

Cavium Networks Business Summary

Cavium Networks is a provider of highly integrated semiconductor processors that enable intelligent networking, communications and security applications. We refer to our products as enabling intelligent processing because they allow customers to develop networking equipment that is application-aware and content-aware and securely processes voice, video and data traffic at high speeds. Our products also include a rich suite of embedded security protocols that allow UTM, secure connectivity and network perimeter protection. Our products are SoCs, which incorporate single or multiple processor cores, a highly integrated architecture and customizable software that is based on a range of standard operating systems. As a result, our products offer high levels of performance and processing intelligence while reducing product development cycles for our customers and lowering power consumption for end market equipment.

We generate the majority of our revenue from sales of our products to providers of networking equipment that sell into the enterprise network, data center, broadband and consumer, and access and service provider markets. Our products are used in a broad array of equipment, including routers, switches, content-aware switches, UTM and other security appliances, application-aware gateways, voice/video/data, or triple-play, gateways, WLAN and 3G access and aggregation devices, storage networking equipment, servers and intelligent network interface cards.

We conduct all of our semiconductor design and software engineering activity in-house and outsource wafer fabrication and assembly and test. In 2006, we generated revenue from over 100 customers. Our largest customers in 2006 included Cisco Systems, Inc., F5 Networks, Inc., Juniper Networks, Citrix Systems, Inc., Furukawa Electric Co., Ltd., Nokia Corporation, Aruba Networks, Inc., SafeNet, Inc., SonicWALL, Inc. and Yamaha Corporation. . Since our first commercial shipments in 2003, we have shipped more than 1.7 million processors.

Industry Background

Traffic on the Internet and enterprise networks is rapidly increasing due to trends that include greater adoption of Web 2.0 applications, VoIP, video over broadband, file sharing, greater use of web-based services, and the proliferation of stored content accessed through networks. Enterprises and service providers are demanding networking equipment that can take advantage of these trends, and address the significant market opportunities that these new applications provide. As a result, there is growing pressure on providers of networking equipment to rapidly introduce new products with enhanced functionality while reducing their design and manufacturing costs. Providers of networking equipment are increasingly seeking advanced processing solutions from third-party vendors to access the best available technology and reduce development costs.

The processing needs of advanced networking systems can be described in the context of the Open System Interconnection, or OSI, Model, which divides network activities, equipment, and protocols into seven layers. According to this model, Layers 1 through 3 are the physical, data link and network layers, respectively, which provide the protocols to ensure the transmission of data between the source and destination regardless of the content and type of data processed. Traditionally, network infrastructure products have focused on Layer 1 through 3 products that route and switch data traffic based solely on the source and destination address contained in the

packet header. Processors that provide Layer 1 through 3 solutions are widely available from many vendors. Layers 4 through 7 are the transport, session, presentation and application layers, which provide the protocols to enable the reliable end-to-end communication of application information. Intelligent processing generally takes place in Layers 4 through 7. In order to provide this intelligence, advanced networking systems must include processors that enable extensive inspection of the application and data content, or deep packet inspection, and make intelligent switching and routing decisions based upon that inspection. To address customer demands, providers of networking equipment must offer products that include functionality such as intelligent routing or switching of network traffic prioritized by application and data content, and security services. Processors required for Layer 4 through 7 processing are significantly more complex than processors that provide only Layer 1 through 3 solutions.

The market trends driving the need for advanced networking systems and the processors that enable them include the following:

- *Increasing Traffic and Line Rates.* The widespread adoption of broadband connectivity and the emergence of real-time and multimedia applications, such as VoIP, music and video downloads, file sharing and video over broadband, are driving significant increases in the amount and complexity of traffic over networks. Additionally, enterprises are storing and transmitting larger amounts of data and utilizing web-based applications. As a result, providers of networking equipment must incorporate products that can process these substantially higher volumes of data at line rates of 100Mbps to 10Gbps and higher.
- *Secure Connectivity and Enterprise Perimeter Protection.* The growing demand for access to enterprise and online resources, remote connectivity and storage of confidential data makes secure connectivity and perimeter protection critical for today's networks. Secure connectivity is essential to ensure that only authorized users can access confidential and proprietary information and is established using encryption algorithms and protocols. Perimeter protection is necessary to secure networks from external attacks and malicious threats such as viruses, worms and intrusions, and is accomplished using deep packet inspection to identify the contents of the packet payload for the presence of a virus. The increasing need for secure connectivity and enterprise perimeter protection is driving demand for security products that provide encryption algorithms, protocols and deep packet inspection.
- *Requirements for Application Awareness.* The growing trend of data, voice and video traffic converging into a single network requires prioritizing network traffic based on the type of application data. Traditional networks route and switch information based on the simple use of packet source and destination address, without regard to the packet's application. In order to achieve more efficient use of computing resources and to control access to web-based applications, networking systems need to manage data traffic at the application level. For example, an e-mail packet and a multimedia packet may need to be processed differently and directed to separate servers in a network. Network infrastructure that incorporates application awareness requires networking equipment with advanced processing functions, general-purpose programmability and significant processing power.
- *Requirements for Content Awareness.* In addition to recognizing the application, networks also have to be content-aware. This requires the ability to inspect and process

the contents of a packet in order to enable a network to apply policies, or prioritization rules, for routing, transformation and security. For instance, a purchase order entering an enterprise's communications infrastructure can be inspected in transit and portions of the payload relevant to different enterprise functions can be routed to different servers within the enterprise. Implementing content-aware features in networking equipment requires significant computing power, general purpose programmability and specialized functions such as pattern matching.

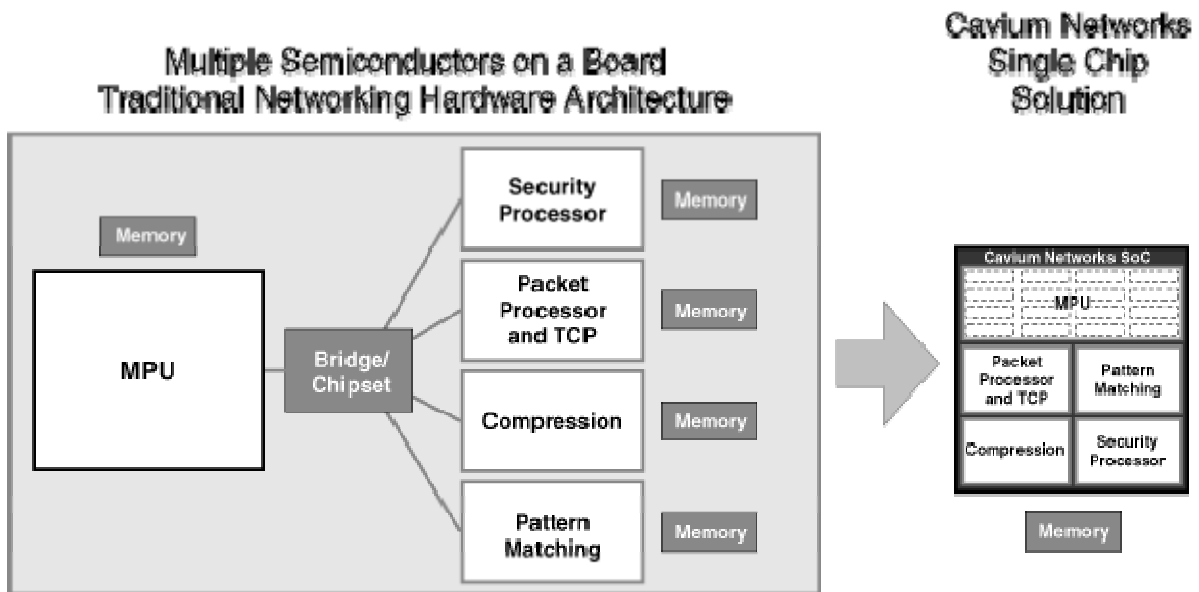
Networking equipment providers address these needs using a variety of approaches for their current networking products, including internally designed custom semiconductor products, such as ASICs, FPGAs or other proprietary chips, multiple chip offerings, general purpose MPUs from merchant suppliers, software-based solutions or a combination of these approaches. While these approaches have been adequate for the basic Layer 1 through 3 processing, they are less effective as the need for Layer 4 through 7 intelligent processing increases and line rates continue to increase. As a result, providers of networking equipment are increasingly turning to third-party vendors for high performance, power-efficient and cost-effective intelligent processing products.

According to estimates from a March 2007 market analysis forecast by iSuppli, the market for digital application specific semiconductor products, or Logic ASSPs, and MPUs shipped into wired communications devices was \$5.8 billion in 2006. This market is estimated to grow to \$7.3 billion by 2010.

Our Solution

We offer highly integrated semiconductor products that enable intelligent processing in the enterprise network, data center, broadband and consumer, and access and service provider markets. Our products have the following key features:

- *High Performance Multi-Core Architecture.* Our products can integrate single or multiple microprocessor cores and proprietary hardware accelerators on one chip, which can perform application-aware and content-aware functions at high speeds. We design our own microprocessor cores using an enhanced MIPS instruction set that allows our customers to take advantage of industry standard software and tools. With up to 16 individual 64-bit enhanced MIPS microprocessor cores, our most comprehensive products can handle up to 19 billion operations per second. As a result, our products can process multiple packets simultaneously and can scale and optimize performance to the requirements of the target application.
- *Highly Integrated SoCs.* Our highly integrated products can replace a number of single function semiconductors with a multi function SoC, which significantly improves performance and lowers power consumption and cost. In addition, advanced security processing algorithms and accelerators are integrated into all of our products to provide both secure connectivity and perimeter protection to enable secure communications. Our SoCs offer complete Layer 4 through 7 intelligent processing with the use of specialized hardware for compression and decompression, TCP/IP acceleration, advanced encryption, intrusion protection and anti-virus scanning. For example, our SoC product can replace a design that may include a general purpose MPU, a bridge chipset, a security processor, a compression chip, a chip used for pattern matching, and various network processing units, ASICs and/or FPGAs.



- *Software-Enabled Development Tools.* Our intelligent processing products feature internally developed, embedded software tools and development kits tailored for use with our SoCs. Our operating system and toolkits incorporate industry standard software, such as Linux, which enables our customers to easily port their software to run on our processors. Further, customers can write applications on a core-by-core basis, depending on functional requirements. 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 development tools in conjunction with our SoCs enhances our customers' ability to get their products to market quickly.
- *Scalability and Product Breadth.* In each of our processor families, we have multiple product offerings that range in complexity and performance while sharing a common architecture. As a result, our customers can access a wide array of products that can provide processing products from the most basic to the most advanced network infrastructure. This provides our customers with the ability to leverage software design efforts across multiple systems, addressing a range of price and performance points. For example, a customer could build an entire product line based on a single SoC design and software implementation, utilizing products with more cores and more hardware accelerators in higher end applications.
- *Efficient Power Usage.* Our products include multiple power efficient processor cores and a proprietary advanced multi-core power management architecture. This allows our customers to optimize power usage across their products. In addition, our customers can reduce power consumption in their products by replacing multiple single purpose chips with a single SoC.

Our Strategy

Our objective is to be the leading provider of intelligent processing products for next-generation networking, communications and security applications. Key elements of our strategy include:

- *Extend Our Technology Leadership Positions.* We intend to continue to invest in the development of future generations of our products to meet the increasingly higher performance, lower cost and lower power requirements of our customers. We intend to leverage our engineering capabilities and continue to invest significant resources in recruiting and developing additional expertise in the area of high performance processor design, networking, security and application and software development.
- *Expand Our Customer Relationships.* We intend to continue to build and strengthen our relationships with our customers. The design and product life cycles of our customers' products can be lengthy, which requires us to work with them throughout the entire design phase, to maintain a long-term commitment, and to focus on their current and future needs. We believe that we can leverage our existing position with customers to identify and secure new market opportunities. We intend to continue to work with our ecosystem partners to develop complementary software, silicon and board subsystems, which allows our customers to accelerate time to market with optimized performance, enables us to win new designs and enhances our competitive position.
- *Target New Applications Requiring Intelligent Processing.* We intend to leverage our core design expertise to develop new processors for a broader range of applications and end markets. Because we have a highly integrated processor and a high performance multi-core architecture, we believe that there are other applications for our core intellectual property in other large and emerging markets. These could include new opportunities in the networking, wireless and storage markets that are increasingly adopting application-aware, content-aware and secure processing.
- *Expand International Presence.* We intend to continue to expand our sales, design and technical support organization to broaden our customer reach in new markets, primarily in Asia and Europe. Given the continued globalization of supply chains, particularly with respect to design and manufacturing, we believe that a global presence will become critical to securing design wins from both existing and new customers.

Products

We offer highly integrated semiconductors that provide intelligent Layer 4 through 7 processing for enterprise network, data center, broadband and consumer, and access and service provider markets. Our products provide scalable, low-power, high performance processors that integrate single or multiple cores, hardware accelerators and input/output interfaces into a single chip and are available across a wide range of price and performance points. All of our products are compatible with standards-based operating systems and general purpose software to enable ease of programming, and are supported by our ecosystem partners.

The chart below sets out key product lines, available versions, descriptions and primary target equipment for each of our product families.

Product Families	Product Lines (Number of MIPS Cores)	Available Configurations	Description	Target End Markets
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OCTEON Multi-core MIPS64 Processors	CN38XX (16)	Network Services Processor	Multi-core MIPS64 Processors with 2-16 cores, integrated L4-L7 hardware acceleration and networking interfaces	<ul style="list-style-type: none"> Enterprise Network Access and Service Provider Data Center
	CN36XX (4)			
	CN31XX (2)	Secure Communications Processor	Performance: 1Gbps to 10+ Gbps	
NITROX Security Processors	• CN2XXX	i/s/w: IPsec, SSL or WLAN Security version	Standalone Security Processors, with wide range of interface connectivity	Enterprise Network Data Center Access and Service Provider
	• CN1XXX	p: Multi-protocol version	Performance: 100Mbps to 10+ Gbps	Broadband and Consumer
NITROX Soho / OCTEON Broadband Communication Processors	• CN31XX (2)	Network Services Processor	Cost-effective Single & Dual core MIPS-based Communication Processors with integrated Networking, Security, QoS acceleration and built-in interfaces	Broadband and Consumer
	• CN30XX (1)	Secure Communications Processor		Enterprise Network
	• CN2XX (1)		Performance: 100Mbps to 1Gbps	

Our OCTEON processor family provides integrated Layer 4 through 7 data and security processing (with additional capabilities at Layers 2 and 3) at line speeds from 100Mbps to 10Gbps. OCTEON processors integrate control plane processing, packet processing, security processing and content acceleration in a single chip. This integration shortens the data paths, eliminates redundant packet processing, simplifies board design and reduces the cost and power consumption compared to alternative products that use multiple chips. Our OCTEON processors

are targeted for use in a wide variety of OEM networking equipment, including routers, switches, content-aware switches, UTM, and other security appliances, application-aware gateways, voice/video/data, or triple-play, gateways, WLAN and 3G access and aggregation devices, storage networking equipment, servers and intelligent network interface cards.

Our NITROX processor family offers standalone security processors that provide the functionality required for secure communication in a single chip. These single chip, custom-designed processors provide the complete security protocol processing, encryption and authentication algorithms to reduce the load on the system processor and increase total system throughput. The NITROX family consists of products with up to 24 security processors on a chip that are used in a wide variety of OEM networking equipment, including security appliances, UTM appliances, Layer 4 through 7 load balancers, and other applications.

Our NITROX Soho and OCTEON broadband communication processor family includes a line of 32-bit and 64-bit broadband communication processors. The OCTEON broadband communication processors target wired and wireless broadband gateway applications, with performance requirements ranging from 100Mbps to 1Gbps. The NITROX Soho processors are highly integrated MIPS32-based products delivering a broad range of cost, performance and power options for applications requiring up to a 100Mbps line rate. The MIPS64-based SoC OCTEON processors integrate single or dual 64-bit CPUs, and provide high performance security processing for applications requiring up to a 1Gbps line rate. The NITROX Soho and OCTEON processors are primarily used for broadband routers, access and UTM appliances.

In addition to our processors, we also market and sell discrete software stacks designed to help our customers build products around our SoCs in a more time and cost efficient manner. The stacks include applications for security functions and other commonly used protocols. We intend to continue to build our software portfolio to address the needs of our customers who do not possess internal software design efforts, or choose to use those efforts on more customized systems architectures.

Customers

We primarily sell our products to providers of networking equipment, either directly or through contract manufacturing organizations and distributors. By providing comprehensive systems-level products along with our ecosystem partners, we provide our customers with products that empower their next-generation networking systems more quickly and at lower cost than other alternatives. Our largest customers in 2006 included Cisco Systems, Inc., F5 Networks, Inc., Juniper Networks, Citrix Systems, Inc., Furukawa Electric Co., Ltd., Nokia Corporation, Aruba Networks, Inc., SafeNet, Inc., SonicWALL, Inc. and Yamaha Corporation.

Cisco accounted for 18% of revenue in 2006. F5 Networks accounted for 12%, 19%, and 21% of revenue in 2004, 2005 and 2006, respectively.

Sales and Marketing

We sell our products through our direct sales and applications support organization to providers of networking equipment, original design manufacturers and contract electronics manufacturers, as well as through arrangements with distributors that fulfill third-party orders for our products.

We work directly with system designers to create demand for our products by providing them with application-specific product information for their system design, engineering and procurement groups. Our technical marketing, sales and field application engineers actively engage potential customers during their design processes to introduce them to our product capabilities and target applications. We design products in an effort to meet the increasingly complex and specific design requirements of our customers. We typically undertake a multi-month sales and development process with our customer system designers and management. If successful, this process culminates in a customer decision to use our product in their system, which we refer to as a design win. Volume production can begin from nine months to three years after the design win depending on the complexity of our customer's product and other factors. Once one of our products is incorporated into a customer's design, it is likely to be used for the life cycle of the customer's product. We believe this to be the case because a redesign would generally be time consuming and expensive.

Manufacturing

We use third-party foundries and assembly and test contractors to manufacture, assemble and test our semiconductor products. This outsourced manufacturing approach allows us to focus our resources on the design, sales and marketing of our products. Our engineers work closely with our foundries and other contractors to increase yields, lower manufacturing costs and improve quality.

Integrated Circuit Fabrication. Our integrated circuits are fabricated using CMOS processes, which provide greater flexibility to engage independent foundries to manufacture our integrated circuits. By outsourcing manufacturing, we are able to avoid the cost associated with owning and operating our own manufacturing facility, which would not be feasible for a company at our stage of development. We currently outsource a substantial percentage of our integrated circuit manufacturing to Taiwan Semiconductor Manufacturing Company, or TSMC, with the remaining manufacturing outsourced to United Microelectronics Corporation, or UMC. We work closely with TSMC and UMC to forecast on a monthly basis our manufacturing capacity requirements. Our integrated circuits are currently fabricated in several advanced, sub-micron manufacturing processes. Because finer manufacturing processes lead to enhanced performance, smaller size and lower power requirements, we continually evaluate the benefits and feasibility of migrating to smaller geometry process technology in order to reduce cost and improve performance.

Assembly and Test. Our products are shipped from our third-party foundries to third-party assembly and test facilities where they are assembled into finished integrated circuit packages and tested. We outsource all product packaging and substantially all testing requirements for these products to several assembly and test subcontractors, including ASE Electronics in Taiwan and Malaysia, as well as ISE in the United States. Our products are designed to use standard packages and to be tested with widely available test equipment.

Quality Assurance. We have implemented significant quality assurance and test procedures to assure high levels of product quality for our customers. Our designs are subjected to extensive circuit simulation under extreme conditions of temperature, voltage and processing before being committed to manufacture. We have completed and have been awarded ISO 9001 certification and ISO 9001:2000 certification. In addition, all of our independent foundries and assembly and test subcontractors have been awarded ISO 9001 certification.

Research and Development

We believe that our future success depends on our ability to introduce enhancements to our existing products and to develop new products for both existing and new markets. Our research and development efforts are directed largely to the development of additional high-performance multi-core microprocessor semiconductors. We are also focused on incorporating functions currently provided by stand-alone semiconductors into our products. We have assembled a team of highly skilled semiconductor and embedded software design engineers who have strong design expertise in high performance multi-core microprocessor design, along with embedded software, security and networking expertise. Our engineering design teams are located in Mountain View, California, Marlboro, Massachusetts and Hyderabad and Chennai, India. As of March 31, 2007, we had 109 employees in our research and development group.

Intellectual Property

Our success depends in part upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights and trademarks, and contractual protections.

We have eight issued and 25 pending patent applications in the United States, and two issued and 27 pending foreign patent applications. The eight issued patents in the United States expire in the years beginning in 2021 through 2025. The two issued foreign patents expire in 2022. Our issued patents and pending patent applications relate to security processors, multi-core microprocessor processing and other processing concepts. We focus our patent efforts in the United States, and, when justified by cost and strategic importance, we file corresponding foreign patent applications in strategic jurisdictions such as Japan and Europe. Our patent strategy is designed to provide a balance between the need for coverage in our strategic markets and the need to maintain costs at a reasonable level. We believe our issued patents and patent applications, to the extent the applications are issued, may be used defensively by us in the event of future intellectual property claims.

Competition

We compete with numerous domestic and international semiconductor companies, many of which have greater financial and other resources with which to pursue marketing, technology development, product design, manufacturing, quality, sales and distribution of their products. Our ability to compete effectively depends on defining, designing and regularly introducing new products that anticipate the processing and integration needs of our customers' next-generation products and applications.

We consider our primary competitors to be other companies that provide embedded processor products to the market, including Freescale, Broadcom, Raza, Marvell, PMC-Sierra, Intel, and to a lesser extent, Hifn. Most of these competitors offer products that differ in functionality and processing speeds and address some or all of our four target end markets. In comparison we offer a broad array of highly integrated, intelligent solutions at various performance levels and prices for each of our end markets. Our products generally include a multiple number of processor cores, greater integration of L4-L7 hardware acceleration and interfaces, and efficient power consumption for networking, communication and security applications.

Our competitors include public companies with broader product lines, a large installed base of customers and greater resources compared to us. We expect continued competition from existing suppliers as well as from potential new entrants into our markets. 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'; our success functionality and features not previously available in the marketplace; our ability to recruit good talent including software engineers and chip designers; and our ability to protect our intellectual property.

Backlog

Sales of our products are generally made pursuant to purchase orders. We typically include in backlog only those customer orders for which we have accepted purchase orders and which we expect to ship within the next twelve months. Since orders constituting our current backlog are subject to changes in delivery schedules or cancellation with limited or no penalties, we believe that the amount of our backlog is not necessarily an accurate indication of our future revenues.

Employees

As of March 31, 2007, we had 177 regular employees located in the United States, India and Asia, which was comprised of: 10 employees in manufacturing operations, 109 in engineering, research and development, 58 in sales, marketing and administrative. None of our employees is represented by a labor union and we consider current employee relations to be good.

Facilities

Our principal executive offices are located in a leased facility in Mountain View, California, consisting of approximately 32,500 square feet of office space under lease that expires at the end of May 2008. This facility accommodates our principal software engineering, sales, marketing, operations and finance and administrative activities. We also occupy space in Marlboro, Massachusetts, consisting of up to 23,532 square feet under a sublease that expires at the end of January 2009, which accommodates our product design team. We also lease offices in Hyderabad and Chennai, India. We do not own any real property. We believe that our leased facilities are adequate to meet our current needs and that additional facilities are available for lease to meet future needs.

Legal Proceedings

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