were to exceed its implied fair value, then the Company will record a charge for the amount of impairment in the fiscal quarter in which the determination is made.

On the last day of the third quarter of fiscal 2016, the Company performed an impairment assessment for testing goodwill due to certain events and circumstances management considered could be factors that could trigger a goodwill impairment. These factors included the Federal Circuit panel's decision in August 2015 related to the CMU litigation (see "Note 10 — Commitments and Contingencies" in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K), the Company's decision to significantly restructure its mobile platform business announced in September 2015 (see "Note 8 — Restructuring and Other Related Charges" in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K) and a significant decline in the Company's stock price during fiscal 2016. Our goodwill impairment analysis did not result in any impairment charges. The excess of fair value over carrying amount for our reporting unit approximated 36% of its carrying amount. Our annual goodwill impairment analysis, which we performed as of the last day of the fourth quarter of fiscal 2016, also did not result in any impairment charges since the excess of fair value over carrying amount for our reporting unit approximated 41% of its carrying amount.

Litigation Costs. From time to time, we are involved in legal actions arising in the ordinary course of business. There can be no assurance these actions or other third-party assertions will be resolved without costly litigation, in a manner that does not adversely impact our financial position, results of operations or cash flows or without requiring royalty payments in the future, which may adversely impact gross margins. We record a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. In determining the probability of a loss and consequently, determining a reasonable estimate, management is required to use significant judgment. Given the uncertainties associated with any litigation, the actual outcome can be different than our estimates and could adversely affect our results of operations, financial position and cash flows.

Table of Contents

Results of Operations

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

	Year Ended		
	January 30, 2016	January 31, 2015	February 1, 2014
Net revenue	100.0%	100.0%	100.0%
Operating costs and expenses:			
Cost of goods sold	54.8	49.7	48.9
Research and development	38.7	31.2	33.9
Selling and marketing	4.7	3.9	4.5
General and administrative	5.4	3.4	3.1
Carnegie Mellon University litigation settlement	24.0	—	—
Restructuring and other related charges	2.0	0.3	0.1
Amortization and write-off of acquired intangible assets	0.4	0.5	1.3
Total operating costs and expenses	130.0	89.0	91.8
Operating income (loss)	(30.0)	11.0	8.2
Interest and other income, net	0.7	0.6	0.7
Income (loss) before income taxes	(29.3)	11.6	8.9
Provision (benefit) for income taxes	0.5	(0.1)	(0.3)
Net income (loss)	(29.8)%	11.7%	9.2%

Years Ended January 30, 2016 and January 31, 2015

Net Revenue

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentage)		
Net revenue	$2,725,828	$3,706,963	(26.5)%

Net revenue is gross revenue, net of accruals for estimated sales returns and rebates. Our net revenue for fiscal 2016 decreased by $981.1 million compared to net revenue for fiscal 2015. The decrease was due to overall lower sales of products to customers in all of our end markets. The decrease in net revenue was further affected by lower sales of products for the storage market due to weaker than expected demand from customers in general, as economic conditions weakened overall in the semiconductor industry. Unit shipments were 18% lower combined with a 10% decline in average selling prices in fiscal 2016 compared to fiscal 2015, which resulted in an overall decline of 27%.

From time to time, our customers agreed to take shipments in an earlier fiscal quarter than the fiscal quarter they originally requested delivery. When such agreement would not have occurred but for the request made by Marvell, we refer to such transactions internally as “pull-ins.” Pull-in sales increased compared to historical levels beginning in the fourth quarter of fiscal 2015 and returned to historical levels in the third quarter of fiscal 2016. Net revenue in fiscal 2016 related to pull-in sales for shipments taken early by our customers were approximately 9% and 11% of net revenue in the first and second quarters of fiscal 2016, respectively, and declined to less than 1% of net revenue in both the third and fourth quarters of fiscal 2016. This compares to net revenue in fiscal 2015 related to pull-in sales for shipments taken early by our customers, which were less than 1% in each of the first and second quarters of fiscal 2015, 1% in the third quarter of fiscal 2015 and increased to 3% in the fourth quarter of fiscal 2015. Customer concessions related to these pull-in transactions, if any, were recorded in the same period in which the revenue was recognized. Beginning in fiscal 2017, our policy is not to engage in pull-in transactions and we therefore do not expect them to have any meaningful impact on our net revenue in future periods.

Cost of Goods Sold

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Cost of goods sold	$1,494,736	$1,843,706	(18.9)%
% of net revenue	54.8%	49.7%	

Cost of goods sold as a percentage of net revenue was higher in fiscal 2016 due to a shift in the mix of our revenue, particularly in the first half of fiscal 2016, towards our mobile and wireless products which have a higher average cost of goods sold as a percentage of revenue. In addition, cost of goods sold in fiscal 2016 includes higher inventory write downs due to lower than expected demand for our mobile related products. Cost of goods sold in fiscal 2016 also includes a $81.3 million charge for the litigation settlement with CMU. For further discussion related to the settlement with CMU (see ”Note 10 — Commitments and Contingencies” and “Note 15 — Subsequent Events” in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K). Our cost of goods sold as a percentage of net revenue may fluctuate in future periods due to, among other things, changes in the mix of products sold; the timing of production ramps of new products; increased pricing pressures from our customers and competitors, particularly in the consumer product markets that we are targeting; charges for obsolete or potentially excess inventory; changes in the costs charged by our foundry; assembly and test subcontractors; product warranty costs; changes in commodity prices such as gold; and the margin profiles of our new product introductions.

Share-Based Compensation Expense

	Year Ended	
	January 30, 2016	January 31, 2015
	(in thousands)	
Cost of goods sold	$ 7,916	$ 7,972
Research and development	98,792	94,432
Selling and marketing	11,106	11,469
General and administrative	15,965	23,373
	$ 133,779	$ 137,246

Share-based compensation expense decreased by $3.5 million in fiscal 2016 compared to fiscal 2015. The decrease is mainly the result of the reversal of previously recognized expenses associated with unvested equity awards that were cancelled as a result of the termination of employees affected by the restructuring of our mobile platform business. Share-based compensation expense was also lower since the financial goals related to performance-based equity awards granted in fiscal 2016 to our executive officers were not achieved and the related share-based compensation expense was adjusted accordingly. These decreases were partially offset by higher share-based compensation expense in fiscal 2016 from more restricted stock awards than in fiscal 2015.

Restructuring and Other Related Charges

	Year Ended	
	January 30, 2016	January 31, 2015
	(in thousands)	
Cost of goods sold	$ 10,292	$ —
Restructuring and other related charges	53,251	10,438
Write-off of acquired intangible assets	—	3,386
	$ 63,543	$ 13,824

We recorded a total of $63.5 million in fiscal 2016 in connection with restructuring and other related charges. The charges primarily related to the restructuring of our mobile platform business announced in September 2015 and include severance, other exit-related costs, the impairment of certain equipment and other assets, as well as the write down of inventory. In addition, we incurred additional charges in connection with our ongoing effort to streamline our business. See "Note 8 — Restructuring and Other Related Charges" in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K for further information.

As a result of the restructuring of our mobile platform business, we expect foreseeable future savings in operating costs of approximately 5% to 10%. These savings will be partially offset by increased investment in research and development as we continue to focus our effort on high growth markets in storage, networking, wireless connectivity and multimedia.

Research and Development

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Research and development	$1,054,257	$1,158,810	(9.0)%
% of net revenue	38.7%	31.2%	

Research and development expense decreased by $104.6 million in fiscal 2016 compared to fiscal 2015. The decrease was primarily attributable to $85.5 million of lower personnel-related costs primarily associated with headcount reductions in Israel and certain other locations in connection with our efforts to streamline our operations in the fiscal 2015 and in the first half of fiscal 2016. In addition, we had a reduction in depreciation and amortization expense of $9.3 million, lower costs for professional services of $9.4 million and lower costs for third-party vendors of $5.1 million.

Selling and Marketing

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Selling and marketing	$ 128,780	$ 143,952	(10.5)%
% of net revenue	4.7%	3.9%	

Selling and marketing expense decreased by $15.2 million in fiscal 2016 compared to fiscal 2015. The decrease was primarily attributable to lower personnel-related costs of $7.7 million due to lower headcount. The decrease also reflected decreases of $4.0 million of marketing communications expenses and $0.4 million from lower sales commissions due to lower commissionable sales.

General and Administrative

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
General and administrative	$ 146,128	$ 124,841	17.1%
% of net revenue	5.4%	3.4%	

General and administrative expense increased by $21.3 million in fiscal 2016 compared to fiscal 2015. The increase was primarily attributable to a charge for a cash payment authorized by our Board of Directors of $15.4 million to our former Chief Executive Officer (see “Note 14 — Related Party Transactions” in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K), higher legal expenses of $7.7 million mainly associated with certain accounting and internal control matters that are the subject of investigations by the Securities and Exchange Commission and the U.S. Attorney, and which were also investigated by the Company’s Audit Committee and $4.2 million of higher costs for the surety bond related to CMU. These increases were partially offset by $7.9 million of lower personnel-related costs due to lower headcount and lower share-based compensation expenses related to the performance-based equity awards granted to our executive officers in fiscal 2016 for which financial goals were not achieved (see “Note 12 — Shareholder’s Equity” in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K).

Carnegie Mellon University Litigation Settlement

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Litigation settlement with Carnegie Mellon University	$ 654,667	$ —	100.0%
% of net revenue	24.0%	— %	

In connection with the settlement agreement with CMU for $750 million (see “Note 10 — Commitments and Contingencies” and “Note 15 — Subsequent Events” in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K), $654.7 million of the settlement allocated to the mutual release of claims and covenant not to sue was recorded in operating expenses. Of the remaining $95.3 million, $81.3 million was recorded in cost of goods sold for fiscal 2016. The remaining $14.0 million will be recognized in cost of goods sold over the remaining term of the license through April 2018.

Amortization and Write-Off of Acquired Intangible Assets

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Amortization and write-off of acquired intangible assets	$ 10,748	$ 16,397	(34.5)%
% of net revenue	0.4%	0.5%	

Amortization and write-off of acquired intangible assets decreased by $5.6 million in fiscal 2016 compared to fiscal 2015. The decrease was due to lower amortization expense as certain intangible assets became fully amortized. In addition, fiscal 2016 included charges of $0.3 million to write off a trade name and $0.3 million to write off core technology, compared to a $3.4 million write-off of IPR&D upon our decision to discontinue the related project in fiscal 2015.

Interest and Other Income, net

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Interest and other income, net	$ 17,685	$ 23,334	(24.2)%
% of net revenue	0.7%	0.6%	

Interest and other income, net, decreased by $5.6 million in fiscal 2016 compared to fiscal 2015. The decrease was mainly due to a $3.0 million loss due to the write-off of an equity investment and a $1.2 million impairment loss on our auction rate securities, compared to an $8.8 million gain from the sale of an investment in fiscal 2015. The decrease was partially offset by the recognition of foreign currency gains, which were $4.8 million higher in fiscal 2016 compared to fiscal 2015 due to revaluation of our foreign currency denominated tax liabilities and releases of previously accumulated liabilities, and the increase in interest income from higher rate of return as well as higher average cash and investment balances.

Provision (Benefit) for Income Taxes

	Year Ended		
	January 30, 2016	January 31, 2015	% Change in 2016
	(in thousands, except percentages)		
Provision (benefit) for income taxes	$ 12,346	$ (3,193)	(486.7)%
% of net revenue	0.5%	(0.1)%	

We had an effective tax rate of (1.5)% in fiscal 2016 compared to an effective tax rate of (0.7)% in fiscal 2015. The income tax expense for fiscal 2016 includes current income tax liability of $14.5 million, an additional tax provision of $3.1 million related to a $15.4 million payment to the Company's former Chief Executive Officer (see "Note 14 — Related Party Transactions" in the Notes to the Consolidated Financial Statement set forth in Part II, Item 8 of this Annual Report on Form 10-K) and a $6.1 million reduction in net deferred tax assets that was primarily caused by the recognition of a valuation allowance against certain non-U.S. loss carryforwards that will not be realized in the foreseeable future. These expenses were offset by a net reduction in unrecognized tax benefits of $11.6 million that arose from the release of $20.6 million due to the settlement of a tax audit in a non-U.S. jurisdiction and the expiration of statutes of limitation in non-U.S. jurisdictions, net of a $9.0 million increase in current unrecognized tax benefits.

Years Ended January 31, 2015 and February 1, 2014

Net Revenue

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentage)		
Net revenue	$3,706,963	$3,404,400	8.9%

Our net revenue for fiscal 2015 increased by $302.6 million compared to net revenue for fiscal 2014. The increase was led by sales of our mobile and wireless products, particularly in the first half of fiscal 2015, where we saw strong growth from multiple customers who launched their 4G LTE smartphones based on our solutions. In the storage market, we saw higher HDD revenue, which was mostly driven by continued growth for our 500 gigabyte per platter products and increased demand for our products used in enterprise drives at a top North America based HDD customer. Our networking revenue was up 1% in fiscal 2015 over fiscal 2014 due to higher demand for enterprise switches and routers. Unit shipments were 18% higher while average selling prices declined 7% in fiscal 2015 compared to fiscal 2014, which resulted in an overall increase of 9%.

Cost of Goods Sold

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Cost of goods sold	$1,843,706	$1,663,730	10.8%
% of net revenue	49.7%	48.9%	

Cost of goods sold as a percentage of net revenue was higher in fiscal 2015 due to a shift in the mix of our revenue, particularly in the first half of fiscal 2015, towards our mobile and wireless products which have a higher average cost of goods sold as a percentage of revenue. In addition, we also had higher inventory write downs and increased royalty expense in fiscal 2015 compared to fiscal 2014.

Share-Based Compensation Expense

	Year Ended	
	January 31, 2015	February 1, 2014
	(in thousands)	
Cost of goods sold	$ 7,972	$ 8,863
Research and development	94,432	109,432
Selling and marketing	11,469	13,940
General and administrative	23,373	23,638
	$ 137,246	$ 155,873

Share-based compensation expense decreased by $18.6 million in fiscal 2015 compared to fiscal 2014. The decrease was primarily due to lower expense related to the employee stock purchase plan. In addition, the reversal of previously recognized expense associated with unvested equity awards that were cancelled as a result of the resignation in February 2014 of our former Chief Technology Officer reduced the fiscal 2015 share-based compensation expense. These decreases were partially offset by new grants of performance-based awards in fiscal 2015 to members of senior management and to our executive officers.

Restructuring and Other Related Charges

	Year Ended	
	January 31, 2015	February 1, 2014
	(in thousands)	
Restructuring and other related charges	$ 10,438	$ 4,732
Write-off of acquired intangible assets	3,386	—
	$ 13,824	$ 4,732

We recorded a total $13.8 million restructuring and other related charges in fiscal 2015, which included severance costs and other exit-related costs, primarily associated with facility closures. In addition, the charge included $3.4 million to write off an acquired intangible asset. The fiscal 2014 restructuring charge primarily related to the closure of two sites for a total cost of $4.7 million for severance and other exit-related costs. See

"Note 8 — Restructuring and Other Related Charges" in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K for a more complete discussion of these restructuring charges.

Research and Development

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Research and development	$1,158,810	$1,153,999	0.4%
% of net revenue	31.2%	33.9%	

Research and development expense increased by $4.8 million in fiscal 2015 compared to fiscal 2014. The increase was primarily attributable to $27.5 million of higher personnel-related costs primarily associated with an increase in incentive compensation expense that were partially offset by lower share-based compensation. In addition, we had $3.8 million of higher depreciation and amortization expenses. These increases were offset by $26.5 million of lower costs primarily for non-recurring engineering services due to higher reimbursement from our customers combined with efforts to closely monitor research and development spending to improve efficiencies.

Selling and Marketing

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Selling and marketing	$ 143,952	$ 151,903	(5.2)%
% of net revenue	3.9%	4.5%	

Selling and marketing expense decreased by $8.0 million in fiscal 2015 compared to fiscal 2014. The decrease was primarily attributable to lower personnel-related costs of $9.7 million due to lower headcount, which was partially offset by slightly higher marketing advertisement activities.

General and Administrative

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
General and administrative	$ 124,841	$ 105,420	18.4%
% of net revenue	3.4%	3.1%	

General and administrative expense increased by $19.4 million in fiscal 2015 compared to fiscal 2014. The increase was primarily attributable to higher legal expenses of $8.3 million for ongoing litigation matters and costs of $7.2 million associated with the surety bond to appeal the CMU judgment. Higher incentive compensation expenses of $5.0 million in fiscal 2015 also contributed to the increase in general and administrative expense.

Amortization and Write-Off of Acquired Intangible Assets

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Amortization and write-off of acquired intangible assets	$ 16,397	$ 43,925	(62.7)%
% of net revenue	0.5%	1.3%	

Amortization and write-off of acquired intangible assets decreased by $27.5 million in fiscal 2015 compared to fiscal 2014. The decrease was due to a reduction in amortization expense as certain intangible assets became fully amortized. In addition, fiscal 2015 included a $3.4 million write-off of IPR&D upon our decision to discontinue the related project compared to a write-off of $8.1 million for the impairment of an acquired intangible asset in fiscal 2014.

Interest and Other Income, net

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Interest and other income, net	$ 23,334	$ 25,566	(8.7)%
% of net revenue	0.6%	0.7%	

Interest and other income, net, decreased by $2.2 million in fiscal 2015 compared to fiscal 2014. The decrease was primarily due to the recognition of foreign currency gains, which were $6.9 million lower in fiscal 2015 compared to fiscal 2014. Although the U.S. dollar strengthened over certain foreign currencies in which we had exposures during fiscal 2015, most of our foreign currency gains arose from the revaluation of our foreign currency denominated tax liabilities that were lower in fiscal 2015 compared to fiscal 2014. The decrease in foreign currency gains was partially offset by an increase in interest income from higher average cash and investment balances combined with an increase in other income. Other income included an $8.8 million gain from the sale of an investment in fiscal 2015 compared to a $7.0 million gain from the sale of a business in fiscal 2014.

Benefit for Income Taxes

	Year Ended		
	January 31, 2015	February 1, 2014	% Change in 2015
	(in thousands, except percentages)		
Benefit for income taxes	$ (3,193)	$ (9,063)	(64.8)%
% of net revenue	(0.1)%	(0.3)%	

We had income tax benefits of 0.7% in fiscal 2015 compared to 3.0% in fiscal 2014. The income tax benefit for fiscal 2015 included the current income tax liability of $17.4 million, plus a $7.4 million increase in current unrecognized tax benefits in non-U.S. jurisdictions. These charges were offset by a reduction in unrecognized tax benefits that arose from the release of $16.4 million due to the expiration of statutes of limitation and a $12.9 million increase in net deferred tax assets. The increase in net deferred tax assets was mostly due to an increase in the Singapore deferred tax assets since we re-negotiated with the Singapore government and in fiscal 2015, they extended the DEI until June 2019. See “Note 9 — Income Taxes” in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K for further information.

Liquidity and Capital Resources

Our principal source of liquidity as of January 30, 2016 consisted of approximately $2.3 billion of cash, cash equivalents and short-term investments (prior to giving effect to the settlement with CMU), of which approximately $830 million was held by foreign subsidiaries (outside Bermuda). Approximately $620 million of this amount held by foreign subsidiaries is related to undistributed earnings, which have been indefinitely reinvested outside of Bermuda. These funds are primarily held in China, Israel, Singapore, the United States and Switzerland. We have plans to use such amounts to fund various activities outside of Bermuda including working capital requirements, capital expenditures for expansion, funding of future acquisitions, or other financing activities. If such funds were needed by the parent company in Bermuda or if the amounts were otherwise no longer considered indefinitely reinvested, we would incur a tax expense of approximately $200 million.

We believe that our existing cash, cash equivalents and short-term investments, together with cash generated from operations, exercise of employee stock options and purchases under our employee stock purchase plan will be sufficient to cover our working capital needs, capital expenditures, investment requirements, any declared dividends and commitments for at least the next 12 months, as well as payment of $750 million related to our settlement of the patent litigation with CMU. Our capital requirements will depend on many factors, including our rate of sales growth, market acceptance of our products, costs of securing access to adequate manufacturing capacity, the timing and extent of research and development projects and increases in operating expenses, which are all subject to uncertainty. In addition, we are named as defendants to several litigation actions and an unfavorable outcome in any current litigation could have a material adverse effect on our liquidity, cash flows and results of operations.

On March 16, 2016, we announced that our board of directors declared a cash dividend of $0.06 per share that was paid on April 22, 2016 to shareholders of record as of March 29, 2016 and, on May 18, 2016, we announced that our board of directors declared a cash dividend of $0.06 per share that was paid on July 12, 2016 to shareholders of record as of June 14, 2016.

Future payment of a regular quarterly cash dividend on our common shares will be subject to, among other things, the best interests of the Company and our shareholders, our results of operations, cash balances and future cash requirements, financial condition, statutory requirements under Bermuda law and other factors that our board of directors may deem relevant. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. In addition, developments in ongoing litigation could affect the our ability to make a dividend payment on a declared payment date until such time as we can meet statutory requirements under Bermuda law.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was $205.4 million for fiscal 2016 compared to $728.9 million for fiscal 2015 and $448.0 million for fiscal 2014. The cash inflows from operations for fiscal 2016 were primarily due to $811.4 million of net loss adjusted for $282.6 million of non-cash items and working capital changes of $734.2 million. The change in working capital was primarily driven by a decrease in accounts receivable due to improved collections and a decrease in inventories, combined with an increase in accrued liabilities and the accrued litigation settlement with CMU. The positive effect on working capital was partially offset by decreases in accounts payable due to the timing of payments and accrued compensation primarily due to lower annual incentive compensation in fiscal 2016 compared to fiscal 2015, as well as an increase in prepaid expenses and other assets due to a deposit paid in connection with a foundry agreement executed in October 2015.

The cash inflows from operations for fiscal 2015 were primarily due to $435.3 million of net income adjusted for $238.2 million of non-cash items and working capital changes of $55.4 million. The positive impact on working capital was primarily driven by a decrease in accounts receivable due to improved collections and a decrease in inventories, combined with an increase in accrued employee compensation as a result of higher incentive compensation.

The cash inflows from operations for fiscal 2014 were primarily due to $315.3 million of net income adjusted for $307.7 million of non-cash items less working capital changes of $175.0 million. The negative change in working capital for fiscal 2014 was primarily driven by an increase in accounts receivable from higher revenue levels and higher inventories due to the ramp up of new products.

Net Cash Provided by and (Used in) Investing Activities

Net cash provided by investing activities was $201.7 million for fiscal 2016 compared to $368.9 million used in investing activities for fiscal 2015 and net cash provided by investing activities of $74.8 million for fiscal

2014. For fiscal 2016, net cash provided by investing activities was primarily generated from the sales and maturities of available-for-sale securities of $1.3 billion less purchases of available-for-sale securities of $1.1 billion, which were also partially offset by payments of $37.3 million for the purchase of property and equipment, and $8.2 million for the purchase of technology licenses.

For fiscal 2015, net cash used in investing activities was primarily due to purchases of available-for-sale securities of $1.1 billion, offset by the sales and maturities of available-for-sale securities of $826.3 million. In addition, we paid $63.0 million for the purchase of property and equipment, and $16.4 million for the purchase of technology licenses.

For fiscal 2014, net cash provided by investing activities was primarily generated from the sale and maturities of available-for-sale securities of $995.0 million less purchases of available-for-sale securities of $837.9 million. The net cash inflow from available-for-sale securities in fiscal 2014 was partially offset by the purchases of $66.6 million of property and equipment, and $17.6 million of IP licenses.

Net Cash Used in Financing Activities

Net cash used in financing activities was $339.8 million for fiscal 2016 compared to $114.8 million for fiscal 2015 and $309.0 million for fiscal 2014. For fiscal 2016, net cash used in financing activities was primarily attributable to payments for repurchases under our share repurchase program of our common shares in the open market for $260.9 million and for our quarterly cash dividends of $122.8 million. The cash outflow was partially offset by net proceeds of $56.4 million from the issuance of our common shares under our share-based plans less the minimum tax withholding on behalf of employees for net share settlements.

For fiscal 2015, net cash used in financing activities was primarily attributable to payments of our quarterly cash dividends of $122.8 million and repurchases under our share repurchase program of our common shares in the open market for $65.0 million. The cash outflow was partially offset by net proceeds of $85.9 million from the issuance of our common shares under our share-based plans less the minimum tax withholding on behalf of employees for net share settlements.

For fiscal 2014, net cash used in financing activities was primarily attributable to repurchases under our share repurchase program of $376.3 million and payment of our quarterly cash dividends of $119.4 million in fiscal 2014. The cash outflow was partially offset by net proceeds of $194.1 million from the issuance of our common shares under our share-based plans less the minimum tax withholding paid on behalf of employees for net share settlements.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities of financial partnerships, such as entities often referred to as structured finance or special purpose entities (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 30, 2016, we were not involved in any unconsolidated SPE transactions.

In the CMU litigation, in order to stay the execution of the final judgment pending its appeal, we filed a supersedeas bond for $1.54 billion with the District Court. The bond was issued by a consortium of sureties authorized by the U.S. Treasury. If the judgment is affirmed after the completion of all appellate proceedings, and we do not thereafter fully satisfy the judgment within thirty days, the sureties are obligated under the bond to make payment to CMU. In support of the bond, we entered into separate indemnity agreements with each of the sureties to indemnify the sureties from all costs and payments made under the bond. The indemnity agreements did not require collateral to be posted at the time of the issuance of the bond. Therefore no cash is considered restricted as of the date of this filing. However, the indemnity agreements provide that each of the sureties have the right to demand to be placed in funds or call for collateral under pre-defined events. See also "Note 10 — Commitments and Contingencies" in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K for a further discussion of this matter.

On November 14, 2014, we filed a second surety bond for $216 million and filed a commitment letter from the sureties to issue up to an additional $95 million in bonding under certain conditions. The second bond and commitment were secured by our campus located in Santa Clara, California, which has a carrying value of $133.0 million at January 30, 2016.

In connection with the settlement that was reached with CMU for a total $750 million in February 2016, the primary supersedeas bond that the Company entered into was reduced to $439 million and the secondary bond was adjusted to $311 million and both were discharged pursuant to an order releasing supersedeas bonds on April 21, 2016. For additional information, see CMU litigation and "Surety Bonds" in "Note 10 — Commitments and Contingencies" in the Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Contractual Obligations and Commitments

Under our manufacturing relationships with our foundry partners, cancellation of outstanding purchase orders is allowed but requires repayment of all expenses incurred through the date of cancellation. As of January 30, 2016, these foundries had incurred approximately $136.8 million of manufacturing costs and expenses relating to our outstanding purchase orders.

The following table summarizes our contractual obligations as of January 30, 2016 and the effect that such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payment Obligations by Fiscal Year						
	2017	2018	2019	2020	2021	Thereafter	Total
Contractual obligations:							
Facilities operating leases, net	$ 19,579	$ 13,909	$ 10,182	$ 4,080	$ 2,939	$ 4,946	$ 55,635
Computer-aided design software	43,717	21,770	14,225	10,200	—	—	89,912
Purchase commitments to foundries	136,848	—	—	—	—	—	136,848
Capital purchase obligations	29,946	—	—	—	—	—	29,946
Technology license obligations	14,769	12,630	—	—	—	—	27,399
Carnegie Mellon University litigation settlement	750,000	—	—	—	—	—	750,000
Other non-current obligations (1)	—	4,732	2,175	2,000	—	4,298	13,205
Total contractual cash obligations	$ 994,859	$ 53,041	$ 26,582	$ 16,280	$ 2,939	$ 9,244	$ 1,102,945

(1) Amounts represent anticipated future cash payments, including anticipated interest payments not recorded in the consolidated balance sheet.

In addition to the above commitments and contingencies, as of January 30, 2016, we have $27.8 million of unrecognized tax benefits as liabilities. We also have a liability for potential interest and penalties of $26.4 million as of January 30, 2016. During the next 12 months, it is reasonably possible that the amount of unrecognized tax benefits could increase or decrease significantly due to changes in tax law jurisdictions, new tax audits and changes in the U.S. dollar as compared to foreign currencies within the next 12 months. Excluding these factors, uncertain tax positions may decrease by as much as $16.2 million from the lapse of the statutes of limitation in various jurisdictions during the next 12 months.

Prospective Capital Needs

To the extent that our existing cash, cash equivalents and short-term investments, and cash generated by operations are insufficient to fund our future activities, we may need to raise additional funds through public or private debt or equity financing. We may also enter into additional acquisitions of businesses, purchase assets or enter into other strategic arrangements in the future, which could also require us to seek debt or equity financing. Additional equity financing or convertible debt financing may be dilutive to our current shareholders. If we elect to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms, if at all. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing shareholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to our common shares.

Recent Accounting Pronouncements

Please see "Note 1 — The Company and its Significant Accounting Policies — Recent Accounting Pronouncements" for further details in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Related Party Transactions

Please see "Note 14 — Related Party Transactions" for further details in our Notes to the Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk. Our interest rate risk relates primarily to our fixed income short-term investment portfolio as we did not have any outstanding debt as of January 30, 2016. We maintain an investment policy that requires minimum credit ratings, diversification of credit risk and limits the long-term interest rate risk by requiring maturities of generally less than five years. We invest our excess cash primarily in highly liquid debt instruments of the U.S. government and its agencies, time deposits, money market mutual funds, asset backed securities, corporate debt securities and municipal debt securities. These investments are classified as available-for-sale and, consequently, are recorded on our consolidated balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income in the consolidated statements of shareholders' equity. Investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall.

To provide an assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact that an adverse change in interest rates would have on the value of the investment portfolio. Based on investment positions as of January 30, 2016, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $11.3 million decline in the fair market value of the portfolio. Due to our positive cash flow from operations, the relatively short-term nature of our investment portfolio and our ability to hold investments to maturity, such change in fair market value would likely not result in any significant cash flow impact.

As of January 30, 2016, our investment portfolio included auction rate securities with an aggregate par value of $12.5 million classified as long-term investments. Although these auction rate securities have continued to pay interest and the underlying collateral has not deteriorated, there is currently limited trading volume. The Company uses a discounted cash flow model to estimate the fair value of the auction rate securities based on its estimated timing and amount of future interest and principal payments. In developing the discounted cash flow model, the Company considers the credit quality and liquidity of the underlying securities and related issuer, the collateralization of underlying security investments and other considerations. The fair value of the auction rate securities as of January 30, 2016 was $1.2 million less than the par value and is included in long-term investments.