Marvell *(MRVL, $7.40 -0.85, 'Long—but upside incremental' on my Investment Ideas list)*
Opportunity with Patent Infringement Loss: News outlets yesterday reported that a jury in a Pittsburg court ruled that Marvell had willfully infringed on two disk drive-related patents held by Carnegie Mellon University to the tune of $1.17B—which could be trebled given the 'willfully' adjective—and MRVL shares got clobbered by 10%. While I am not a fan of this company, I view this situation and the share price weakness very much as a potential investment opportunity. (I very much respect the market and financial success this company has delivered over the years, but have never been comfortable with its governance—it's just a little too family-oriented for my preference.)

Clearly this is bad news for MRVL: trebling $1.17B carves out most of its current $4.3B market cap; pro forma earnings over the last four quarters approximated $500M; and disk drive shipments totaled 47% of its $781M in sales last quarter. Nevertheless, I still consider share price weakness a buying opportunity: the shares are inexpensive on a fundamental valuation, per the metrics below; I fully expect MRVL to appeal the decision; I would be very surprised if any ultimate damages would top more than a couple hundred million dollars, maximum; and MRVL has over $3B in annual sales and is profitable with $2.035B of cash and no debt. (I.e. it can afford this.)

Waiting for the share price to settle with respect to this issue would certainly be prudent, but this is clearly an opportunity in the making, in my opinion.

Ticker: **MRVL**

	Price/sh	12/26/12	
	$7.40	-0.85	-10.3%

Financials as of: 3Q
FYE: Jan

Price Changes

	MRVL	SOX	NASDAQ	S&P500
Day:	-10.3%	-0.8%	-0.7%	-0.5%
Week:	-11.3%	-1.2%	-1.0%	-0.7%
MTD:	-12.6%	1.8%	-0.7%	0.3%
QTD:	-19.1%	-0.3%	-4.0%	-1.4%
YTD:	-46.6%	4.5%	14.8%	12.9%
52wk Low-High:	7.05	16.86		
percent low:	5.0%			
percent high:	-56.1%			

MACD

50-day:	-9.9%
200-day:	-24.5%

Shares(mil):	577.8
Mkt Cap($mil):	4,276
Avg Volume:	11,982,100
QTR Div/share:	$0.0600
Annual Yield:	3.2%
Cash/share:	$3.52
Net Cash/share:	$3.52

TTM

Revenue($mil):	$3,136.1
pro forma EPS:	$0.88

Valuation Metric			since: 2000 Average	High	Low
Price/Sales	TTM	1.4	6.3	19.1	0.9
	Cur FY	1.4			
	Next FY	1.3			
Price/Earnings	TTM	8.4	53.8	300.0	6.3
	Cur FY	14.1			
	Next FY	11.46			
Price/Book	Pr/Bk	0.9			
	Tangible Pr/Bk	1.7			

Diodes *(DIOD, $16.91 +0.11, Not Compelling/Hold),* **BCD Semi** *(BCDS, $3.98 +0.10, Long—but distressed)*
Diodes Buys BCD: After the close of trading yesterday DIOD announced the purchase of BCDS for $8.00 a share in cash. At first blush this is a great deal for both companies, in my opinion: DIOD gets a higher-margin business for book value that includes $1.40 in net cash; and BCDS doubles its share price overnight, which never really seems to have attracted a following since its ADR IPO January 2011. Conference call this morning at 11am ET.

If you like BCDS, then next up to be purchased could be AOSL, in my opinion: a little less cheap at 0.7-times book rather than 0.5-times; a little less profitable with gross margins last quarter of 26.9% rather than 29.1%; power semiconductors rather than straight-ahead analog; but another small chip company on the outs after buying IDTI's old wafer fab in Oregon, only with no published sell-side earnings estimates. Just an idea . . .

—Dan K. Scovel
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