

CAVIUM NETWORKS UK LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2010

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CAVIUM NETWORKS UK LIMITED

COMPANY INFORMATION

DIRECTORS	A Chadwick S Ali
COMPANY SECRETARY	FW Stephens (Secretarial) Limited
COMPANY NUMBER	06194475
REGISTERED OFFICE	Third Floor 24 Chiswell Street London EC1Y 4YX
AUDITORS	Target Accountants Limited Chartered Accountants Statutory Auditor 14th Floor 74 Shoe Lane London EC4A 3JB
ACCOUNTANTS	Reeves & Co LLP Third Floor 24 Chiswell Street London EC1Y 4YX

CAVIUM NETWORKS UK LIMITED

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CAVIUM NETWORKS UK LIMITED

DIRECTORS' REPORT for the year ended 31 December 2010

The directors present their report and the financial statements for the year ended 31 December 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES

The principal activity of the company is to sell semiconductor processors through a direct sales and applications support organisation to providers of networking equipment, original design manufacturers and contract electronics manufacturers.

DIRECTORS

The directors who served during the year were

A Chadwick
S Ali

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Target Accountants Limited, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

CAVIUM NETWORKS UK LIMITED

DIRECTORS' REPORT
for the year ended 31 December 2010

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006

This report was approved by the board on *Aug 26, 2011*

and signed on its behalf



A. Chadwick
Director

CAVIUM NETWORKS UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAVIUM NETWORKS UK LIMITED

We have audited the financial statements of Cavium Networks UK Limited for the year ended 31 December 2010, set out on pages 5 to 11. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

CAVIUM NETWORKS UK LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAVIUM NETWORKS UK LIMITED

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' report



Chris Evans (Senior Statutory auditor)

Target Accountants Limited
Chartered Accountants
Statutory Auditor

14th Floor
74 Shoe Lane
London
EC4A 3JB

Date **30 August 2011**

CAVIUM NETWORKS UK LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2010

	Note	2010 £	2009 £
TURNOVER	1,2	2,441,232	898,851
Administrative expenses		(2,304,462)	(847,903)
Other operating income	3	7,276	-
OPERATING PROFIT	4	144,046	50,948
Interest receivable and similar income		52	29
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		144,098	50,977
Tax on profit on ordinary activities	7	(41,700)	(12,175)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		102,398	38,802
PROFIT BROUGHT FORWARD		66,301	27,499
RETAINED PROFIT CARRIED FORWARD		168,699	66,301

The notes on pages 7 to 11 form part of these financial statements

CAVIUM NETWORKS UK LIMITED
Registered number. 06194475

BALANCE SHEET
as at 31 December 2010

	Note	£	2010 £	£	2009 £
CURRENT ASSETS					
Debtors	8	176,130		4,340	
Cash at bank		119,733		109,638	
		<u>295,863</u>		<u>113,978</u>	
CREDITORS: amounts falling due within one year	9	<u>(127,163)</u>		<u>(47,676)</u>	
NET CURRENT ASSETS			<u>168,700</u>		<u>66,302</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>168,700</u>		<u>66,302</u>
CAPITAL AND RESERVES					
Called up share capital	10		1		1
Profit and loss account			<u>168,699</u>		<u>66,301</u>
SHAREHOLDERS' FUNDS	11		<u>168,700</u>		<u>66,302</u>

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

26 August 2011

A. Chadwick

A. Chadwick
Director

The notes on pages 7 to 11 form part of these financial statements

CAVIUM NETWORKS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

1. ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

1.2 CASH FLOW

The financial statements do not include a Cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective April 2008)

1.3 TURNOVER

Turnover comprises revenue recognised by the company in respect of services supplied, exclusive of Value Added Tax

1.4 OPERATING LEASES

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term

1.5 FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction

Exchange gains and losses are recognised in the Profit and loss account

1.6 PENSIONS

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year

2. TURNOVER

In the year to 31 December 2010, all (2009 all) of the company's turnover was to markets outside the UK

3. OTHER OPERATING INCOME

	2010 £	2009 £
Other operating income	7,276	-

CAVIUM NETWORKS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

4. OPERATING PROFIT

The operating profit is stated after charging

	2010 £	2009 £
Auditors' remuneration	-	3,450
Pension costs	37,533	-
	<u>37,533</u>	<u>-</u>

During the year, no director received any emoluments (2009 - £NIL)

5. STAFF COSTS

Staff costs were as follows

	2010 £	2009 £
Wages and salaries	1,582,941	518,498
Social security costs	241,804	20,393
Other pension costs	37,533	-
	<u>1,862,278</u>	<u>538,891</u>

The average monthly number of employees, including the directors, during the year was as follows

	2010 No.	2009 No
	<u>20</u>	<u>7</u>

6. SHARE OPTION SCHEME

The company's ultimate parent company, Cavium Networks, Inc operates a share scheme for certain employees

There are currently 84,688 shares potentially available for issue under this scheme to 10 members of staff of Cavium Networks UK Limited

On 6th January 2010 the company granted 12,000 options in the parent company, Cavium Networks Inc, a company incorporated in the United States of America, at an option price of £15.05 and once more on 19th April 2010 the company granted 23,750 options at an option price of £16.28. Cavium Networks Inc is listed on the Nasdaq

During the year two employees exercised their options in Cavium Networks Inc. The total number of ordinary shares issued were 3,071 at a premium of £22,775. Options for a further 2,967 shares lapsed in the period

As a general rule, 12.5% of the shares subject to the Option will vest six months after the Vesting Commencement Date, and 1/48 of the shares subject to the Option will vest on each monthly anniversary of the Vesting Commencement Date thereafter

CAVIUM NETWORKS UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010**

6. SHARE OPTION SCHEME (continued)

Options lapse upon the earliest of any of the following

- (a) three (3) months after the termination of your Continuous Service for any reason other than your Disability or death (the **"Three Month Post-Termination Exercise Period"**),
- (b) twelve (12) months after the termination of your Continuous Service due to your Disability,
- (c) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates,
- (d) the Expiration Date indicated in your Grant Notice, or
- (e) the day before the seventh (7th) anniversary of the Date of Grant "

7. TAXATION

	2010 £	2009 £
ANALYSIS OF TAX CHARGE IN THE YEAR		
UK corporation tax charge on profit for the year	41,700	12,200
Adjustments in respect of prior periods	-	(25)
	<u>41,700</u>	<u>12,175</u>
TAX ON PROFIT ON ORDINARY ACTIVITIES		
	<u><u>41,700</u></u>	<u><u>12,175</u></u>

8. DEBTORS

	2010 £	2009 £
Amounts owed by group undertakings	142,502	-
Other debtors	33,628	4,340
	<u>176,130</u>	<u>4,340</u>

**9. CREDITORS:
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2010 £	2009 £
Trade creditors	5,493	-
Amounts owed to group undertakings	3,674	13,563
Corporation tax	41,744	12,200
Social security and other taxes	33,274	5,811
Other creditors	42,978	16,102
	<u>127,163</u>	<u>47,676</u>

CAVIUM NETWORKS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2010

10. SHARE CAPITAL

	2010 £	2009 £
ALLOTTED, CALLED UP AND FULLY PAID		
1 Ordinary share of £1	<u>1</u>	<u>1</u>

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2010 £	2009 £
Opening shareholders' funds	66,302	27,500
Profit for the year	<u>102,398</u>	<u>38,802</u>
Closing shareholders' funds	<u>168,700</u>	<u>66,302</u>

12. PENSION COMMITMENTS

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £37,533 (2009 - £NIL). Contributions totalling £23,347 (2009 - £NIL) were payable to the fund at the balance sheet date and are included in creditors.

13. OPERATING LEASE COMMITMENTS

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as follows:

	2010 £	2009 £
EXPIRY DATE:		
Within 1 year	<u>15,568</u>	<u>-</u>

CAVIUM NETWORKS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2010

14. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in Financial Reporting Standard 8 from the requirement to disclose transactions with group companies on the grounds the consolidated financial statements are prepared by the ultimate parent company. Year end balances with group companies are shown below

Included within debtors is
£142,502 (2009 - £nil) due from Cavium Networks, Inc

Included within creditors is
£nil (2009 - £13,562) owed to Cavium Networks, Inc, and,
£3,674 (2009 - £nil) owed to MontaVista Software GmbH

15. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company is under the control of its parent company, Cavium Inc, a company incorporated in the United States of America. Group financial statements are available from 2315 N First Street, San Jose, CA 95131, USA