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

## FORM 10-Q

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

For the quarterly period ended October 1, 2005

[ ] 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<br>(State or Other Jurisdiction of Incorporation or Organization) | 77-0254621<br>(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 [X] No [ ]

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

Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 126-2 of the Exchange Act)

Yes [ ] No [X]

As of November 1, 2005 the Registrant had outstanding 26,302,535 shares of Common Stock.

Pericom Semiconductor Corporation

Form 10-Q for the Quarter Ended October 1, 2005

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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)

| | October 1, 2005 | July 2, 2005 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,134 | $ 20,902 |
| Short-term investments | 123,486 | 122,385 |
| Accounts receivable: | | |
| Trade (net of allowances of $1,985, and $2,239) | 17,756 | 7,629 |
| Other receivables | 1,946 | 1,813 |
| Inventories | 14,893 | 13,428 |
| Prepaid expenses and other current assets | 1,210 | 409 |
| Deferred income taxes | 5,139 | 5,291 |
| Total current assets | 173,564 | 171,857 |
| Property and equipment – net | 19,298 | 5,927 |
| Investment in investees | 7,209 | 5,932 |
| Goodwill | 1,325 | 1,325 |
| Deferred income taxes – non-current | 4,248 | 2,205 |
| Intangible assets (net of accumulated amortization of $267 and $208) | 4,400 | 2,839 |
| Other assets | 3,960 | 3,910 |
| Total | $ 214,004 | $ 193,995 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 9,171 | $ 6,899 |
| Accrued liabilities | 8,533 | 5,470 |
| Short-term and current portion of long-term debt | 7,493 | ---- |
| Total current liabilities | 25,197 | 12,369 |
| Long-term debt | 7,168 | --- |
| Other long term liabilities | 229 | 207 |
| Minority interest in consolidated subsidiary | 244 | 257 |
| Shareholders' equity: | | |
| Common stock and paid in capital - no par value, 60,000,000 shares authorized; shares outstanding: October 1, 2005, 26,273,389; July 2, 2005, 26,358,100 | 140,697 | 141,233 |
| Accumulated other comprehensive income (loss) | (766) | (681) |
| Retained earnings | 41,235 | 40,610 |
| Total shareholders' equity | 181,166 | 181,162 |
| Total | $ 214,004 | $ 193,995 |

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 | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 (As Restated, See Note 13) |
| Net revenues | $22,473 | $19,786 |
| Cost of revenues | 14,729 | 12,771 |
| Gross profit | 7,744 | 7,015 |
| Operating expenses: | | |
| Research and development | 3,991 | 3,947 |
| Selling, general and administrative | 4,182 | 3,832 |
| Restructuring charge | 55 | --- |
| Total | 8,228 | 7,779 |
| Income (loss) from operations | (484) | (764) |
| Interest income | 898 | 931 |
| Income (loss) before income taxes | 414 | 167 |
| Income tax (benefit) | 137 | 15 |
| Minority interest in income (loss) of consolidated subsidiary | 23 | --- |
| Equity in net income (loss) of Investees | 325 | (123) |
| Net income (loss) | $625 | $29 |
| Basic income (loss) per share | $0.02 | $0.00 |
| Diluted income (loss) per share | $0.02 | $0.00 |
| Shares used in computing basic income (loss) per share | 26,352 | 26,515 |
| Shares used in computing diluted income (loss) per share | 27,143 | 27,268 |

See notes to condensed consolidated financial statements.

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

| | Three Months Ended | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 (As Restated See Note 13 ) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | $625 | $29 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 970 | 1,090 |
| Stock based compensation | 278 | --- |
| Tax benefit related to stock based compensation plan | 16 | --- |
| Excess tax benefit on stock based compensation | (9) | --- |
| (Gain)/loss on short-term investments | (9) | 18 |
| Loss on sale or disposal of assets | ---- | 6 |
| Equity in net (income) loss of investee | (309) | 123 |
| Deferred income taxes | 225 | 138 |
| Minority interest in subsidiary's net income (loss) | (23) | --- |
| Non-cash restructuring charge | 55 | --- |
| Changes in assets and liabilities net of effects of acquisition | | |
| Accounts receivable | (1,228) | (1,094) |
| Inventories | 2,808 | (231) |
| Prepaid expenses and other current assets | 952 | 91 |
| Accounts payable | (1,419) | (488) |
| Accrued liabilities | (220) | (570) |
| Restructuring liabilities | --- | 283 |
| Other long term liabilities | (81) | --- |
| Net cash provided by (used in) operating activities | 2,631 | (605) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment | (410) | (1,121) |
| Purchase of short-term investments | (150,523) | (130,618) |
| Maturities of short-term investments | 149,349 | 123,361 |
| Cash paid for eCERA acquisition, net of cash received | (11,674) | --- |
| Decrease (increase) in other assets | (15) | (31) |
| Net cash provided by (used in) investing activities | (13,273) | (8,409) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Sale of common stock | 327 | 354 |
| Excess tax benefit on stock based compensation | 9 | --- |
| Principal payments on short-term, long-term debts and capital leases | (278) | (15) |
| Repurchase of common stock | (1,157) | (319) |
| Net cash provided by (used in) financing activities | (1,099) | 20 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (27) | (25) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (11,768) | (9,019) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 20,902 | 13,965 |
| End of period | $ 9,134 | $ 4,946 |

| | | |
|---|---|---|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Income taxes | ($ 25) | ($ 1) |
| Interest | ($11) | --- |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Note payable to Aker for eCERA | (2,300) | --- |

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 October 1, 2005, the results of operations for the three months ended October 1, 2005 and September 25, 2004 and cash flows for the three months ended October 1, 2005 and September 25, 2004. 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 periods ended October 1, 2005 and September 25, 2004 are not necessarily indicative of the results to be expected for the entire year. The three month periods ended October 1, 2005 and September 25, 2004 each had 13 week periods. The results of eCERA Comtek Corporation from the acquisition date of September 7, 2005, are included in the consolidated financial statements of the Company for the quarter ended October 1, 2005.

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 four majority-owned subsidiaries, SaRonix, Inc., Pericom Semiconductor (HK) Limited, eCERA Comtek Corporation ("eCERA") and Pericom Taiwan Limited Corporation. All significant intercompany balances and transactions are eliminated in consolidation. eCERA Comtek Corporation was acquired on September 7, 2005 (See Note 3).

Reclassifications

Certain reclassifications have been made to conform prior period amounts to the current presentation. On the condensed consolidated statements of operations, equity in net income or loss of investee has been reclassified.

**2. Stock-Based Compensation**

Effective July 3, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. The Company previously applied Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related

Interpretations and provided the required pro forma disclosures of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). The Company elected to adopt the modified prospective application method as provided by SFAS 123(R), and, accordingly, the Company recorded compensation costs as the requisite service was rendered for the unvested portion of previously issued awards that remain outstanding at the initial date of adoption and any awards issued, modified, repurchased, or cancelled after the effective date of SFAS 123(R). Periods prior to adoption have not been restated.

At October 1, 2005 the Company had five stock option plans and one employee stock purchase plan, including the 1990 Stock Option Plan, 1995 Stock Option Plan, 2001 Stock Option Plan (2001 Plan), SaRonix acquisition stock option plan, 2004 Stock Incentive Plan, and the 2000 Employee Stock Purchase Plan ("ESP Plan"). The Company's aggregate compensation cost for the three months ended October 1, 2005 totaled $278,000. Total income tax benefit recognized in the income statement for the three months ended October 1, 2005 was $16,000 for the Company's share-based compensation arrangements. Compensation cost capitalized as part of inventory was immaterial for the three months ended October 1, 2005. The impact from the adoption of SFAS 123(R) for the three-months ended October 1, 2005 was a reduction in net income of $262,000or $0.01 per basic and diluted shares.

Stock Incentive Plans

Under the Company's 2004, 2001, 1995, 1990, ("Plans") and SaRonix Acquisition Stock Option Plans, incentive and nonqualified stock options to purchase up to 5,567,438 shares of common stock have been reserved at October 1, 2005 for issuance to employees, officers, directors, independent contractors, and consultants of the Company.

Generally, the options may be granted at not less than the fair value and not less than 85% of the fair value on grant date for incentive stock options and nonqualified stock options, respectively. Options vest over periods of up to 72 months as determined by the Board of Directors. Options granted under Plans expire 10 years from grant date.

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model. The Company estimates expected stock price volatility based on actual historical volatility for periods that the Company believes are representative predictors of future volatility. The Company uses historical data to estimate option exercises, expected option holding period and option forfeitures. The risk-free interest rate for periods within the contractual life of the option is based upon the U.S. Treasury yield.

2000 Employee Stock Purchase Plan

The Company's ESP Plan, which was previously approved by the Company's stockholders, permits the grant of up to 1,500,000 shares. Under the ESP Plan, the Company offers stock purchase rights to purchase the Company's stock at three month intervals at a price not less than the lesser of 85% of the fair market value of the stock on the date the purchase right is granted or the date the right is exercised. The maximum number of shares of Common Stock that any employee may purchase under the Stock Purchase Plan during any accrual period is 1,000 shares.

The fair value of stock purchase rights granted under the Company's ESP Plan is estimated on the date of grant using the Black-Scholes option valuation model. Volatily is based on the volatility of the Company's stock during the accrual period. The Company uses historical data to estimate expected holding period and the U.S. Treasury yield for the risk-free interest rate for the contractual period.

The value of the Company's stock options granted under its stock option plans during the three months ended October 1, 2005 and September 25, 2004 was estimated at the date of grant using the following weighted average assumptions:

**Three Months Ended**

| | October 1, 2005 | September 25, 2004 |
|---|---|---|
| Expected option holding period (in years) | 5.75 | 5.75 |
| Risk-free interest rate | 4.03% | 3.51% |
| Stock Price volatility | 38% | 33% |
| Dividend yield | 0% | 0% |

The value of the Company's stock purchase rights granted under its ESP Plan during the three months ended October 1, 2005 and September 25, 2004 was estimated at the date of grant using the following weighted average assumptions:

| | Three Months Ended | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 |
| Expected option holding period (in months) | 3 | 3 |
| Risk-free interest rate | 3.43% | 1.51% |
| Stock Price volatility | 37% | 33% |
| Dividend yield | 0% | 0% |

The following table summarizes the Company's stock option plan as of October 1, 2005, and changes during the three months ended October 1, 2005.

| | Outstanding Options | |
|---|---|---|
| Options | Shares | Weighted Average Exercise Price |
| Option Outstanding at July 2, 2005 | 5,543,478 | $11.50 |
| Options Granted (weighted average grant date fair value of $3.76) | 128,750 | 8.80 |
| Options Exercised | (16,619) | 5.72 |
| Options Forfeited or Expired | (88,171) | 10.68 |
| Options Outstanding at October 1, 2005 | 5,567,438 | $11.46 |

At October 1, 2005, 4.7 million shares of options are exercisable with weighted-average exercise price of $12.00. The weighted-average remaining contractual term for outstanding and exercisable options at October 1, 2005 was 5.8 years and 5.2 years respectively. The aggregate intrinsic value for outstanding and exercisable options at October 1, 2005 was $7.7 million and $7.3 million respectively. The aggregate intrinsic value of options exercised during the three-months ended October 1, 2005 was $54,000. The aggregate grant date fair value of shares vested during the three-months ended October 1, 2005 was $5.3 million.

As of October 1, 2005, 899,000 unvested awards represent $2.5 million of unrecognized compensation costs, net of approximately $895,000 of estimated forfeitures. This cost is expected to be recognized over a weighted average period of approximately 3 years.

The following table shows total stock-based compensation expense described for the three months ended October 1, 2005 from the plans mentioned above, included in the Condensed Consolidated Statement of Operations:

| (Amounts in thousands) | | Three Months Ended October 1, 2005 |
| --- | --- | --- |
| Cost of goods sold | $ | 24 |
| Research and development | | 121 |
| Selling, general and administrative | | 133 |
| Pre-tax stock-based compensation expense | | 278 |
| Income tax | | 64 |
| Net stock-based compensation expense | $ | 214 |

As required under SFAS 123(R), the reported net income and earnings per share for the three months ended September 25, 2004 have been presented below to reflect the impact had the Company been required to include the amortization of the Black-Scholes option value as an expense. The pro forma amounts are as follows:

| (Amounts in thousands, except per share data) | | Three Months Ended September 25, 2004 |
| --- | --- | --- |
| Net income (loss) - as restated | $ | 29 |
| Deduction: total stock-based employee compensation expense determined under the fair value method, net of tax | | (1,365) |
| Net income (loss) - pro forma | $ | (1,336) |
| Basic earnings (loss) per share – as restated | $ | 0.00 |
| Basic earnings (loss) per share - pro forma | $ | (0.05) |
| Diluted earnings (loss) per share – as restated | $ | 0.00 |
| Diluted earnings (loss) per share - pro forma | $ | (0.05) |

**3. Business Combination**

Acquisition of eCERA Comtek Corporation

On September 7, 2005 the Company purchased a 99.9% share of eCERA Comtek Corporation ("eCERA"). The total purchase price, including assumed debt of approximately $14.7 million is approximately $29.4 million including transaction costs. The Company also has the right, through March 7, 2006; to purchase the remaining 50% of eCERA's 50% owned crystal blank manufacturing subsidiary AZER Crystal Technology Co, Ltd. ("Azer"), for approximately $1.4 million. eCERA and its subsidiary Azer, has been a key supplier of quartz crystal blanks and crystal oscillator products for our frequency control product line.

The results of operations of eCERA from the date of acquisition have been included in the Company's condensed 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. Management has completed its preliminary allocation of the purchase price and does not expect the final allocation to differ materially from the preliminary determination. The purchase price has been preliminarily allocated as follows (in thousands):

| | |
|---|---|
| Current assets | $ 16,610 |
| Property and equipment | 13,827 |
| Other assets | 2,340 |
| Other intangible assets subject to amortization : | |
| Trade name | 460 |
| Core developed technology | 551 |
| Customer relations | 609 |
| Total assets acquired | 34,397 |
| Current liabilities | (12,269) |
| Long term liabilities | (7,414) |
| Total liabilities assumed | (19,683) |
| Net assets acquired | $14,714 |

Amortization of intangibles expense for the period September 7 through October 1, 2005 was $29,000. Amortization for the remainder of fiscal 2006 will be approximately $284,000, amortization for fiscal 2007 and fiscal 2008 will be approximately $379,000, amortization for fiscal year 2009 will be approximately $210,000, amortization for fiscal 2010 will be approximately $176,000, amortization for fiscal year 2011 will be approximately $84,000, the total remaining amortization expense totals $77,000. The fair value of intangible assets acquired will be amortized over a remaining life of seven years for trade name, five years for core and current technology, and three years for customer relationships.

The following table sets forth the cost, accumulated amortization, and net value of the intangible assets as of October 1, 2005 (in thousands):

| | October 1, 2005 |
|---|---|
| Cost | $1,620 |
| Accumulated amortization | (29) |
| Net value | $1,591 |

The following unaudited pro forma information shows the results of operations for the three months ended October 1, 2005 and the three months ended September 25, 2004 as if the eCERA acquisition occurred on the first day of each three month period, with the exception that the purchase accounting adjustments were estimated based on the closing date of the eCERA acquisition.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated at the beginning of the earliest period presented, nor is it necessarily indicative of future operating results.

Unaudited pro-forma information:

| | Three Months Ended | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 |
| Net Revenue | $27,374 | $24,994 |
| Net Income | 1,008 | 432 |
| Basic income per share | $0.04 | $0.02 |
| Diluted income per share | $0.04 | $0.02 |

## 4. 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 October 1, 2005 and September 25, 2004 are computed as follows (in thousands, except for per share data):

| | Three Months Ended | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 |
| Net income (loss) | $625 | $29 |
| Computation of common shares outstanding – basic income (loss) per share: | | |
| Weighted average shares of common stock | 26,352 | 26,515 |
| Shares used in computing basic income (loss) per share | 26,352 | 26,515 |
| Basic income (loss) per share | $0.02 | $0.00 |
| Computation of common shares outstanding – diluted income (loss) per share: | | |
| Weighted average shares of common stock | 26,352 | 26,515 |
| Dilutive options using the treasury stock method | 791 | 753 |
| Shares used in computing diluted income (loss) per share | 27,143 | 27,268 |
| Diluted income (loss) per share | $0.02 | $0.00 |

Options to purchase 3,850,454 shares of common stock were outstanding as of October 1, 2005, 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 October 1, 2005 and therefore would be anti-dilutive under the treasury stock method. Likewise, for the three month period ended September 25, 2004, options to purchase 3,495,381 shares of common stock were outstanding, 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 period.

## 5. Inventories

Inventories consist of (in thousands):

| | October 1, 2005 | July 2, 2005 |
|---|---|---|
| Raw materials | $4,548 | $6,130 |
| Work in process | 3,504 | 3,562 |
| Finished goods | 6,841 | 3,736 |
| | $14,893 | $13,428 |

Raw material inventory is considered obsolete and written off if it has not moved in 270 days. By part number, the quantity of assembled devices in inventory that is in excess of the greater of the quantity shipped in the previous twelve months or the quantity in backlog are considered obsolete and written off.

In certain circumstances, management will determine, based on expected usage or other factors, that inventory considered obsolete by these guidelines should not be written off. At October 1, 2005 $9,135,000 of inventory on hand had been written off as compared with $9,186,000 at July 2, 2005.

During the three months ended October 1, 2005 and September 25, 2004, gross profit and gross margin benefited as a result of the sale of inventory of $731,000 and $266,000, respectively, that had been previously identified as excess and written down to zero.

**6. Accrued Liabilities**

Accrued liabilities consist of (in thousands):

| | October 1, 2005 | July 2, 2005 |
|---|---|---|
| Accrued compensation | $2,706 | $2,449 |
| Accrued income tax | 1,057 | 1,163 |
| External sales representative commissions | 641 | 833 |
| Restructuring accrual | 77 | --- |
| eCERA note payable | 2,258 | --- |
| Other accrued expenses | 1,794 | 1,025 |
| | $8,533 | $5,470 |

**7. Debt**

As part of the acquisition of eCERA , the Company assumed total debt obligations totaling $14.7 million consisting of both long term and other short term line of credit accounts. The short-term debt obligations are principally made up of lines of credits with variable interest rate terms ranging from the Bank Board Listing rate minus 1.05% to the Bank Board Listing rate minus 2% and the six month Sibor plus 1.2% to the six month Sibor plus 1.5%. The first long-term debt obligation is with Farmers Bank of China which is secured by land the Company owns in Taiwan and has a variable interest rate of 0.25% over the Bank Board Listing Rate and is payable in monthly installments of principal and interest in New Taiwanese Dollars. The second long-term debt obligation is with China Development Industrial bank which is secured by machinery and equipment the Company owns in Taiwan and has a variable interest rate of 2.3% over the benchmark 90 days from the Secondary Markets Telerate fixing rate and is payable in monthly installments of principal and interest in New Taiwanese Dollars. As of October 1, 2005, there was $7.5 million classified as Short-term and current portion of long term debt, and $7.2 million classified as long-term debt on the balance sheet.

**8. Restructuring**

In fiscal 2005, there was a reduction in force of 24 employees. Of the employees terminated, 11 were in operations, 1 in research & development, 4 in sales & marketing, and 8 in general & administration. On October 1, 2005, the remaining balance of this restructuring charge was $77,000 after incurring restructuring charges of $294,000 in fiscal 2005 and additional reserves related to the fiscal 2005 reduction in force of $55,000 in the first quarter of fiscal 2006.

The following table summarizes this restructuring activity through October 1, 2005 (in thousands):

| | **Reduction In Force** |
|---|---|
| Beginning balance at June 27, 2004 | $ 0 |
| Additional reserves in fiscal 2005 | 294 |
| Cash payments in fiscal 2005 | (272) |
| Balance at July 2, 2005 | 22 |
| Additional reserves in fiscal 2006 | 55 |
| Ending balance at October 1, 2005 | $ 77 |

**9. 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 was one direct customer, an Asian distributor, that accounted for 17% of net sales in the three months ended October 1, 2005 and two direct customers, both Asian distributors, who individually accounted for 11% and 12% respectively of net sales in the three months ended September 25, 2004. At October 1, 2005, there were no customers that individually accounted for 10% or greater of accounts receivable. At September 25, 2004, there were three direct customers that individually accounted for 18%, 10% and 10% of accounts receivable.

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 October 1, 2005 and July 2, 2005.

| | October 1, 2005 | July 2, 2005 |
|---|---|---|
| Taiwan | 76.4% | 12.4% |
| United States | 13.3% | 44.2% |
| Singapore | 7.6% | 25.0% |
| Thailand | 0.4% | 10.8% |
| Other (less than 10% each) | 2.3% | 7.6% |
| Total | 100.0% | 100.0% |

The following table sets forth net revenues by country as a percentage of total net revenues for the three-month periods ended October 1, 2005 and September 25, 2004.

| | Three Months Ended | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 |
| Taiwan | 26.9% | 17.6% |
| China (including Hong Kong) | 21.7% | 21.3% |
| United States | 21.1% | 21.3% |
| Singapore | 11.6% | 13.7% |
| Other (less than 10% each) | 18.7% | 26.1% |
| Total | 100.0% | 100.0% |

**10. Comprehensive Income**

Comprehensive income consists of net income and net unrealized gains (losses) on available-for-sale investments and changes in translation gains on a consolidated subsidiary. The components of other comprehensive income (loss) and related tax effects were as follows:

| | Three Months Ended | |
|---|---|---|
| | October, 1 2005 | September 25, 2004 |
| Net income (loss) | $625 | $29 |
| Change in unrealized gain (loss) on securities available for sale | (89) | 467 |
| Income tax effect | 37 | (264) |
| Reclassification adjustment for gains (loss) on available for sale securities included in net income (loss) | (10) | 100 |
| Income tax effect | 4 | (41) |
| Translation gain (loss) | (28) | (25) |
| Comprehensive income (loss) | $539 | $266 |

**11. 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. 133,844 shares were repurchased in the three months ended October 1, 2005 at a cost of approximately $1.2 million. The Company has purchased a total of 755,931 shares at a total cost of approximately $6.4 million as of October 1, 2005. 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.

**12. Minority Interest**

The Company consolidates its investment in Pericom Taiwan Limited (PTL) and its newly acquired subsidiary eCERA. During the three months ended December 31, 2004, the Company sold 6.82% of PTL to its employees for $315,000 in cash. At October 1, 2005, the minority interest in PTL was $233,000. Parties other than Pericom Semiconductor Corporation own approximately 0.1% of the outstanding shares of eCERA Comtek Corporation. As of October 1, 2005, the minority interest in eCERA Comtek Corporation was valued at $10,000. Further, eCERA owns 50% of Azer, with 50% owned by Aker Technology Co., Ltd ("Aker") the previous owner of eCERA, representing a value of $921,000.

**13. Restatement**

Subsequent to the issuance of the Company's interim financial statements for the quarter ended September 25, 2004, the Company determined that certain errors occurred in the accounting for research and development costs as it redesigned many of its products to be manufactured by a different manufacturing facility. Initially these costs were expensed to research and development. Subsequently, these costs were incorrectly removed from research and development expense and capitalized into inventory. As a result, the operating results for the quarter ended September 25, 2004 have been restated. A summary of the significant effects of the restatement are as follows (in thousands):

Effects of the restatement on the income statement are as follows:

| | For the Three Months Ended September 25, 2004 | |
|---|---|---|
| | As Previously Reported | As Restated |
| Cost of Revenues | $12,806 | $12,771 |
| Gross Profit | 6,980 | 7,015 |
| Research & Development | 3,716 | 3,947 |
| Income Tax | 89 | 15 |
| Net income | 151 | 29 |
| Basic earnings per share | $0.01 | $0.00 |
| Dilutive earnings per share | $0.01 | $0.00 |

**Effects of the restatement on the statement of cash flow are as follows:**

| | For the Three Months Ended September 25, 2004 | |
|---|---|---|
| | As Previously Reported | As Restated |
| Net Income | $151 | $29 |
| Changes in inventory | (427) | (231) |
| Net Cash Used for Operating Activities | (605) | (605) |

# 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 for the year ended July 2, 2005 (the "Form 10-K/A"). The following management discussion and analyis gives effect to the restatement discussed in Note 13 to the unaudited condensed consolidated financial statements.

### Significant Events

On September 7, 2005 Pericom Semiconductor Corporation purchased a 99.9% share of eCERA Comtek Corporation. (see Note 3 to the condensed consolidated financial statements). Beginning with the three months ended October 1, 2005, the Company's operating results include the operations of eCERA for the period of September 7, 2005 through October 1, 2005.

### 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.

The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its financial statements. The Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results of operations, and require the Company to make its most difficult and subjective accounting judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company's most critical accounting policies include revenue recognition and accounts receivable allowances, which impact the recording of revenues; valuation of inventories, which impacts costs of goods sold and gross margins; accounting for income taxes, which impacts the income tax provision; and assessment of contingencies, which impacts charges recorded in cost of goods sold and selling, general and administrative expenses. These policies and the estimates and judgments involved are discussed further below.

We consider the following accounting policies are "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.

***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 or 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 October 1, 2005 the majority of our sales were to distributors.

We sell products to large, domestic distributors at the price listed in our price book for that distributor. We recognize revenue at the time of shipment. At the time of shipment, we book a sales reserve for the entire amount if the customer has the right to return the product. Also, at the time of sale we book a sales reserve for ship from stock and debits ("SSD"s), stock rotations, return material authorizations ("RMA"s), authorized price protection programs, and any special programs approved by management. These sales reserves offset against revenues, which then leads to the net revenue amount we report.

The market price for our products can be significantly different than the book price at which the product was sold to the distributor. When the market price, as compared with the book price, of a particular sales opportunity from our distributor to their customer would result in low or negative margins to our distributor, a ship from stock and debit is negotiated with the distributor. SSD history is analyzed and used to develop SSD rates that form the basis of the SSD sales reserve booked each period. We use historical SSD rates to estimate the ultimate net sales price to the distributor.

Our distribution agreements provide for semi-annual stock rotation privileges of typically 10% of net sales for the previous six-month period. The contractual stock rotation applies only to shipments at book price. Asian distributors typically buy our product at less than book price and therefore are not entitled to the 10% stock rotation privilege. In order to provide for routine inventory refreshing, for our benefit as well as theirs, we typically grant Asian distributor's stock rotation privileges between 1% and 5% even though we are not contractually obligated to do so. Each month a sales reserve is recorded for the estimated stock rotation privilege earned by our distributors that month. This reserve is the sum of product of each distributor's net sales for the month and their estimated stock rotation percentage.

From time to time, customers may request to return parts for various reasons including the customers' belief that the parts are not performing to specification. Many such return requests are the result of customers incorrectly using the parts, not because the parts are defective. These requests are reviewed by management and when approved result in a return material authorization ("RMA") being established. We are only obligated to accept returns of defective parts. For customer convenience, we may approve a particular return request, even though we are not obligated to do so. Each month a sales reserve is recorded for the approved RMAs that have not yet been returned. In the past we have not kept a general warranty reserve because historically valid warranty returns, which are the result of a part not meeting specifications or being non-functional, have been immaterial and parts can frequently be re-sold to other customers for use in other applications. We do however monitor and assess RMA activity and overall materiality to assess whether a general warranty reserve has become appropriate.

Price protection is granted solely at the discretion of Pericom management. The purpose of price protection is to reduce our distributor's cost of inventory as market prices fall thus reducing SSD rates. Pericom sales management prepares price protection proposals for individual products located at individual distributors. Pericom general management reviews these proposals and if a particular price protection arrangement is approved, then the dollar impact will be estimated based on the book price reduction per unit for the products approved and the number of units of those products in that distributor's inventory. A sales reserve is then recorded in that period for the estimated amount in accordance with Issue 4 of Emerging Issues Task Force Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).

At the discretion of Pericom management, we may offer rebates on specific products sold to specific end customers. The purpose of the rebates is to allow for pricing adjustments for large programs without affecting the pricing we charge our distributor customers. The rebate we owe is recorded at the time of shipment.

Customers are typically granted payment terms of between 30 and 60 days and they generally pay within those terms. Relatively few customers have been granted terms with cash discounts. Distributors are invoiced for shipments at book price. When they pay those invoices, they claim debits for SSDs, stock rotations, cash discounts, RMAs and price protection when appropriate. Once claimed, these debits are then processed against the approvals.

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 assessment of excess and obsolete inventory resulting in material effects on our gross margin.

***IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS.*** As required by Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", which the Company adopted in fiscal 2002, the Company ceased amortizing goodwill with a net carrying value of $1.3 million that resulted from our investment in Pericom Technology, Inc. SFAS No. 142 also requires that goodwill be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company determined that no impairment of this goodwill existed for the three month period ended October 1, 2005. The Company also tests other intangible assets for impairment when events or changes in circumstances indicate that the assets might be impaired. The Company determined that no impairment of these other intangible assets existed in the three month period ended October 1, 2005.

***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.*** The Company's 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 carry forwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that the Company 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, in the future, the Company experiences losses for a sustained period of time, the Company may not be able to conclude that it is more likely than not that the Company will be able to generate sufficient future taxable income to realize our deferred tax assets. If this occurs, the Company may be required to increase the 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 | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 (As Restated, See Note 13) |
| Net revenues | 100.0% | 100.0% |
| Cost of revenues | 65.5% | 64.5% |
| Gross profit | 34.5% | 35.5% |
| Operating expenses: | | |
| Research and development | 17.8% | 19.9% |
| Selling, general and administrative | 18.6% | 19.4% |
| Restructuring charge | 0.2% | 0.0% |
| Total | 36.6% | 39.3% |
| Income (loss) from operations | (2.1%) | (3.8%) |
| Interest income | 4.0% | 4.7% |
| Income (loss) before income taxes | 1.8% | 0.9% |
| Income tax (benefit) | 0.6% | 0.1% |
| Minority interest in income (loss) of consolidated subsidiary | 0.1% | 0.0% |
| Equity in net income (loss) of investees | 1.4% | (0.6%) |
| Net income (loss) | 2.8% | 0.2% |

***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 October 1, 2005 | Three Months Ended September 25, 2004 | % Change |
|---|---|---|---|
| Net revenues | $22,473 | $19,786 | 13.6% |
| Percentage of net sales accounted for by top 5 direct customers (1) | 41.8% | 41.7% | |
| Number of direct customers that each account for more than 10% of net sales | 1 | 2 | |
| Percentage of gross sales accounted for by top 5 end customers (2) | 36.7% | 38.2% | |
| Number of end customers that each account for more than 10% of gross sales | 2 | 1 | |

(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 September 7, 2005 the Company acquired a 99.9% interest in eCERA Comtek Corporation and its subsidiary Azer Crystal Technology Co., Ltd. of Taipei Taiwan from Aker Technology Co., Ltd. Beginning with the quarter ended October 1, 2005, the Company's revenues included revenues from eCERA. In the quarter ended October 1, 2005, revenues from eCERA product sales were included for the period of September 7, 2005 through October 1, 2005; the revenues for this period totaled approximately $2.0 million.

The semiconductor industry is still recovering from the significant industry downturn that began in fiscal 2001 that was caused by 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. This near-term order pattern has persisted through the present due to the uncertain growth rate of the world economy and distribution channel's reluctance to build inventory levels again. This keeps longer-term visibility limited, making it difficult to predict near term demand.

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 October 1, 2005 as compared with the same period in the prior year is primarily attributable to the $2.0 million in revenues contributed by eCERA from the September 7, 2005 acquisition date through the end of the quarter. The increase in revenues is also attributable to customer acceptance of the Company's new product offerings as well as an improved pricing environment for the Company's Digital Switches and Interface Logic product lines. However, 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. In the three-month period ended October 1, 2005 net revenues include sales reserves for price protection in the amount of $160,000. In the three-month period ended September 25, 2004 net revenues included sales reserves for price protection in the amount of $27,000.

The following table sets forth net revenues by country as a percentage of total net revenues for the three-month periods ended October 1, 2005 and September 25, 2004.

| | Three Months Ended | |
|---|---|---|
| | October 1, 2005 | September 25, 2004 |
| Taiwan | 26.9% | 17.6% |
| China (including Hong Kong) | 21.7% | 21.3% |
| United States | 21.1% | 21.3% |
| Singapore | 11.6% | 13.7% |
| Other (less than 10% each) | 18.7% | 26.1% |
| Total | 100.0% | 100.0% |

For the three-months ended October 1, 2005, as compared with the same period in the prior year, the percentage of our net revenues derived from sales to Taiwan increased as a result of our acquisition of eCERA, which accounted for 4% of the increase and increased sales to international distributors in Taiwan during the three months ended October 1, 2005.

***Gross Profit***

| | Three Months Ended | | |
|---|---|---|---|
| (In thousands) | October 1, 2005 | September 25, 2004 | % Change |
| Net revenues | $22,473 | $19,786 | 13.6% |
| Gross profit | 7,744 | 7,015 | 10.4% |
| Gross profit as a percentage of net revenues (gross margin) | 34.5% | 35.5% | |

The increase in gross profit in the three-month period ended October 1, 2005, 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 improved end-market demand, improved gross margins on core products as well as the inclusion of $224,000 of gross profit from eCERA for generated during the period of September 7, 2005 through October 1, 2005. The decrease in gross margin in the three-month period ended October 1, 2005 can be attributable to lower gross margins of eCERA sales of approximately 11% when compared to gross margins from sales of Pericom products during the same period.; resulting in a negative margin impact for the three-month period ended October 1, 2005 of approximately 2.3%. The negative impact of the addition of lower margin eCERA revenue was partially offset by improvements in the gross margins of Pericom products during the period caused by improved product mix.

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 and eCERA products and our higher margin integrated circuit products. 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 October 1, 2005, and September 25, 2004, gross profit and gross margin benefited as a result of the sale of inventory of $731,000 and $266,000, respectively, that had been previously identified as excess and written down to zero.

***Research and Development***

| | Three Months Ended | | |
|---|---|---|---|
| | October 1, | September 25, | |
| (In thousands) | 2005 | 2004 | % Change |
| Net revenues | $22,473 | $19,786 | 13.6% |
| Research and development | 3,991 | 3,947 | 1.1% |
| R&D as a percentage of net revenues | 17.8% | 19.9% | |

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 October 1, 2005 as compared to the same period in the previous year is attributable to a combination of an increase in R&D spending as a result of the eCERA acquisition approximately $32,000 for the period from September 7, 2005 through October 1, 2005, and $121,000 of stock based compensation recorded due to the adoption of SFAS 123(R) offset by cost savings in fabrication, mask and assembly costs. See Note 2 “Stock Based Compensation” of the Notes to Condensed Consolidated Financial Statements for information regarding the adoption of SFAS 123(R).

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***

| | Three Months Ended | | |
|---|---|---|---|
| | October 1, | September 25, | |
| (In thousands) | 2005 | 2004 | % Change |
| Net revenues | $22,473 | $19,786 | 13.6% |
| Selling, general and administrative | 4,182 | 3,832 | 9.1% |
| S,G&A as a percentage of net revenues | 18.6% | 19.4% | |

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 selling, general and administrative expenses in the three-month period ended October 1, 2005 as compared to the same period in the prior year can be attributable to added expense resulting from eCERA operations of approximately $115,000 for the period from September 7, 2005 through October 1, 2005, $133,000 of stock based compensation recorded due to the adoption of SFAS 123(R), as well as increased professional fees primarily resulting from Sarbanes Oxley 404 compliance efforts. See Note 2 “Stock Based Compensation” of the Notes to Condensed Consolidated Financial Statements for information regarding the adoption of SFAS 123(R).

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. 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-month period ended October 1, 2005 we recorded a restructuring charge of $55,000 included in the financial results. This charge was the result of a final settlement of an outstanding claim from the February 2005 reduction in force. In the three-month period ended September 25, 2004 there was no restructuring charges included in the financial results.

***Equity in Net Income (Loss) of Investees***

| | Three Months Ended | | |
|---|---|---|---|
| (In thousands) | October 1, 2005 | September 25, 2004 | Change |
| Equity in net income (loss) of investee | $325 | ($123) | $448 |

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 adopted EITF 02-14 in the quarter ended December 31, 2004. This adoption did not cause the Company to cease recognizing its allocated portion of the net income or losses of Pericom Technology, Inc. The Company's allocated portion of PTI's results improved to income of $347,000 for the three month period ended October 1, 2005 from a loss of $123,000 for the comparable period in the prior year due to the improvement in the China telecommunications and consumer product markets that PTI serves and acceptance of PTI's new product introductions by PTI's customers. In addition, on September 7, 2005 the Company acquired a 99.9% interest in eCERA Comtek Corporation along with it's 50% owned crystal blank manufacturing subsidiary AZER Crystal Technology Co, Ltd.

***Interest Income***

| | Three Months Ended | | |
|---|---|---|---|
| (In thousands) | October 1, 2005 | September 25, 2004 | % Change |
| Interest income | $898 | $931 | (3.5%) |

The decrease in interest income for the three-month period ended October 1, 2005 as compared to the comparable prior year period was primarily due to a decrease in short term investments of approximately $15 million from the three-month period ended October 1, 2005 as compared to the same period in the prior year . The decrease in investment income is primarily due to decreased investment in short-term securites during the period, and a lower return on funds allocated for the funding of the eCERA acquisition.

***Provision for Income Taxes***

| | Three Months Ended | |
|---|---|---|
| (In thousands) | October 1, 2005 | September 25, 2004 |
| Pre-tax income (loss) | $437 | $167 |

| | | |
|---|---|---|
| Income tax (benefit) | 137 | 15 |
| Effective tax rate | 31% | 9% |

Our effective tax rate differs from the federal statutory rate primarily due to state income taxes, the utilization of research and development tax credits and changes in the deferred tax asset valuation allowance. The rate for the three month period ended October 1, 2005 is higher than the three month period ended September 25, 2004 because the estimated fiscal year rate expected as of October 1, 2005 was higher than that expected at September 25, 2004 due to various adjustments including changes in estimates and actual results. The pre-tax income for the three month period ended September 25, 2004 is much lower than for the three month ended October 1, 2005 because various tax adjustments and credits that reduced taxable income were not significantly different for the two periods but the pre-tax income for the three month period ended October 1, 2005 is substantially larger than for the three-month period ended September 25, 2004, therefore the tax rates for the two periods differ significantly.

**Stock Based Compensation**

Effective July 3, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employees requisite service period.

**Liquidity and Capital Resources**

As of October 1, 2005, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately $132.6 million as compared with $143.3 million on July 2, 2005. On September 7, 2005, the Company purchased for approximately $29.3 million dollars a 99.93% ownership position in eCERA Comtek Corporation of Taiwan. The purchase price consisted of approximately $14.6 million in cash of which $12.3 million was paid on September 7, 2005 and the remaining $2.3 million was paid in October 2005, and assumption of debt of approximately $14.7 million. eCERA and its 50% owned subsidiary, AZER Crystal Technology Co, Ltd. have been a key supplier to the Company of quartz crystal blanks and crystal oscillator products. The Company has an option to purchase for 45 million New Taiwan dollars (approximately $1.4 million) the remaining 50% of Azer within six months of September 7, 2005.

As of October 1, 2005, $9.1 million is liquid and classified as cash and cash equivalents compared with $20.9 million as of July 2, 2005 with the reduction due primarily to the purchase of eCERA. The maturities of the Company's short term investments are staggered throughout the year so that cash requirements are met. Since the Company is a fabless semiconductor manufacturer, it has lower capital equipment requirements than other semiconductor manufacturers that own wafer fabrication facilities. For the three-month period ended October 1, 2005, the Company spent approximately $410,000 on property and equipment compared to $1.1 million for the three-month period ended September 25, 2004. Interest rates continue to be at a historically low level, although they continue to trend upwards as a result of actions taken by the Federal Reserve Board. The Company generated approximately $898,000 of net interest income in the three-month quarter ended October 1, 2005 compared to approximately $931,000 of interest income in the three-month quarter ended September 25, 2004. The reduction in interest income is due to a lower level of invested funds and a lower rate of return on funds that were allocated for the eCERA purchase. In the longer term the Company may generate less interest income if its total invested balance decreases and these decreases are not offset by rising interest rates or increased cash generated from operations or other sources.

The Company's net cash provided by operating activities of $1.7 million in the three-months ended October 1, 2005 was primarily a result of net income $625,000, a reduction in net inventories of $2.8 million, depreciation and amortization of approximately $970,000. These factors were partially offset by a

decrease in accounts payable of $1.4 million and an increase in accounts receivable of $1.2 million. The reduction in net inventories during the three-month period ended October 1, 2005 was primarily due to tightening of supply and a continued concerted effort to reduce inventory levels to a lower level in fiscal 2006. The increase in accounts receivable during this period was primarily due to increasing sales and the addition of the receivables from the eCERA acquisition. The decrease to accounts payable during this period was the result of routine period to period fluctuations. The Company's net cash used in operating activities of $605,000 in the three-months ended September 25, 2004 was primarily due to a $1.2 million increase in accounts receivable due to significant shipments occurring in the last month of the quarter, a decrease to accounts payable of $488,000, a $231,000 inventory increase and a $570,000 decrease in accrued liabilities which were partially off-set by depreciation and amortization of $1.1 million, net income of $29,000 and equity in net loss of investee of $123,000.

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 in investing activities of $13.3 million for the three-months ended October 1, 2005 was primarily due to the Company's acquisition of eCERA Comtek Corporation for which the Company used $11.7 million in cash to complete the purchase on September 7, 2005. The Company's cash used by investing activities of $8.4 million for the three-months ended September 25, 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 used in financing activities in the three-months ended October 1, 2005 of $1.1 million was primarily due to repurchases of common stock of $1.2 million offset in part by proceeds of $327,000 from the sale of common stock from the Company's employee stock plans. The Company's cash used by financing activities in the three-months ended September 25, 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 off-set by repurchases of common stock of $319,000.

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 October 1, 2005, the Company has repurchased an aggregate of 755,931 shares at a cost of approximately $6.4 million. The Company repurchased 133,844 shares during the three-months ended October 1, 2005 at an approximate cost of $1.2 million. 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.

Our long-term future capital requirements will depend on many factors, including our level of revenues, the timing and extent of spending to support our product development efforts, the expansion of sales and marketing efforts, the timing of our introductions of new products, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our products. We could be required, or could elect, to seek additional funding through public or private equity or debt financing and additional funds may not be available on terms acceptable to us or at all.

**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 Company's contractual obligations and commitments including eCERA's debt obligations at October 1, 2005 are as follows (in thousands):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| Fiscal Year | Total | Less than 1 Year | 1 – 3 Years | 3 – 5 Years | Thereafter |
| Operating leases | $9,084 | $1,258 | $2,000 | $2,013 | $3,818 |
| Notes payable | 14,661 | 7,488 | 6,879 | 289 | --- |
| Operating lease obligations | $23,745 | $8,746 | $8,879 | $2,302 | $3,818 |

**Off-Balance Sheet Arrangements**

The Company has no off balance sheet arrangements, defined by Regulation S-K item 303(a)(4), 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 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:**

- changes in the quantity of our products sold
- changes in the average selling price of our products
- 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 and eCERA product line, which we acquired on October 1, 2003 and September 7, 2005;
- expenses incurred respectively 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 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., Philips, 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 the 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 eCERA, and other potential future acquisitions may not be successful.**

On September 7, 2005, we acquired from Aker Technology of Taiwan its eCERA frequency control products subsidiary ("eCERA"). eCERA has been a key supplier of our frequency control products business unit for several years. In general, we have not previously manufactured our products but have instead depended upon third party manufacturers, such as eCERA, to manufacture them. Thus, since we have not previously operated a manufacturing operation, there can be no assurance that we will be able to operate it successfully.

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

- large one-time write-offs;
- the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner;
- the challenges in achieving strategic objectives, cost savings, and other benefits from acquisitions as anticipated;
- the risk of diverting the attention of senior management 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;
- the risk that our markets do not evolve as anticipated and that the technologies and capabilities acquired do not prove to be those needed to be successful in those markets;
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities or amortization expenses related to intangible assets;
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies; and
- difficulties in expanding information technology systems and other business processes to accommodate the acquired businesses

As part of our business strategy, we expect to seek other acquisition prospects, in addition to eCERA, 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

**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.

**Implementation of the new FASB rules for the accounting and the issuance of new laws or other accounting regulations, or reinterpretation of existing laws or regulations, could materially impact our business or stated results.**

In general, from time to time, the government, courts and the financial accounting boards may issue new laws or accounting regulations, or modify or reinterpret existing ones. There may be future changes in laws, interpretations or regulations that would affect our financial results or the way in which we present them. Additionally, changes in the laws or regulations could have adverse effects on hiring and many other aspects of our business that would affect our ability to compete, both nationally and internationally.

**We determined that we had a material weakness in our internal control over financial reporting as of July 2, 2005, which we are in the process of remediating. As a result, we had to implement supplemental compensating procedures to determine that our financial statements are fairly stated in all material respects. This material weakness could result in a loss of investor confidence in our financial reports and have an adverse impact on our stock price.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on form 10-K for the fiscal year ended July 2, 2005; we are required to furnish a report by our management on our internal control over financial reporting. Such report will contain, among other matters, a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. Such report must also contain a statement that our auditors have issued an attestation report on management's assessment of such internal controls.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework to assess and improve our internal control systems. Auditing standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management's assessment of the effectiveness of internal control over financial reporting under section 404. Management's assessment of internal controls over financial reporting requires management to make subjective judgments and, particularly because Section 404 and Auditing standard No. 2 are newly effective, some of the judgments will be in areas that may be open to interpretation and therefore the report will be uniquely difficult to prepare.

We have performed the system and process documentation and evaluation needed to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which is both costly and challenging. Management had identified a material weakness in its internal control processes over financial reporting as of July 2, 2005. Specifically, we incurred increased research and development costs, as we redesigned many of our products to be manufactured by a different manufacturing facility. Initially, these costs were expensed to research and development. Subsequently, these costs were incorrectly removed from research and development expense and capitalized into inventory. This incorrect capitalization led to restatement of our financial statements for the first three quarters of fiscal 2005. As a result of the restatement, R&D increased in each of the first three quarters of fiscal 2005 from amounts previously reported and inventory and cost of sales decreased from amounts previously reported. The company introduced internal control procedures to remediate the material weakness in the first quarter of fiscal 2006, however management has ascertained that although the process has improved, it is not yet fully remediated.

Additionally, the Company's management has assessed internal control over financial report as of October 1, 2005 and again concluded that there is a material weakness. The Company frequently receives inventory back from customers that is pending review and disposition by a Material Review Board ("MRB"). The review is expected to happen regularly at no less than quarterly intervals. Because of business priorities material was allowed to accumulate in the MRB inventory location beyond quarterly guidelines. It was subsequently observed that much of this inventory was scrapped after October 1, 2005 but was still valued in inventory as of October 1, 2005. Had it not been caught, this would have resulted in an overstatement of inventory and gross profit.

Internal control procedures are being modified in the second quarter of fiscal 2006 to remediate these material weaknesses.

Having a material weakness in our internal controls could cause investors to lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price

**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. In this event, the Company's operating results might 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.

**Changes to environmental laws and regulations applicable to manufacturers of electrical and electronic equipment are causing us to redesign our products, and may increase our costs and expose us to liability.**

The implementation of new environmental regulatory legal requirements, such as lead free initiatives, could impact our product designs and manufacturing processes. The impact of such regulations on our product designs and manufacturing processes could affect the timing of compliant product introductions as well as their commercial success. For example, a recent directive in the European Union bans the use of lead and other heavy metals in electrical and electronic equipment after July 1, 2006. As a result, in advance of this deadline, some of our customers selling products in Europe have begun demanding product from component manufacturers that do not contain these banned substances. Because most of our existing assembly processes (as well as those of most other manufacturers) utilize a tin-lead alloy as a soldering material in the manufacturing process, we must redesign many of our products if we are to meet customer demand. This redesign may result in increased research and development and manufacturing and quality control costs. In addition, the products that we manufacture that comply with the new regulatory standards may not perform as well as our current products. Moreover, if we are unable to successfully and timely redesign existing products and introduce new products that meet the standards set by environmental regulation and our customers, sales of our products could decline, which could materially adversely affect our business, financial condition and results of operations.

**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.**

In fiscal 2005, 2004 and 2003 we purchased approximately 43%, 75% and 72%, respectively, of our wafers from Chartered Semiconductor Manufacturing Ltd. Also in fiscal 2005, 2004 and 2003 we purchased approximately 43%, 16% and 14% respectively, of our wafers from MagnaChip. In fiscal 2005, five other suppliers manufactured the remainder of our wafers. In fiscal 2004, only four other suppliers manufactured the remainder of our wafers. In fiscal 2003, three 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 and MagnaChip 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 are 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 91 patents covering certain aspects of our product designs and have at least 25 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.

Our independent foundries use a process technology that may include technology we helped develop with them, that may generally be used by those foundries 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.

**We have deferred tax assets that we may not be able to use under certain circumstances.**

If the company is unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, the Company could be required to increase its valuation allowances against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on future operating results.

**The complexity of our products makes us 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 or availability of our products. These conditions could reduce our net revenues and gross margin and harm our customer relations.

We do not manufacture any of our IC 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" IC semiconductor company, we could encounter fabrication-related problems that may affect the availability of our products, delay our shipments or increase our costs. With the acquisition of eCERA, in the future we will be directly involved in the manufacture of our FCP products. As we have not previously operated a manufacturing facility, we may not be successful in operating the FCP facility, and as a consequence, there may be manufacturing related problems that affect our FCP products. See “Risk Factors; Factors That May Affect Operating Results – Our Acquisition of eCERA And Other Potential Future Acquisitions May Not Be Successful.”

**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. and eCERA ComTek 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 was one direct customer, an Asian distributor, that accounted for more than 10% of net revenues during the quarter ended October 1, 2005. For the quarter ended September 25, 2004 there were two direct customers, both Asian distributors, 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 quarter ended October 1, 2005 totaled 42%, and was also 42% for the quarter ended September 25, 2004.

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 quarter ended October 1, 2005 sales to our distributors were approximately 55% of net revenues as compared to approximately 50% of net revenues in the same quarter ended September 25, 2004. The decrease in the percentage of sales to our distributors as compared with the prior periods was due in part to higher sales to domestic distributor 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 fiscal year 2005, approximately 68% of our net revenues derived from sales in Asia and approximately 6% from net sales in Europe. In fiscal year 2004, approximately 61% of our net revenues derived from sales in Asia and approximately 6% from net sales in Europe. In fiscal year 2003, approximately 59% of our net revenues derived from sales in Asia and approximately 8% from net 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 October 1, 2005 our investment portfolio consisted of investment-grade fixed income securities, excluding those classified as cash equivalents, of $123.5 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 October 1, 2005, 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.

### Disclosure Controls and Procedures

Management of the Company, with the participation of Alex C. Hui, our Chief Executive Officer and Michael D. Craighead, our Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting ("Internal Control") as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934, as amended (the "Exchange Act"). Management understands that a material weakness is a significant deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 2), or combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management assessed the effectiveness of the Company's Internal Control as of July 2, 2005 using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework and identified a material weakness in its Annual Report on Form 10K/A for the fiscal year ended July 2, 2005. This material weakness was described as follows, and this information should be read together with management's complete report as included with the Company's Annual Report on Form 10K/A:

- Based on their evaluation, our management has concluded that the process for the establishment of appropriate accounting procedures arising from significant changes in its business operations failed.
    - Specifically, we incurred increased research and development costs as we redesigned many of our products to be manufactured by a different manufacturing facility. Initially, these costs were expensed to research and development. Subsequently, these costs were incorrectly removed from research and development expense and capitalized into inventory.
    - As discussed in Note 13 to the Consolidated Financial Statements, the correction of this error resulted in the restatement of our consolidated financial statements for the first, second, and third quarters of fiscal 2005, and in us recording adjustments to the fiscal 2005 financial statements.

- o Management concluded that the restatement was the result of a material weakness in the design of internal controls over financial reporting.

- o Additionally, this material weakness could result in a misstatement of inventory, cost of goods sold, and research and development expenses that would result in a material misstatement to our annual or interim financial statements that would not be prevented or detected.

- o Based on their evaluation, our management has concluded that, due to our restatement as detailed above, our disclosure controls and procedures were not effective as of July 2, 2005 for the purpose of alerting them on a timely basis to material information required to be included in the Company's reports filed or submitted under the Exchange Act.

Based on these findings, management initiated certain remediation efforts in the first quarter of fiscal year 2006 with respect to this material weakness referred to above and continued those efforts through October 1, 2005. These remediation efforts, which are discussed below, are reasonably likely to materially affect our internal control.

***Remediation of Material Weakness Related to the process for the establishment of appropriate accounting procedures arising from significant changes in its business operations***

Management introduced new procedures in the first quarter of fiscal 2006 to address the weakness in the process for the establishment of appropriate accounting procedures arising from significant changes in the business operations:

- These new procedures include the monitoring of changes of the business as they occur by the CFO, Corporate Controller, Director of Financial Reporting, and Accounting Manager. These individuals are responsible for assessing the accounting impact of such changes according to GAAP and current accounting pronouncements, and then implementing adequate accounting policy and procedures to properly account for the change in the business.
    - o Weekly executive staff meetings are the initial forum where potential significant changes in the business are discussed, and these changes are communicated by the CFO to the Corporate Controller, Director of Financial Reporting and Accounting Manager and potential accounting or reporting ramifications are investigated and plans implemented to address issues.
        - ▪ Potential issues include significant changes with the Company's customer base, supplier base, cost structure, distribution channels, manufacturing processes, potential investments or acquisitions, or various other potentially significant changes to its business operations.
        - ▪ Various research tools are utilized in this assessment including searchable subscription databases that provide interpretations and guidance.
        - ▪ On particularly complex issues the Company may consult with its independent auditors for clarification of interpretation.
        - ▪ The Company prepares positions based on its research and records accounting entries based on its conclusions.

In the first quarter of fiscal 2006 the Company utilized this improved process in connection with the acquisition of eCERA ComTek Corporation acquired by the Company on September 7, 2005. The Company completed the financial integration of eCERA, including the required financial disclosures contained in this Form 10Q. Management will continue to evaluate and to implement remediation efforts with respect to this matter.

Management again assessed the effectiveness of the Company's Internal Control as of October 1, 2005 and identified one new material weakness, described as follows:

- Based on their evaluation our management has concluded that the process for timely evaluation and potential write-down of MRB inventory failed.

- Specifically, the Company frequently receives inventory back from customers that is pending review and disposition by a Material Review Board (“MRB”). This review is expected to happen regularly at no less than quarterly intervals.

- Because of business priorities material was allowed to accumulate in the MRB inventory location far beyond the quarterly guideline.

- There was approximately $240,000 of this aged MRB inventory on hand at October 1, 2005, and it was recorded in inventory in the financial close since it had not been dispositioned at that date.

- In the independent registered public accounting firm review of the first quarter it was observed that some of this inventory was subsequently scrapped, and some was very likely to be scrapped, after October 1, 2005, and the Company did not detect this nor provide for it in its financial statements. This resulted in an overstatement of inventory and gross profit of approximately $164,000.

- The entry to record the scrap was subsequently recorded and the results reflected in this Form 10Q reflect this adjustment.

Based on these findings, management initiated certain remediation efforts in the second quarter of fiscal year 2006 with respect to this material weakness referred to above. These remediation efforts, which are discussed below, are reasonably likely to materially affect our internal control.

- As part of the Company’s monthly closing procedures, controls will be implemented to ensure the analysis of pending MRB inventory is performed timely to assess whether this inventory should be valued. If not, and the amount is material to results, an entry will be booked to record the expected scrap expense.
- Also, a review of MRB scrap transactions that occur after the end of the reporting period and prior to the issuance of the financial statements will be performed and, if material in inventory at the end of the reporting period is subsequently scrapped this will be recorded as a charge to cost of goods sold and reduction of inventory in the period prior to the transaction.

Based on their evaluation, our management has concluded that, due to the material weakness as detailed above, our disclosure controls and procedures were not effective as of October 1, 2005 for the purpose of alerting them on a timely basis to material information required to be included in the Company’s reports filed or submitted under the Exchange Act.

In connection with management's assessment of the effectiveness of the Company's Internal Controls as of October 1, 2005, management has implemented changes in the internal control over financial reporting, which are described above and which are being implemented after October 1, 2005, and such changes in internal control materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As a result of the foregoing, management will continue to evaluate and to implement remediation efforts with respect to this identified material weakness. Management does not expect to be able to report that its Internal Control is effective until it is able to remediate this matter.

# PART II. OTHER INFORMATION

**Item 2. Unregistered Sales of Equity 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 3, 2005 to August 26, 2005 | --- | --- | 622,087 | 1,377,913 |
| August 27, 2005 to September 27, 2005 | 42,160 | 8.55 | 664,247 | 1,335,753 |
| September 28 to October 1, 2005 | 91,684 | 8.69 | 755,931 | 1,244,069 |
| Total | 133,844 | $8.65 | | |

In October, 2001, the Company's Board of Directors approved the repurchase of up to 2,000,000 shares of the Company's common stock. As of October 1, 2005, the Company has repurchased an aggregate of 755,931 shares at a cost of approximately $6.4 million. The Company repurchased 133,844 shares during the three months ended October 1, 2005 at an approximate cost of $1.2 million.

**Item 6. Exhibits.**

| Exhibit Number | Description |
| --- | --- |
| 10.1 | Letter Agreement, dated as of October 26, 2005, by and between the Company and Michael D. Craighead, attached as Exhibit 10.1 to the Company's Form 8-K, filed November 1, 2005, and incorporated herein by reference. |
| 10.2 | Share Purchase Agreement dated August 30, 2005 by and between Pericom Semiconductor Corporation, AKER Technology Company, Ltd., and Shi-Hsiung Stone Liu for the sale by AKER and purchase by Pericom of 39,773,792 shares of common stock representing 99.93% of the outstanding common stock of eCERA ComTek Corporation, attached as exhibit 2.1 to the Company's Form 8-K, filed September 6, 2005, and incorporated herein by reference. |
| 10.3 | Share Purchase Agreement dated August 30, 2005 by and between AKER Technology Company, Ltd., eCERA ComTek Corporation, and Shi-Hsiung Stone Liu for the sale by AKER and purchase by eCERA of 5,500,000 shares of common stock representing 50% of the outstanding common stock of Azer Crystal Technology Co., Ltd, attached as exhibit 2.1.1 to the Company's Form 8-K, filed September 6, 2005, and incorporated herein by reference. |
| 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 |

# 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 15, 2005

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

Date: November 15, 2005

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

## EXHIBIT 31.1

**PERICOM SEMICONDUCTOR CORPORATION**
**CERTIFICATION PURSUANT TO SECTION 302 OF THE**
**SARBANES-OXLEY ACT OF 2002**

I, Alex C. Hui, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pericom Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Ace Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles.

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2005

/s/ Alex C. Hui
Alex C. Hui
Chief Executive Officer
Pericom Semiconductor Corporation

**EXHIBIT 31.2**

**PERICOM SEMICONDUCTOR CORPORATION**
**CERTIFICATION PURSUANT TO SECTION 302 OF THE**
**SARBANES-OXLEY ACT OF 2002**

I, Michael D. Craighead, certify that:

1. I have reviewed this quareterly report on Form 10-Q of Pericom Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Ace Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles.

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   c) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

   d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2005

/s/ Michael D. Craighead
Michael D. Craighead
Chief Financial Officer
Pericom Semiconductor Corporation

**EXHIBIT 32.1**

**PERICOM SEMICONDUCTOR CORPORATION**

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report of Pericom Semiconductor Corporation (the "Company") on Form 10-Q for the three-months ended October 1, 2005 (the "Report"), I, Alex C. Hui, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

November 15, 2005

By: /s/ Alex C. Hui
Alex C. Hui
Chief Executive Officer
Pericom Semiconductor Corporation

**EXHIBIT 32.2**

**PERICOM SEMICONDUCTOR CORPORATION**

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report of Pericom Semiconductor Corporation (the "Company") on Form 10-Q for the three months ended October 1, 2005 (the "Report"), I, Michael D. Craighead, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

November 15, 2005

By: /s/ Michael D. Craighead
Michael D. Craighead
Chief Financial Officer
Pericom Semiconductor Corporation