

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number 0-27026

Pericom Semiconductor Corporation
(Exact Name of Registrant as Specified in Its Charter)

California
(State or Other Jurisdiction of
Incorporation or Organization)

77-0254621
(I.R.S. Employer
Identification No.)

3545 North First Street
San Jose, California 95134
(408) 435-0800

(Address of Principal Executive Offices and
Issuer's Telephone Number, Including Area Code)

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

Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2):

Yes No

As of November 1, 2004 the Registrant had outstanding 26,546,134 shares of Common Stock.

Pericom Semiconductor Corporation
Form 10-Q for the Quarter Ended September 30, 2004

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PART I. FINANCIAL INFORMATION
Item 1: Condensed Consolidated Financial Statements

Pericom Semiconductor Corporation
Condensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	September 30 <u>2004</u>	June 30, <u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,946	\$ 13,965
Short-term investments	138,218	130,412
Accounts receivable:		
Trade (net of allowances of \$2,504, and \$4,128)	6,681	5,308
Other receivables	1,962	2,241
Inventories	16,407	15,980
Prepaid expenses and other current assets	573	664
Deferred income taxes	4,824	5,564
Total current assets	173,611	174,134
Property and equipment – net	6,497	6,442
Investment in and advances to Pericom Technology, Inc.	5,571	5,694
Goodwill (net of accumulated amortization of \$366)	1,325	1,325
Deferred income taxes – noncurrent	1,642	1,419
Building held for sale	1,532	1,532
Intangible assets (net of accumulated amortization of \$119 and \$89)	2,928	2,958
Other assets	3,979	3,948
Total	\$ 197,085	\$ 197,452
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,665	\$ 8,153
Accrued liabilities	5,753	5,972
Current portion of long-term debt	1,276	1,291
Total current liabilities	14,694	15,416
Other long term liabilities	71	139
Shareholders' equity:		
Common stock and paid in capital - no par value, 60,000,000 shares authorized;		
Shares outstanding: September 30, 2004, 26,507,216;	142,642	142,607
June 30, 2004, 26,474,381		
Accumulated other comprehensive income (loss)	(156)	(393)
Retained earnings	39,834	39,683
Total shareholders' equity	182,320	181,897
Total	\$ 197,085	\$ 197,452

See notes to condensed consolidated financial statements.

Pericom Semiconductor Corporation
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
Net revenues	\$19,786	\$11,072
Cost of revenues	12,806	7,854
Gross profit	<u>6,980</u>	<u>3,218</u>
Operating expenses:		
Research and development	3,716	3,210
Selling, general and administrative	3,832	2,515
Total	<u>7,548</u>	<u>5,725</u>
Income (loss) from operations	(568)	(2,507)
Equity in net income (loss) of Pericom Technology, Inc.	(123)	69
Interest income	931	992
Other-than-temporary recovery (decline) in investments	---	(9)
Income (loss) before income taxes	240	(1,455)
Income tax (benefit)	89	(655)
Net income (loss)	<u>\$151</u>	<u>(\$800)</u>
Basic income (loss) per share	<u>\$0.01</u>	<u>(\$0.03)</u>
Diluted income (loss) per share	<u>\$0.01</u>	<u>(\$0.03)</u>
Shares used in computing basic income (loss) per share	<u>26,515</u>	<u>25,816</u>
Shares used in computing diluted income (loss) per share	<u>27,268</u>	<u>25,816</u>

See notes to condensed consolidated financial statements.

Pericom Semiconductor Corporation
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 151	(\$ 800)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,090	910
Other-than-temporary decline in investment	---	9
Loss on short-term investments	18	---
(Gain) loss on sale or disposal of assets	6	(2)
Equity in net (income) loss of investee	123	(69)
Deferred income taxes	212	---
Changes in assets and liabilities:		
Accounts receivable	(1,094)	(1,314)
Inventories	(427)	1,426
Prepaid expenses and other current assets	91	(777)
Accounts payable	(488)	34
Accrued liabilities	(287)	251
Other long term liabilities	---	(169)
Net cash provided by (used in) operating activities	(605)	(501)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(1,121)	(616)
Proceeds from sale of property and equipment	---	16
Purchase of short-term investments	(130,618)	(29,986)
Maturities of short-term investments	123,361	36,381
Loan to SaRonix	---	(497)
Decrease (increase) in other assets	(31)	(82)
Net cash provided by (used in) investing activities	(8,409)	5,216
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of common stock	354	452
Principal payments on long-term debts and capital leases	(15)	---
Repurchase of common stock	(319)	---
Net cash provided by (used in) financing activities	20	452
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(25)	45
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,019)	5,212
CASH AND CASH EQUIVALENTS:		
Beginning of period	13,965	9,705
End of period	\$ 4,946	\$ 14,917

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes

(\$ 1)

(\$ 5)

See notes to condensed consolidated financial statements.

Pericom Semiconductor Corporation
Notes To Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The financial statements have been prepared by Pericom Semiconductor Corporation (“Pericom” or the “Company”) pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these unaudited financial statements include all adjustments, consisting only of normal recurring adjustments and accruals, necessary for a fair presentation of the Company’s financial position as of September 30, 2004, the results of operations for the three-month periods ended September 30, 2004 and 2003 and cash flows for the three months ended September 30, 2004 and 2003. This unaudited quarterly information should be read in conjunction with the audited financial statements of Pericom and the notes thereto incorporated by reference in the Company’s Annual Report on Form 10-K/A as filed with the Securities and Exchange Commission.

The preparation of the interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from these estimates. The results of operations for the three-month period ended September 30, 2004 are not necessarily indicative of the results to be expected for the entire year.

The Company’s fiscal periods in the accompanying financial statements have been shown as ending on June 30 and September 30. The Company’s fiscal year 2004 ended on June 26, 2004. The three-month periods in fiscal years 2004 and 2003 ended on September 25, 2004 and September 27, 2003, respectively, and each period included 13 weeks.

The Company participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company’s future financial position or results of operations: advances and trends in new technologies; competitive pressures in the form of new products or price reductions on current products; changes in the overall demand for products offered by the Company; changes in customer relationships; acquisitions and the subsequent integration of the acquired entity with the company; litigation or claims against the Company based on intellectual property, patent, product, regulatory or other factors; risks associated with changes in domestic and international economic and/or political conditions or regulations; availability of necessary components; and the Company’s ability to attract and retain employees necessary to support its growth.

These condensed consolidated financial statements include the accounts of Pericom Semiconductor Corporation and its three wholly owned subsidiaries, SaRonix, Inc., Pericom Semiconductor (HK) Limited and Pericom Taiwan Limited Corporation. SaRonix, Inc. was formed in September, 2003 to purchase substantially all the assets and related liabilities of SaRonix, LLC effective October 1, 2003. (see Note 2) All significant intercompany balances and transactions are eliminated in consolidation.

Stock Based Compensation

Had the Company amortized to expense the computed fair values of the awards under the 1990 Stock Option Plan, 1995 Stock Option Plan, 2001 Stock Option Plan, SaRonix acquisition stock option plan, and 2000 Employee Stock Purchase Plan, for the three-month periods ended September 30, 2004 and 2003, the Company’s net income (loss) and income (loss) per share would have been as follows (in thousands, except per share data):

	Three Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
Net income (loss), as reported	\$151	(\$800)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,365)	(1,200)
Pro forma net income (loss)	<u>(\$1,214)</u>	<u>(\$2,000)</u>
Income (loss) per share:		
Basic earnings (loss) per share, as reported	<u>\$0.01</u>	<u>(\$0.03)</u>
Diluted earnings (loss) per share, as reported	<u>\$0.01</u>	<u>(\$0.03)</u>
Basic earnings (loss) per share, pro forma	<u>(\$0.05)</u>	<u>(\$0.08)</u>
Diluted earnings (loss) per share, pro forma	<u>(\$0.05)</u>	<u>(\$0.08)</u>

2. Business Combination

Acquisition of Assets of SaRonix, LLC.

On October 1, 2003 the Company, acting through its wholly-owned subsidiary SaRonix, Inc., exercised its option to acquire substantially all the assets and related liabilities of privately-held SaRonix, LLC (SaRonix). Total consideration paid was approximately \$7,900,000 in the form of the cancellation of previously advanced loans pursuant to the terms of a Secured Loan Agreement. The Company also incurred approximately \$1,731,000 in acquisition related costs, for a total purchase price of approximately \$9,631,000. SaRonix designs, manufactures and distributes industry-standard and custom frequency control products (FCP) including Crystal and Surface Acoustic Wave Oscillators, Quartz Crystals, and Timing Modules. The Company acquired SaRonix for this complementary portfolio of timing solutions.

The results of operations of SaRonix, Inc. from the date of acquisition have been included in the Company's consolidated financial statements. The assets acquired and liabilities assumed at the date of the acquisition were recorded at estimated fair values as determined by management. Fair values of intangible assets acquired are based on appropriate application of the income, market, and cost approaches and the fair value of tangible assets acquired and liabilities assumed were determined using estimates of current replacement cost, present value of amounts to be collected in the future, and other techniques. The purchase price has been allocated as follows (in thousands):

Current assets	\$ 7,005
Property and equipment	1,173
Building held for sale	1,532
Other assets	616
Other intangible assets subject to amortization :	
Customer backlog	320
Core developed technology	1,189
In-process research and development	360
Supplier relationship	901
Trade name	<u>957</u>
Total assets acquired	14,053
Current liabilities	<u>(4,422)</u>
Total liabilities assumed	<u>(4,422)</u>
Net assets acquired	<u><u>\$9,631</u></u>

The Company amortized customer backlog over the three months ended December 31, 2003. Supplier relationship and trade name will not be amortized, but will be reviewed at least annually for impairment. Core developed technology will be amortized over its estimated useful life of ten years. Amortization expense for the three months ended September 30, 2004 was \$30,000. Amortization for the remainder of fiscal 2005 will be approximately \$89,000, and amortization for each fiscal year through 2013 will be \$119,000 per year and amortization for 2014 will be \$30,000

The following table sets forth the cost, accumulated amortization, and net value of the core developed technology intangible asset as of June 30, 2004 and September 30, 2004 (in thousands):

	September 30, <u>2004</u>	June 30, <u>2004</u>
Cost	\$1,189	\$1,189
Accumulated amortization	<u>(119)</u>	<u>(89)</u>
Net value	<u><u>\$1,070</u></u>	<u><u>\$1,100</u></u>

Approximately \$360,000 of the purchase price was allocated to the estimated fair value of in-process research and development projects. At the date of acquisition, these projects had not reached technological feasibility and had no future alternative minimum use. Accordingly, the value allocated to these projects was immediately expensed in research and development on the acquisition date.

3. Income (Loss) Per Share

Basic income (loss) per share is based upon the weighted average number of common shares outstanding. Diluted income (loss) per share reflects the additional potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Basic and diluted income (loss) per share for the three-month periods ended September 30, 2004 and 2003 are computed as follows (in thousands, except for per share data):

	Three Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
Net income (loss)	\$151	(\$800)
Computation of common shares outstanding – basic income (loss) per share:		
Weighted average shares of common stock	26,515	25,816
Shares used in computing basic income (loss) per share	<u>26,515</u>	<u>25,816</u>
Basic income (loss) per share	<u>\$0.01</u>	<u>(\$0.03)</u>
Computation of common shares outstanding – diluted income (loss) per share:		
Weighted average shares of common stock	26,515	25,816
Dilutive options using the treasury stock method	753	---
Shares used in computing diluted income (loss) per share	<u>27,268</u>	<u>25,816</u>
Diluted income (loss) per share	<u>\$0.01</u>	<u>(\$0.03)</u>

Options to purchase 3,495,381 shares of common stock at prices ranging from \$9.90 to \$37.22 were outstanding as of September 30, 2004, but not included in the computation of diluted net loss per share because the options had an exercise price greater than the average market price of the common stock for the three months ended September 30, 2004 and therefore, would be anti-dilutive under the treasury stock method. For the three-month period ended September 30, 2003, options to purchase 5,413,912 shares of common stock were not included in the computation of diluted net loss per share because the Company had a net loss for this period and those options would be anti-dilutive.

4. Inventories

Inventories consist of (in thousands):

	September 30, <u>2004</u>	June 30, <u>2004</u>
Raw materials	\$5,516	\$4,968
Work in process	2,978	3,588
Finished goods	7,913	7,424
	<u>\$16,407</u>	<u>\$15,980</u>

5. Accrued Liabilities

Accrued liabilities consist of (in thousands):

	September 30, <u>2004</u>	June 30, <u>2004</u>
Accrued compensation	\$2,318	\$2,202
Accrued income tax	993	1,117
External sales representative commissions	849	785
Restructuring accrual	450	733
Other accrued expenses	1,143	1,135
	<u>\$5,753</u>	<u>\$5,972</u>

6. Long Term Debt

Bank Loan

As part of the acquisition of SaRonix (see Note 2), the Company assumed a loan from a bank. The loan has a variable interest rate of 2.5% over the 30 day LIBOR rate (1.64% at September 30, 2004) and was payable in monthly installments of principal and interest in Irish Pounds for ten years. This loan was amended twice, with the latest amendment effective in September 2003, to modify the payment terms to require interest only payments until October 31, 2004. This loan is secured by a building owned by the Company in Ireland, which is classified as held for sale at September 30, 2004. At September 30, 2004, the Company had \$1,276,000 outstanding under this loan classified as a current liability based on the Company's intent to pay off this loan in connection with the sale of the building.

7. Restructuring

In the quarter ended June 30, 2001, the Company recorded a restructuring charge of \$522,000 related to an unused leased facility that was subleased at a lower rate than what the Company was leasing the facility for. During the quarter ended December 31, 2002, the Company revised its estimate of this restructuring and recorded an additional restructuring charge of \$1,431,000 which was also related to this facility. This charge represents the future lease payments and estimated utility and maintenance costs for the remainder of the lease, which expires in May 2005. The Company received notice that a sublessee would move from this facility and the Company estimated that it would not be able to sublease the facility due to the excess available real estate in the San Jose, California area. Due to the continued downturn in the Company's business, the Company determined that this portion of the facility will not be utilized over the remaining lease term.

During the quarter ended December 31, 2003, the Company recorded an additional restructuring charge of \$784,000 to cover seven months of remaining costs on its existing corporate headquarters lease after signing a new lease for a new corporate headquarters. The move to the new corporate headquarters resulted in an approximate \$50,000 per month savings. There were no restructuring charges recorded in the quarter ended September 30, 2004.

These restructuring charges were not deemed to have a significant impact on the Company's future financial position. The Company's future operating results will improve as a result of these restructuring charges, however, due to the costs associated with these idle facilities being recorded at the time they became idle. No employee positions were eliminated as part of these restructurings.

The following table sets forth the activity of the restructuring accrual as of September 30, 2004 (in thousands):

Initial charge in the fourth quarter of fiscal 2001	522
Cash payments	(562)
Sublease cash receipts	237
Balance at June 30, 2002	197
Additional reserves	1,431
Cash payments	(598)
Sublease cash receipts	242
Balance at June 30, 2003	1,272
Additional reserves	784
Cash payments	(1,337)
Non-cash adjustment	14
Balance at June 30, 2004	733
Cash payments	(283)
Balance at September 30, 2004	<u>\$450</u>

The Company has classified the entire balance of this accrual in current accrued liabilities in the accompanying balance sheets as of September 30, 2004.

8. Industry and Segment Information

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" established annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographical areas and major customers. The Company operates and tracks its results in one reportable segment. The Company designs, develops, manufactures and markets a broad range of interface integrated circuits and frequency control products.

There were two direct customers, both Asian distributors, that individually accounted for 12% and 11% of net sales in the three months ended September 30, 2004. In the three months ended September 30, 2003, there was one direct customer, also an Asian distributor, that individually accounted for more than 18% of net sales.

The following table sets forth the Company's net property and equipment by country of location as a percentage of total net property and equipment as of September 30, 2004 and 2003.

	Three Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
United States	55.2%	63.9%
Singapore	24.3%	17.6%
Other (less than 10% each)	20.5%	18.5%
Total	<u>100.0%</u>	<u>100.0%</u>

The following table sets forth net revenues by country as a percentage of total net revenues for the three-month periods ended September 30, 2004 and 2003.

	Three Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
United States	21.3%	25.6%
China	21.3%	18.8%
Taiwan	17.6%	25.3%
Singapore	13.7%	14.0%
Other (less than 10% each)	26.1%	16.3%
Total	<u>100.0%</u>	<u>100.0%</u>

9. Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" requires an enterprise to report, by major components and as a single total, the change in net assets during the period from non-owner sources. For the three-month periods ended September 30, 2004 and 2003, comprehensive income (loss), which was comprised of the Company's net income (loss) for the periods, changes in cumulative unrealized gain (loss) on short-term investments net of tax and translation gain (loss) was as follows (in thousands):

	Three Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
Net income (loss)	\$151	(\$800)
Unrealized gain (loss) on investment	262	(418)
Translation gain (loss)	(25)	45
Comprehensive income (loss)	<u>\$388</u>	<u>(\$1,173)</u>

10. Stock Repurchase Program

On October 22, 2001 the Company's Board of Directors authorized a stock repurchase program to repurchase up to 2,000,000 shares of Pericom common stock. Purchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The Company began repurchasing shares of Pericom stock on July 23, 2002. 33,600 shares were repurchased in the three months ended September 30, 2004 at a cost of approximately \$319,000. The Company has purchased a total of 308,100 shares at a total cost of approximately \$2.5 million as of September 30, 2004. Stock repurchases have been funded by current cash balances and the proceeds from stock option exercises and employee stock purchase plan purchases. The Company expects to fund future stock repurchases from these same sources.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Pericom Semiconductor Corporation

The following information should be read in conjunction with the unaudited financial statements and notes thereto included in Part 1 - Item 1 of this Quarterly Report and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K/A (the "Form 10-K/A").

Significant Events

On October 1, 2003, Pericom Semiconductor Corporation, acting through its wholly-owned subsidiary SaRonix, Inc. ("SaRonix"), exercised its option to acquire substantially all of the assets and related liabilities of SaRonix, LLC (see Note 2 to the condensed consolidated financial statements). Beginning with the three months ended December 31, 2003, the Company's operating results include the operations of SaRonix.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities as of the date of the financial statements. Our estimates are based on historical experience and other assumptions that we consider to be reasonable given the circumstances. Actual results may vary from our estimates.

We consider the following accounting policies to be "critical" as defined by the Securities and Exchange Commission, in that they are both highly important to the portrayal of our financial condition and results, and require us to make difficult judgments and assumptions about matters that are inherently uncertain. We also have other important policies that are discussed in Note 1 to the Consolidated Financial Statements in our Form 10-K/A.

Revenue Recognition. We recognize revenue from the sale of our products upon shipment, provided title and risk of loss has passed to the customer, the fee is fixed and determinable and collection of the revenue is reasonably assured. A provision for estimated future returns and other charges against revenue is recorded at the time of shipment. For the three months ended September 30, 2004 approximately 53% of our sales were to distributors. We have agreements for price protection and stock rotation programs with our distributors. The revenue we record for sales to our distributors is net of estimated provisions for these programs. When determining this net revenue, we must make significant judgments and estimates. Our estimates are based on historical experience rates, inventory levels in the distribution channel, current trends and other related factors. However, because of the inherent nature of estimates, there is a risk that there could be significant differences between actual amounts and our estimates. Our financial condition and operating results depend on our ability to make reliable estimates and we believe that our estimates are reasonable.

Inventories. Inventories are recorded at the lower of standard cost (which generally approximates actual cost on a first-in, first-out basis) or market value. We adjust the carrying value of inventory for excess and obsolete inventory based on inventory age, shipment history and our forecast of demand over a specific future period of time. The semiconductor markets that we serve are volatile and actual results may vary from our forecast or other assumptions, potentially impacting our inventory valuation and resulting in material effects on our gross margin.

Impairment of Goodwill. As required by SFAS No. 142, “Goodwill and Other Intangible Assets”, which we adopted in fiscal 2002, we ceased amortizing goodwill with a net carrying value of \$1.3 million that resulted from our investment in Pericom Technology, Inc. The carrying value is net of \$366,000 accumulated amortization. SFAS No. 142 also requires that goodwill be tested for impairment at least annually. We determined that no impairment of this goodwill existed in fiscal 2004, and we will continue to evaluate such goodwill at least annually.

Investments. We have also made other investments including loans, bridge loans convertible to equity or asset purchases as well as direct equity investments. These loans and investments are made with strategic intentions and have been in privately held technology companies, which by their nature are high risk. These investments are included in other assets in the balance sheet and are carried at the lower of cost, or market if the investment has experienced an other-than-temporary decline in value. We monitor these investments quarterly and make appropriate reductions in carrying value if a decline in value is deemed to be other than temporary.

Deferred Tax Assets

Our deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carryforwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that we will be able to generate sufficient future taxable income in certain tax jurisdictions. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. If these estimates and related assumptions change in the future, we may be required to increase our valuation allowance against the deferred tax assets resulting in additional income tax expense.

Results of Operations

The following table sets forth certain statement of operations data as a percentage of net revenues for the periods indicated.

	Three Months Ended	
	September 30,	
	<u>2004</u>	<u>2003</u>
Net revenues	100.0%	100.0%
Cost of revenues	64.7%	70.9%
Gross profit	35.3%	29.1%
Operating expenses:		
Research and development	18.8%	29.0%
Selling, general and administrative	19.4%	22.7%
Total	38.2%	51.7%
Income (loss) from operations	(2.9%)	(22.6%)
Equity in net income (loss) of investee	(0.6%)	0.6%
Interest income	4.7%	9.0%
Other-than-temporary decline in investment	0.0%	(0.1%)
Income (loss) before income taxes	1.2%	(13.1%)
Income tax (benefit)	0.4%	(5.9%)
Net income (loss)	0.8%	(7.2%)

Net Revenues

The following table sets forth our revenues and the customer concentrations with respect to such revenues for the periods indicated.

(In thousands)	Three Months Ended September 30,		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Net revenues	\$19,786	\$11,072	78.7%
Percentage of net sales accounted for by top 5 direct customers (1)	41.7%	47.5%	
Number of direct customers that each account for more than 10% of net sales	2	1	
Percentage of gross sales accounted for by top 5 end customers (2)	38.2%	33.3%	
Number of end customers that each account for more than 10% of gross sales	1	0	

- (1) Direct customers purchase products directly from the Company. These include distributors and contract manufacturers that in turn sell to many end customers as well as OEMs that also purchase directly from the Company.
- (2) End customers are OEMs whose products include the Company's products. End customers may purchase directly from the Company or from distributors or contract manufacturers. We rely on the end customer data provided by our direct distribution and contract manufacturing customers.

On October 1, 2003, the Company exercised its option to acquire SaRonix, LLC of Menlo Park, California. Beginning with the quarter ended December 31, 2003, the Company's revenues included revenues from SaRonix. For the three month period ended September 30, 2004 revenues of \$4.9 million were generated from sales of SaRonix products.

The rapid semiconductor industry downturn that began in fiscal 2001 caused an over-supply of inventories in the global distribution and contract manufacturing channels. This inventory imbalance pushed order rates down, caused a corresponding drop in backlog, and caused the percentage of net sales represented by orders placed and shipped in the same quarter to grow. These orders are called "turns" orders. During the first two quarters of calendar 2004 business conditions in the semiconductor industry improved somewhat and the percentage of the company's revenue represented by turns orders declined. In the three months ended September 30, 2004, however, regular order rates again slowed and the percentage of turns orders again increased.

Net revenues consist of product sales, which are recognized upon shipment, less an estimate for returns and allowances. The increase in revenues for the three month period ended September 30, 2004 as compared with the same period in the prior year is primarily attributable to the acquisition of SaRonix which contributed \$4.9 million to net revenues. The increase in revenues is also attributable to the recovery currently taking place in the end markets the Company serves and to customer acceptance of the Company's new product offerings. The pricing environment for the Company's Digital Switches, Interface Logic, and SaRonix FCP devices has improved during the 2004 calendar year. However, with the recent slowdown in orders, the pricing environment could again become more difficult as other companies compete more aggressively for business. Pricing for the Company's higher margin Analog Switch, Clock and Connect products, many of which are proprietary, is more stable and price declines are generally offset by new product introductions and cost reductions.

The following table sets forth net revenues by country as a percentage of total net revenues for the three-month period ended September 30, 2004 and 2003.

	Three Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
United States	21.3%	25.6%
China	21.3%	18.8%
Taiwan	17.6%	25.3%
Singapore	13.7%	14.0%
Other (less than 10% each)	26.1%	16.3%
Total	<u>100.0%</u>	<u>100.0%</u>

For the three months ended September 30, 2004, as compared with the same period in the prior year, the percentage of our net revenues derived in the aggregate from China, Taiwan and Singapore declined slightly from 58.1% to 52.6%. This slight decline was the result of our acquisition of SaRonix, which has a lower concentration of sales in Asia. For the three-month period ended September 30, 2004 as compared with the same period in the prior year the percentage of our net revenues derived from sales to countries that individually account for less than 10% of our net revenues increased. This increase was primarily the result of the significant growth of our sales into Korea to two key cell phone customers there and the October 1, 2003 acquisition of SaRonix which has a stronger sales presence in Europe.

Gross Profit

(In thousands)	Three Months Ended September 30,		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Net revenues	\$19,786	\$11,072	78.7%
Gross profit	6,980	3,218	116.9%
Gross profit as a percentage of net revenues (gross margin)	35.3%	29.1%	

The increase in gross profit in the three month period ended September 30, 2004, as compared with the same period in the prior year was primarily due to an increase in the unit sales volume of our core integrated circuit products that resulted from slightly improved conditions in the semiconductor industry, higher gross margin on these sales because of a favorable product mix resulting in a higher percentage of sales of our newer, higher margin products, and the additional gross profit dollars provided by the addition of frequency control products sold through the Company's SaRonix subsidiary. The improvement in gross margin for the three months ended September 30, 2004, as compared with the same period in the prior year, was largely due to a 324 basis point improvement in standard unit cost as a percentage of net revenues and a 297 basis point improvement in other cost of goods sold items including inventory reserves, scrapped product and manufacturing variances. Note that the results for the three months ended September 30, 2004 include the results of the FCP product lines acquired from SaRonix which have lower gross margins than our core integrated circuit products lines. The 237 basis point improvement in standards cost as a percentage of net revenues was the result of a 739 basis point improvement in our core integrated circuit product lines that was offset in part by the lower margins of the FCP product lines.

Future gross profit and gross margin are highly dependent on the level and product mix of net revenues. This includes the mix of sales between lower margin SaRonix products and our integrated circuit products. Also, within our integrated circuit products, the Company has been executing a program to migrate

revenues to new higher margin products in certain new markets such as cell phones and digital video media. Although we have been successful at favorably improving our integrated circuit product mix and penetrating new end markets, there can be no assurance that this will continue. Accordingly, we are not able to predict future gross profit levels or gross margins with certainty.

During the three months ended September 30, 2004, and September 30, 2003, gross profit and gross margin benefited as a result of the sale of inventory previously valued at \$266,000 and \$122,000, respectively, that had been previously identified as excess and written down to zero.

Research and Development

(In thousands)	Three Months Ended September 30,		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Net revenues	\$19,786	\$11,072	78.7%
Research and development	3,716	3,210	15.8%
R&D as a percentage of net revenues	18.8%	29.0%	

Research and development expenses consist primarily of costs related to personnel and overhead, non-recurring engineering charges, and other costs associated with the design, prototyping, testing, manufacturing process support and customer applications support of our products. The expense increase in the three-month period ended September 30, 2004 as compared to the same period in the previous year was primarily due to the acquisition of SaRonix. Research and development costs of SaRonix were \$503,000 for the three months ended September 30, 2004.

The Company believes that continued spending on research and development to develop new products and improve manufacturing processes is critical to the Company's success and, consequently, expects to increase research and development expenses in future periods over the long term. In the short term, the Company intends to continue to focus on cost control until business conditions improve. If business conditions deteriorate or the rate of improvement does not meet our expectations, the Company may implement further cost-cutting actions.

Selling, General and Administrative

(In thousands)	Three Months Ended September 30,		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Net revenues	\$19,786	\$11,072	78.7%
Selling, general and administrative	3,832	2,515	52.4%
S,G&A as a percentage of net revenues	19.4%	22.7%	

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and general management. The expense increase in the three-month period ended September 30, 2004 as compared to the same period in the prior year was primarily due to the acquisition of SaRonix. Direct costs of \$856,000 relate to the operations of SaRonix for the three months ended September 30, 2004. In addition, costs of \$172,000 relate to the operations of

Pericom Taiwan Limited in the three months ended September 30, 2004. There were no selling, general and administrative expenses related to SaRonix or Pericom Taiwan Limited in the three months ended September 30, 2003. The balance of the expense increase was due to support of an increased level of business due to growth in the Company's core integrated circuit business and the added product lines of SaRonix.

The Company anticipates that selling, general and administrative expenses will increase in future periods over the long term due to increased staffing levels, particularly in sales and marketing, as well as increased commission expense to the extent the Company achieves higher sales levels. In the short term, costs associated with Sarbanes-Oxley section 404 compliance will increase selling, general and administrative expenses. The Company intends to continue to focus on controlling costs until business conditions improve. If business conditions deteriorate or the rate of improvement does not meet our expectations, the Company may implement further cost-cutting actions.

Restructuring Charge

In the three months ended December 31, 2002 the Company recorded a \$1.4 million restructuring charge related to an unused portion of a leased facility. This facility had originally been leased to accommodate future expansion. The semiconductor industry downturn then underway caused the Company to revise its expansion plans and this facility was subleased. At the time of the sublease, a \$522,000 restructuring charge was recorded that represented the difference between the sublease rate and the rate the Company was paying. The \$1.4 million restructuring charge was recorded when the Company received notice that the tenant would move from this facility and the Company estimated that it would not be able to sublease the facility due to the excess available real estate in San Jose, California. Due to the Continued downturn in the Company's business, the Company determined that this portion of the facility would not be utilized over the remaining lease term. The restructuring charge represents the future lease payments and estimated utility and maintenance costs for the remainder of the lease. The restructuring accrual is expected to be fully depleted in the fourth quarter of fiscal 2005, when the lease terminates. On September 30, 2004, the remaining balance of the restructuring accrual was \$450,000.

In the three months ended December 31, 2003 a \$784,000 restructuring charge related to another leased facility was recorded when the Company vacated that facility completely and moved to a new corporate headquarters. This restructuring accrual became fully depleted in the first quarter of fiscal 2005, when the lease terminated. No employee positions were eliminated as part of these restructurings.

Equity in Net Income (Loss) of Investee

(In thousands)	Three Months Ended		
	September 30,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Equity in net income (loss) of investee	(\$123)	\$69	(\$192)

Equity in net income (loss) of investee is the Company's allocated portion of the net income or losses of Pericom Technology, Inc. ("PTI"), a British Virgin Islands corporation based in Shanghai, People's Republic of China. PTI was formed by Pericom and certain Pericom shareholders in 1994 to develop and market semiconductors in China and certain other Asian countries. The Company's allocated portion of PTI's results declined to a loss for the three month period ended September 30, 2004 from a gain for the comparable period in the prior year due to a slowdown in the China telecommunications and consumer product markets that PTI serves.

Interest Income

(In thousands)	Three Months Ended September 30,		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Interest income	\$931	\$992	(6.1%)

The decrease in interest income for the three month period ended September 30, 2004 as compared to the comparable prior year period was due to a combination of less invested capital and lower interest rates as older higher yielding investments matured and were reinvested at current rates.

Provision for Income Taxes

(In thousands)	Three Months Ended September 30,	
	<u>2004</u>	<u>2003</u>
Pre-tax income (loss)	\$240	(\$1,455)
Income tax (benefit)	89	(655)
Effective tax rate	37.1%	45.0%

Without benefit of the R&D tax credit, the Company's effective tax rate in the quarter ended September 30, 2004 was 37%. The R&D tax credit was subsequently signed into law in October 2004. Excluding any other factor, the effect of this extension on the Company's full year tax is a reduction of our effective tax rate from 37% to approximately 12%. The income tax benefit in fiscal 2004 is the result of a deferred tax asset being recorded to carry forward the net loss to future years. The provision for income taxes differed from the federal statutory rate primarily due to state income taxes, the utilization of research and development tax credits and a change in the deferred tax asset valuation allowance.

Liquidity and Capital Resources

As of September 30, 2004, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately \$143.2 million as compared with \$144.4 million as of June 30, 2004. The Company does not expect this balance to change significantly in the short term. As of September 30, 2004, \$4.9 million of this was liquid and classified as cash and equivalents. The maturities of the Company's short term investments are staggered throughout the year so that cash requirements are met. Operating cash flow is just under break even at current business levels. Since the Company is a fabless semiconductor manufacturer, it has lower capital equipment requirements than other semiconductor manufacturers that own fabs. In the three months ended September 30, 2004, the Company spent \$1.1 million on capital equipment. Interest rates are at a historically low level. The Company generated \$931,000 of interest income in the three months ended September 30, 2004. In the longer term the Company will generate at least comparable interest income if interest rates rise.

The Company's net cash used in operating activities of \$605,000 in the three months ended September 30, 2004 was primarily due to a \$1,094,000 increase in accounts receivable due to significant shipments occurring in the last month of the quarter, a decrease in accounts payable of \$488,000, a \$427,000 inventory increase and a \$287,000 decrease in accrued liabilities which were partially offset by depreciation and amortization of \$1,090,000, a \$212,000 decrease in deferred income taxes, net income of \$151,000 and equity in net loss of investee of \$123,000.

The Company's cash used by operating activities of \$501,000 in the three months ended September 30, 2003 was primarily due to a \$1,314,000 increase in accounts receivable due to decreased reserve requirements, net losses of \$800,000, a \$777,000 increase in prepaid expenses and other current assets, which was mostly due to an increase in income taxes receivable, a \$169,000 decrease in other long term liabilities which were partially offset by a \$1,426,000 decrease in inventories, mostly finished goods inventory, depreciation and amortization of \$910,000 and a \$251,000 increase to accrued liabilities.

Generally, as sales levels rise, the Company expects inventories, accounts receivable and accounts payable to increase. However, there will be routine fluctuations in these accounts from period to period that may be significant in amount.

The Company's cash used by investing activities of \$8.4 million for the three months ended September 30, 2004 was primarily due to purchases of short-term investments exceeding maturities by \$7.3 million and purchases of property and equipment of \$1.1 million. The Company's cash provided by investing activities of \$5.2 million for the three months ended September 30, 2003 was primarily due to maturities of short term investments exceeding purchases by \$6.4 million which was offset by \$616,000 of purchases of property and equipment and loans provided to SaRonix of \$497,000.

The Company's cash provided by financing activities in the three months ended September 30, 2004 of \$20,000 was primarily due to proceeds of \$354,000 from the sale of common stock from the Company's employee stock plans which was largely offset by repurchases of common stock of \$319,000. The Company's cash provided in financing activities in the three months ended September 30, 2003 of \$452,000 was due to the sale of common stock from the Company's employee stock plans.

The Company's Board of Directors has approved the repurchase of up to 2,000,000 shares of the Company's common stock. As of September 30, 2004, the Company has repurchased an aggregate of 308,100 shares at a cost of approximately \$2.5 million. The Company repurchased 33,600 shares during the three months ended September 30, 2004 at an approximate cost of \$319,000. The Company intends to continue repurchasing shares under this program over time depending upon price and share availability. Stock repurchases have been funded by current cash balances and the proceeds from stock option exercises and employee stock purchase plan purchases. The Company expects to fund future stock repurchases from these same sources.

A portion of our cash may be used to acquire or invest in complementary businesses or products or to obtain the right to use complementary technologies. From time to time, in the ordinary course of business, we may evaluate potential acquisitions of such businesses, products or technologies.

The Company believes that existing cash balances and cash generated from operations will be sufficient to fund necessary purchases of capital equipment and to provide working capital at least through the next twelve months. However, future events may require the Company to seek additional capital sooner. If the Company determines that it needs to seek additional capital, the Company may not be able to obtain such additional capital on terms acceptable to it.

Contractual Obligations and Commitments

The Company leases certain facilities under operating leases with termination dates on or before December 2013. Generally, these leases have multiple options to extend for a period of years upon termination of the original lease term or previously exercised option to extend.

The future minimum operating lease commitments at June 30, 2004 are as follows (in thousands):

Fiscal Year	Payments Due by Period			
	<u>Total</u>	<u>Less than 1</u> <u>Year</u>	<u>1 - 3</u> <u>Years</u>	<u>3 - 5</u> <u>Years</u>

Operating lease obligations	<u>\$10,989</u>	<u>\$1,906</u>	<u>\$2,289</u>	<u>\$1,955</u>	<u>\$4,839</u>
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As part of the acquisition of SaRonix (see Note 2), the Company assumed a loan from a bank. This loan is secured by a building owned by the Company in Ireland, which is classified as held for sale at September 30, 2004. The Company's intent is to pay off this loan in connection with the sale of the building. This loan is not included in the above table.

Off-Balance Sheet Arrangements

As defined by Regulation S-K Item 303(A)(4) the Company has no off balance sheet arrangements other than operating leases.

Factors That May Affect Operating Results

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical fact are “forward-looking statements” for purposes of these provisions, including any statements regarding: projections of revenues, expenses, gross profit, gross margin, or other financial items; the plans and objectives of management for future operations; the Company’s tax rate; the adequacy of allowances for returns, price protection and other concessions; proposed new products or services; the sufficiency of cash generated from operations and cash balances; the Company’s exposure to interest rate risk; future economic conditions or performance; plans to focus on cost control; plans to seek intellectual property protection for the Company’s technologies; expectations regarding export sales and net revenues; the expansion of sales efforts; acquisition prospects; the results of our acquisition of SaRonix and our other possible future acquisitions and assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential,” or “continue,” or the negative thereof or other comparable terminology. Although the Company believes that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. The Company’s future financial condition and results of operations, as well as any forward-looking statements, are subject to risks and uncertainties, including but not limited to the factors set forth (i) below, (ii) in the Company’s Form 10-K/A under the heading “Risk Factors; Factors That May Affect Future Results”, and (iii) in Note 1 to the Notes to Condensed Consolidated Financial Statements. All forward-looking statements and reasons why results may differ included in this Quarterly Report are made as of the date hereof, and the Company assumes no obligation to update any such forward-looking statement or reason why actual results may differ.

In the past, our quarterly operating results have varied significantly and are likely to fluctuate in the future.

A wide variety of factors affect our operating results. These factors might include the following:

- general conditions in the semiconductor industry;
- changes in our product mix;
- a decline in the gross margins of our products;
- the operating results of SaRonix, LLC, which we acquired on October 1, 2003;
- expenses incurred in obtaining, enforcing, and defending intellectual property rights;
- the timing of new product introductions and announcements by us and by our competitors;
- customer acceptance of new products introduced by us;
- delay or decline in orders received from distributors;
- growth or reduction in the size of the market for interface ICs;
- the availability of manufacturing capacity with our wafer suppliers;
- changes in manufacturing costs;
- fluctuations in manufacturing yields;
- disqualification by our customers for quality or performance related issues;
- the ability of customers to pay us; and
- increased research and development expenses associated with new product introductions or process changes.

All of these factors are difficult to forecast and could seriously harm our operating results. Our expense levels are based in part on our expectations regarding future sales and are largely fixed in the short term. Therefore, we may be unable to reduce our expenses fast enough to compensate for any unexpected shortfall in sales. Any significant decline in demand relative to our expectations or any material delay of customer orders could harm our operating results. In addition, if our operating results in future quarters fall

below public market analysts' and investors' expectations, the market price of our common stock would likely decrease.

The demand for our products depends on the growth of our end users' markets.

Our continued success depends in large part on the continued growth of markets for the products into which our semiconductor and frequency control products are incorporated. These markets include the following:

- computers and computer related peripherals;
- data communications and telecommunications equipment;
- electronic commerce and the Internet; and
- consumer electronics equipment.

Any decline in the demand for products in these markets could seriously harm our business, financial condition and operating results. These markets have also historically experienced significant fluctuations in demand. We may also be seriously harmed by slower growth in the other markets in which we sell our products.

If we do not develop products that our customers and end-users design into their products, or if their products do not sell successfully, our business and operating results would be harmed.

We have relied in the past and continue to rely upon our relationships with our customers and end-users for insights into product development strategies for emerging system requirements. We generally incorporate new products into a customer's or end-user's product or system at the design stage. However, these design efforts, which can often require significant expenditures by us, may precede product sales, if any, by a year or more. Moreover, the value to us of any design win will depend in large part on the ultimate success of the customer's or end-user's product and on the extent to which the system's design accommodates components manufactured by our competitors. If we fail to achieve design wins or if the design wins fail to result in significant future revenues, our operating results would be harmed. If we have problems developing or maintaining our relationships with our customers and end-users, our ability to develop well-accepted new products may be impaired.

The markets for our products are characterized by rapidly changing technology, and our financial results could be harmed if we do not successfully develop and implement new manufacturing technologies or develop, introduce and sell new products.

The markets for our products are characterized by rapidly changing technology, frequent new product introductions and declining selling prices over product life cycles. We currently offer a comprehensive portfolio of silicon and quartz based products. Our future success depends upon the timely completion and introduction of new products, across all our product lines, at competitive price and performance levels. The success of new products depends on a variety of factors, including the following:

- product performance and functionality;
- customer acceptance;
- competitive cost structure and pricing;
- successful and timely completion of product development;
- sufficient wafer fabrication capacity; and
- achievement of acceptable manufacturing yields by our wafer suppliers.

We may also experience delays, difficulty in procuring adequate fabrication capacity for the development and manufacture of new products or other difficulties in achieving volume production of these products. Even relatively minor errors may significantly affect the development and manufacture of new products. If we fail to complete and introduce new products in a timely manner at competitive price and performance levels, our business would be significantly harmed.

Intense competition in the semiconductor industry may reduce the demand for our products or the prices of our products, which could reduce our revenues and gross profits.

The semiconductor industry is intensely competitive. Our competitors include Analog Devices, Cypress Semiconductor Corporation, Fairchild Semiconductor, Int'l., Hitachi, Integrated Circuit Systems, Inc., Integrated Device Technology, Inc., Intel Corp., Maxim Integrated Products, Inc., Motorola, On Semiconductor Corp., Tundra Semiconductor Corp., PLX Technology, STMicroelectronics, Texas Instruments, Inc and Toshiba. Most of those competitors have substantially greater financial, technical, marketing, distribution and other resources, broader product lines and longer-standing customer relationships than we do. We also compete with other major or emerging companies that sell products to certain segments of our markets. Competitors with greater financial resources or broader product lines may have a greater ability to sustain price reductions in our primary markets in order to gain or maintain market share.

We believe that our future success will depend on our ability to continue to improve and develop our products and processes. Unlike us, many of our competitors maintain internal manufacturing capacity for the fabrication and assembly of semiconductor products. This ability may provide them with more reliable manufacturing capability, shorter development and manufacturing cycles and time-to-market advantages. In addition, competitors with their own wafer fabrication facilities that are capable of producing products with the same design geometries as ours may be able to manufacture and sell competitive products at lower prices. Any introduction of products by our competitors that are manufactured with improved process technology could seriously harm our business. As is typical in the semiconductor industry, our competitors have developed and marketed products that function similarly or identically to ours. If our products do not achieve performance, price, size or other advantages over products offered by our competitors, our products may lose market share. Competitive pressures could also reduce market acceptance of our products, reduce our prices and increase our expenses.

We also face competition from the makers of ASICs and other system devices. These devices may include interface logic functions, which may eliminate the need or sharply reduce the demand for our products in particular applications.

Our results of operations have been adversely affected by global economic slowdowns in the past.

In the past, the global economy has experienced economic slowdowns that were due to many factors, including decreased consumer confidence, unemployment, the threat of terrorism, and reduced corporate profits and capital spending. These unfavorable conditions have resulted in significant declines in our new customer order rates. Any future global economic slowing may materially and adversely affect our business, financial condition and results of operations.

Downturns in the semiconductor industry, rapidly changing technology, accelerated selling price erosion and evolving industry standards can harm our operating results.

The semiconductor industry has historically been cyclical and periodically subject to significant economic downturns--characterized by diminished product demand, accelerated erosion of selling prices and overcapacity--as well as rapidly changing technology and evolving industry standards. In the future, we may experience substantial period-to-period fluctuations in our business and operating results due to general semiconductor industry conditions, overall economic conditions or other factors. Our business is also subject to the risks associated with the effects of legislation and regulations relating to the import or export of semiconductor products.

Our acquisition of SaRonix, and other potential future acquisitions may not be successful because we have not made acquisitions in the past.

On October 1, 2003 we exercised our option to acquire substantially all the assets and related liabilities of SaRonix LLC of Menlo Park, CA. This was our first acquisition. Prior to this, we have depended on internal growth and not made any acquisitions.

The SaRonix acquisition and other potential future acquisitions could result in the following:

- large one-time write-offs;
- diversion of management's attention from other business concerns;
- risks of entering geographic and business markets in which we have no or limited prior experience and potential loss of key employees of acquired organizations.
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities or amortization expenses related to intangible assets;
- and
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies;

We continue to integrate SaRonix into our company. If this continued integration is not successful, it could negatively affect our business results.

As part of our business strategy, we expect to seek other acquisition prospects, in addition to SaRonix, that would complement our existing product offerings, improve our market coverage or enhance our technological capabilities. Although we are evaluating acquisition and strategic investment opportunities on an ongoing basis, we may not be able to locate suitable acquisition or investment opportunities. In addition, from time to time, we invest in other companies, without actually acquiring them, and such investments involve many of the same risks as are involved with acquisitions. For example, we previously made a bridge loan investment to a start up, high technology company, and we subsequently had to write off this loan in light of the financial condition of that company.

The trading price of our common stock and our operating results are likely to fluctuate substantially in the future.

The trading price of our common stock has been and is likely to continue to be highly volatile. Our stock price could fluctuate widely in response to factors some of which are not within our control, including:

- general conditions in the semiconductor and electronic systems industries;
- quarter-to-quarter variations in operating results;
- announcements of technological innovations or new products by us or our competitors; and
- changes in earnings estimates by analysts; and price and volume fluctuations in the overall stock market, which have particularly affected the market prices of many high technology companies.

Customer demand for the Company's products is volatile and difficult to predict.

The Company's customers continuously adjust their inventories in response to changes in end market demand for their products and the availability of semiconductor components. This results in frequent changes in demand for the Company's products. The volatility of customer demand limits the Company's ability to predict future levels of sales and profitability. The supply of semiconductors can quickly and unexpectedly match or exceed demand because end customer demand can change very quickly. Also, semiconductor suppliers can rapidly increase production output. This can lead to a sudden oversupply situation and a subsequent reduction in order rates and revenues as customers adjust their inventories to true demand rates. A rapid and sudden decline in customer demand for the Company's products can result in excess quantities of certain of the Company's products relative to demand. Should this occur the Company's operating results may be adversely affected as a result of charges to reduce the carrying value of the Company's inventory to the estimated demand level or market price.

Product price declines and fluctuations may cause our future financial results to vary.

Historically, selling prices in the semiconductor industry generally, as well as for our products, have decreased significantly over the life of each product. We expect that selling prices for our existing products will continue to decline over time and that average selling prices for our new products will decline significantly over the lives of those products. Declines in selling prices for our products, if not offset by reductions in the costs of producing these products or by sales of new products with higher gross margins, would reduce our overall gross margins and could seriously harm our business.

Our contracts with our wafer suppliers do not obligate them to a minimum supply or set prices. Any inability or unwillingness of our wafer suppliers generally, and Chartered Semiconductor Manufacturing Ltd. in particular, to meet our manufacturing requirements would delay our production and product shipments and harm our business.

Typically Chartered Semiconductor Manufacturing Ltd. produces more than 50% of our wafer requirements. In the first three months of fiscal 2005 only five other suppliers manufactured the remainder of our wafers. In fiscal 2004 only four other suppliers manufactured the remainder of our wafers. Our reliance on independent wafer suppliers to fabricate our wafers at their production facilities subjects us to possible risks such as:

- lack of adequate capacity;
- lack of available manufactured products;
- lack of control over delivery schedules; and
- unanticipated changes in wafer prices.

Any inability or unwillingness of our wafer suppliers generally, and Chartered in particular, to provide adequate quantities of finished wafers to meet our needs in a timely manner would delay our production and product shipments and seriously harm our business. In March 2004, Chartered shut down one of their production facilities that is used to manufacture our products. We have transitioned the production of these products to different facilities. This was a major project requiring significant technological coordination between Chartered and Pericom. The transfer of production of our products to other facilities subjects us to the above listed risks as well as potential yield or other production problems which could arise as a result of the change.

At present, we purchase wafers from our suppliers through the issuance of purchase orders based on our rolling six-month forecasts. The purchase orders are subject to acceptance by each wafer supplier. We do not have long-term supply contracts that obligate our suppliers to a minimum supply or set prices. We also depend upon our wafer suppliers to participate in process improvement efforts, such as the transition to finer geometries. If our suppliers are unable or unwilling to do so, our development and introduction of new products could be delayed. Furthermore, sudden shortages of raw materials or production capacity

constraints can lead wafer suppliers to allocate available capacity to customers other than us or for the suppliers' internal uses, interrupting our ability to meet our product delivery obligations. Any significant interruption in our wafer supply would seriously harm our operating results and our customer relations. Our reliance on independent wafer suppliers may also lengthen the development cycle for our products, providing time-to-market advantages to our competitors that have in-house fabrication capacity.

In the event that our suppliers are unable or unwilling to manufacture our key products in required volumes, we will have to identify and qualify additional wafer foundries. The qualification process can take up to six months or longer. Furthermore, we are unable to predict whether additional wafer foundries will become available to us or will be in a position to satisfy any of our requirements on a timely basis.

We depend on single or limited source assembly subcontractors with whom we do not have written contracts. Any inability or unwillingness of our assembly subcontractors to meet our assembly requirements would delay our product shipments and harm our business.

We primarily rely on foreign subcontractors for the assembly and packaging of our products and, to a lesser extent, for the testing of finished products. Some of these subcontractors are our single source supplier for some of our new packages. In addition, changes in our or a subcontractor's business could cause us to become materially dependent on a single subcontractor. We have from time to time experienced difficulties in the timeliness and quality of product deliveries from our subcontractors and may experience similar or more severe difficulties in the future. We generally purchase these single or limited source components or services pursuant to purchase orders and have no guaranteed arrangements with these subcontractors. These subcontractors could cease to meet our requirements for components or services, or there could be a significant disruption in supplies from them, or degradation in the quality of components or services supplied by them. Any circumstance that would require us to qualify alternative supply sources could delay shipments, result in the loss of customers and limit or reduce our revenues.

We may have difficulty accurately predicting revenues for future periods.

Our expense levels are based in part on anticipated future revenue levels, which can be difficult to predict. Our business is characterized by short-term orders and shipment schedules. We do not have long-term purchase agreements with any of our customers, and customers can typically cancel or reschedule their orders without significant penalty. We typically plan production and inventory levels based on forecasts of customer demand generated with input from customers and sales representatives. Customer demand is highly unpredictable and can fluctuate substantially. If customer demand falls significantly below anticipated levels, our gross profit would be reduced.

We compete with others to attract and retain key personnel, and any loss of, or inability to attract, key personnel would harm us.

To a greater degree than non-technology companies, our future success will depend on the continued contributions of our executive officers and other key management and technical personnel. None of these individuals has an employment agreement with us and each one would be difficult to replace. We do not maintain any key person life insurance policies on any of these individuals. The loss of the services of one or more of our executive officers or key personnel or the inability to continue to attract qualified personnel could delay product development cycles or otherwise harm our business, financial condition and results of operations.

Our future success also will depend on our ability to attract and retain qualified technical, marketing and management personnel, particularly highly skilled design, process and test engineers, for whom competition can be intense. During strong business cycles, we expect to experience difficulty in filling our needs for qualified engineers and other personnel.

Our limited ability to protect our intellectual property and proprietary rights could harm our competitive position.

Our success depends in part on our ability to obtain patents and licenses and preserve other intellectual property rights covering our products and development and testing tools. In the United States, we hold 85 patents covering certain aspects of our product designs and have at least 21 additional patent applications pending. Copyrights, mask work protection, trade secrets and confidential technological know-how are also key to our business. Additional patents may not be issued to us or our patents or other intellectual property may not provide meaningful protection. We may be subject to, or initiate, interference proceedings in the U.S. Patent and Trademark Office. These proceedings can consume significant financial and management resources. We may become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This type of litigation is frequently expensive to both the winning party and the losing party and takes up significant amounts of management's time and attention. In addition, if we lose such a lawsuit, a court could require us to pay substantial damages and/or royalties or prohibit us from using essential technologies. For these and other reasons, this type of litigation could seriously harm our business. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

Because it is important to our success that we are able to prevent competitors from copying our innovations, we intend to continue to seek patent, trade secret and mask work protection for our technologies. The process of seeking patent protection can be long and expensive, and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that are similar or superior to our technology or design around the patents we own.

We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, these parties may breach these agreements. In addition, the laws of some territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

The process technology used by our independent foundries, including process technology that we developed with our foundries, can generally be used by them to produce their own products or to manufacture products for other companies including our competitors. In addition, we may not have the right to implement key process technologies used to manufacture some of our products with foundries other than our present foundries.

We may not provide adequate allowances for exchanges, returns and concessions.

We recognize revenue from the sale of products when shipped, less an allowance based on future authorized and historical patterns of returns, price protection, exchanges and other concessions. We believe our methodology and approach are appropriate. However, if the actual amounts we incur exceed the allowances, it could decrease our revenue and corresponding gross profit.

The complexity of our products makes us highly susceptible to manufacturing problems, which could increase our costs and delay our product shipments.

The manufacture and assembly of our products are highly complex and sensitive to a wide variety of factors, including:

- the level of contaminants in the manufacturing environment;
- impurities in the materials used; and
- the performance of manufacturing personnel and production equipment.

In a typical semiconductor manufacturing process, silicon wafers produced by a foundry are cut into individual die. These die are assembled into individual packages and tested for performance. Our wafer fabrication suppliers have from time to time experienced lower than anticipated yields of suitable die. In the event of such decreased yields, we would incur additional costs to sort wafers, an increase in average cost per usable die and an increase in the time to market for our products. These conditions could reduce our net revenues and gross margin and harm our customer relations.

We do not manufacture any of our products. Therefore, we are referred to in the semiconductor industry as a "fabless" producer. Consequently, we depend upon third party manufacturers to produce semiconductors that meet our specifications. We currently have third party manufacturers that can produce semiconductors that meet our needs. However, as the industry continues to progress to smaller manufacturing and design geometries, the complexities of producing semiconductors will increase. Decreasing geometries may introduce new problems and delays that may affect product development and deliveries. Due to the nature of the industry and our status as a "fabless" semiconductor company, we could encounter fabrication-related problems that may affect the availability of our products, delay our shipments or increase our costs.

A large portion of our revenues is derived from sales to a few customers, who may cease purchasing from us at any time.

A relatively small number of customers have accounted for a significant portion of our net revenues in each of the past several fiscal years. In general we expect this to continue for the foreseeable future. With the addition of SaRonix, Inc. the concentration of top customers has been reduced as the top customers of SaRonix, Inc. are somewhat different than those of our core integrated circuit business. There were two direct customers, both Asian distributors, that individually accounted for more than 10% of net revenues during the three month period ended September 30, 2004. In the three month period ended September 30, 2003 there was one direct customer, also an Asian distributor, that individually accounted for more than 10% of net revenues. As a percentage of net revenues, sales to our top five direct customers for the three month period ended September 30, 2004 declined from the same periods in the prior year primarily due to the acquisition of SaRonix, Inc. There was one end-user customers that individually accounted for more than 10% of our gross revenues in the three months ended September 30, 2004. There were no end-user customers that individually accounted for more than 10% of our gross revenues in the three months ended September 30, 2003. We expect this trend of less concentration in our sales to end-user customers to continue as a result of the SaRonix acquisition.

We do not have long-term sales agreements with any of our customers. Our customers are not subject to minimum purchase requirements, may reduce or delay orders periodically due to excess inventory and may discontinue purchasing our products at any time. Our distributors typically offer competing products in addition to ours. For the three months ended September 30, 2004 sales to our distributors were approximately 53% of net revenues as compared to approximately 60% of net revenues in the three months ended June 30, 2004. The decrease in the percentage of sales to our distributors in the three months ended September 30, 2004 was due in part to increased sales to our OEM customers. The loss of one or more significant customers, or the decision by a significant distributor to carry the product lines of our competitors, could decrease our revenues.

Almost all of our wafer suppliers and assembly subcontractors are located in Southeast Asia, which exposes us to the problems associated with international operations.

Almost all of our wafer suppliers and assembly subcontractors are located in Southeast Asia, which exposes us to risks associated with international business operations, including the following:

- disruptions or delays in shipments;
- changes in economic conditions in the countries where these subcontractors are located;
- currency fluctuations;
- changes in political conditions;

- potentially reduced protection for intellectual property;
- foreign governmental regulations;
- import and export controls; and
- changes in tax laws, tariffs and freight rates.

In particular, there is a potential risk of conflict and further instability in the relationship between Taiwan and the People's Republic of China. Conflict or instability could disrupt the operations of one of our principal wafer suppliers and several of our assembly subcontractors located in Taiwan.

Because we sell our products to customers outside of the United States, we face foreign business, political and economic risks that could seriously harm us.

In the three months ended September 30, 2004, approximately 70% of our net revenues derived from sales in Asia and approximately 6% from sales in Europe. We expect that export sales will continue to represent a significant portion of net revenues. We intend to expand our sales efforts outside the United States. This expansion will require significant management attention and financial resources and further subject us to international operating risks. These risks include:

- tariffs and other barriers and restrictions;
- unexpected changes in regulatory requirements;
- the burdens of complying with a variety of foreign laws; and
- delays resulting from difficulty in obtaining export licenses for technology.

We are also subject to general geopolitical risks in connection with our international operations, such as political and economic instability and changes in diplomatic and trade relationships. In addition, because our international sales are denominated in U.S. dollars, increases in the value of the U.S. dollar could increase the price in local currencies of our products in foreign markets and make our products relatively more expensive than competitors' products that are denominated in local currencies. Regulatory, geopolitical and other factors could seriously harm our business or require us to modify our current business practices.

Our shareholder rights plan may adversely affect existing shareholders.

On March 6, 2002, we adopted a shareholder rights plan that may have the effect of deterring, delaying, or preventing a change in control that otherwise might be in the best interests of our shareholders. Under the rights plan, we issued a dividend of one preferred share purchase right for each share of our common stock held by shareholders of record as of March 21, 2002. Each right entitles shareholders to purchase one one-hundredth of our newly created Series D Junior Participating Preferred Share.

In general, the share purchase rights become exercisable when a person or group acquires 15% or more of our common stock or a tender offer of 15% or more of our common stock is announced or commenced. After such event, our other stockholders may purchase additional shares of our common stock at 50% off of the then-current market price. The rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors. The rights should not interfere with any merger or other business combination approved by our Board of Directors since the rights may be redeemed by us at \$0.001 per right at any time before any person or group acquire 15% or more of our outstanding common stock. These rights expire in March 2012.

Our operations and financial results could be severely harmed by natural disasters.

Our headquarters and some of our major suppliers' manufacturing facilities are located near major earthquake faults. One of the foundries we use is located in Taiwan, which suffered a severe earthquake during fiscal 2000. We did not experience significant disruption to our operations as a result of that

earthquake. However, if a major earthquake or other natural disaster were to affect our suppliers, our sources of supply could be interrupted, which would seriously harm our business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At September 30, 2004, our investment portfolio consisted of investment-grade fixed income securities, excluding those classified as cash equivalents, of \$138.2 million. These securities are subject to interest rate risk and will decline in value if market interest rates increase. For example, if market interest rates were to increase immediately and uniformly by 10% per annum from levels as of September 30, 2004, the fair market value of the portfolio would decrease. However, we do not believe that such a decrease would have a material effect on our results of operations over the next fiscal year. Due to the short duration and conservative nature of these instruments, we do not believe that we have a material exposure to interest rate risk.

Item 4. Controls and Procedures.

- A) We carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of our first fiscal quarter of 2005 pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Pericom (including its consolidated subsidiaries) required to be included in our periodic SEC filings.
- B) There have been no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during our first fiscal quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may Yet be Purchased Under the Plans or Programs
July 2004	16,000	\$9.89	16,000	1,709,500
August 2004	12,600	\$8.86	12,600	1,696,900
September 2004	5,000	\$9.92	5,000	1,691,900
Total	<u>33,600</u>	<u>\$9.51</u>	<u>33,600</u>	

The Company's Board of Directors has approved the repurchase of up to 2,000,000 shares of the Company's common stock. As of September 30, 2004, the Company has repurchased an aggregate of 308,100 shares at a cost of approximately \$2.5 million. The Company repurchased 33,600 shares during the three months ended September 30, 2004 at an approximate cost of \$319,000.

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification of Alex C. Hui, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Michael D. Craighead, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Alex C. Hui, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Michael D. Craighead, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b. Reports on Form 8-K.

- 1) On July 27, 2004 Pericom filed a report on Form 8-K that was regarding the quarterly results press release issued the same day.

SIGNATURES

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

Pericom Semiconductor Corporation (Registrant)

Date: November 4, 2004

By: /s/ Alex C. Hui
Alex C. Hui
Chief Executive Officer

Date: November 4, 2004

By: /s/ Michael D. Craighead
Michael D. Craighead
Chief Financial Officer
(Chief Accounting Officer)