

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

FORM 10-Q

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

For the quarterly period ended March 31, 2003

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-27026

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

California  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

2380 Bering Drive  
San Jose, California 95131  
(408) 435-0800

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

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

Yes  No

As of May 2, 2003 the Registrant had outstanding 25,678,950 shares of Common Stock.

Pericom Semiconductor Corporation

Form 10-Q for the Quarter Ended March 31, 2003

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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)

|   | March 31,<br><u>2003</u><br>(Unaudited) | June 30,<br><u>2002 (1)</u> |
|---|---|-----------------------------|
| <b>ASSETS</b>   |   |                             |
| Current assets:   |   |                             |
| Cash and cash equivalents                                     | \$ 7,171                                | \$ 12,656                   |
| Short-term investments  | 144,362                                 | 143,156                     |
| Accounts receivable:  |   |                             |
| Trade (net of allowances of \$4,066, and \$4,376)             | 2,610                                   | 3,981                       |
| Other receivables   | 1,996                                   | 1,871                       |
| Inventories   | 10,133                                  | 9,339                       |
| Prepaid expenses and other current assets                     | 1,715                                   | 1,298                       |
| Deferred income taxes   | 1,839                                   | 2,600                       |
| Total current assets  | 169,826                                 | 174,901                     |
| Property and equipment – net                                  | 6,558                                   | 8,608                       |
| Investment in and advances to joint venture                   | 5,081                                   | 5,920                       |
| Goodwill  | 1,325                                   | 1,325                       |
| Other assets  | 8,634                                   | 2,991                       |
| Total   | \$191,424                               | \$193,745                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                   |   |                             |
| Current liabilities:  |   |                             |
| Accounts payable  | \$ 4,526                                | \$ 4,544                    |
| Accrued liabilities   | 3,422                                   | 2,840                       |
| Total current liabilities                                     | 7,948                                   | 7,384                       |
| Deferred income taxes   | 639                                     | 639                         |
| Other long term liabilities                                   | 784                                     | ---                         |
| Shareholders' equity:   |   |                             |
| Common stock, 60,000,000 shares authorized;                   |   |                             |
| Shares outstanding: March 31, 25,685,712; June 30, 25,660,209 | 138,748                                 | 139,345                     |
| Accumulated other comprehensive income                        | 1,142                                   | 257                         |
| Retained earnings   | 42,163                                  | 46,120                      |
| Total shareholders' equity                                    | 182,053                                 | 185,722                     |
| Total   | \$191,424                               | \$193,745                   |

(1) Derived from the June 30, 2002 audited balance sheet included in the Company's Annual Report on Form 10-K.

See notes to condensed consolidated financial statements.

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

|   | Three Months Ended<br>March 31, |                  | Nine Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|--------------------------------|------------------|
|   | <u>2003</u>                     | <u>2002</u>      | <u>2003</u>                    | <u>2002</u>      |
| Net revenues  | \$11,492                        | \$12,546         | \$33,452                       | \$34,622         |
| Cost of revenues  | 8,028                           | 7,926            | 23,441                         | 25,577           |
| Gross profit  | <u>3,464</u>                    | <u>4,620</u>     | <u>10,011</u>                  | <u>9,045</u>     |
| Operating expenses:                                       |                                 |                  |                                |                  |
| Research and development                                  | 2,758                           | 2,966            | 8,476                          | 8,705            |
| Selling, general and administrative                       | 2,673                           | 2,701            | 8,630                          | 8,829            |
| Restructuring charge                                      | 0                               | 0                | 1,431                          | 0                |
| Total   | <u>5,431</u>                    | <u>5,667</u>     | <u>18,537</u>                  | <u>17,534</u>    |
| Loss from operations                                      | (1,967)                         | (1,047)          | (8,526)                        | (8,489)          |
| Equity in net loss of investee                            | (169)                           | (458)            | (839)                          | (990)            |
| Interest income   | 1,193                           | 1,326            | 4,020                          | 4,123            |
| Other-than-temporary decline in investment                | (1)                             | (1,790)          | (1,142)                        | (1,790)          |
| Loss before income taxes                                  | (944)                           | (1,969)          | (6,487)                        | (7,146)          |
| Income tax benefit  | (313)                           | (709)            | (2,530)                        | (2,573)          |
| Net loss  | <u>(\$631)</u>                  | <u>(\$1,260)</u> | <u>(\$3,957)</u>               | <u>(\$4,573)</u> |
| Basic and diluted loss per share                          | <u>(\$0.02)</u>                 | <u>(\$0.05)</u>  | <u>(\$0.15)</u>                | <u>(\$0.18)</u>  |
| Shares used in computing basic and diluted loss per share | <u>25,717</u>                   | <u>25,394</u>    | <u>25,726</u>                  | <u>25,275</u>    |

See notes to condensed consolidated financial statements.

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

|   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | <u>March 31,</u>  |                  |
|   | <u>2003</u>       | <u>2002</u>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                   |                  |
| Net loss  | (\$ 3,957)        | (\$ 4,573)       |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                   |                  |
| Depreciation and amortization   | 2,975             | 3,080            |
| Other-than-temporary decline in investment  | 1,142             | 1,790            |
| Gain on sale of assets  | (21)              | ---              |
| Equity in net loss of investee  | 839               | 990              |
| Changes in assets and liabilities:  |                   |                  |
| Accounts receivable   | 1,246             | 4,447            |
| Inventories   | (794)             | 4,540            |
| Prepaid expenses and other current assets   | (417)             | 335              |
| Accounts payable  | (18)              | (709)            |
| Accrued current and long term liabilities   | 1,366             | (3,071)          |
| Net cash provided by operating activities   | <u>2,361</u>      | <u>6,829</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                   |                  |
| Additions to property and equipment   | (1,101)           | (1,738)          |
| Proceeds from sale of property and equipment  | 101               | ---              |
| Purchase of short-term investments  | (150,598)         | (192,522)        |
| Maturities of short-term investments  | 151,038           | 114,927          |
| Increase in other assets  | (6,689)           | (4,470)          |
| Net cash used in investing activities   | <u>(7,249)</u>    | <u>(83,803)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                   |                  |
| Sale of common stock  | 1,180             | 1,639            |
| Repurchase of common stock  | (1,777)           | ---              |
| Net cash provided by (used in) financing activities                                       | <u>(597)</u>      | <u>1,639</u>     |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>(5,485)</b>    | <b>(75,335)</b>  |
| <b>CASH AND CASH EQUIVALENTS:</b>   |                   |                  |
| Beginning of period   | 12,656            | 89,076           |
| End of period   | <u>\$ 7,171</u>   | <u>\$ 13,741</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                                  |                   |                  |
| Cash received (paid) during the period for:   |                   |                  |
| income taxes  | <u>\$ 2,120</u>   | <u>(\$ 37)</u>   |

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 March 31, 2003, the results of operations for the three and nine-month periods ended March 31, 2003 and 2002 and cash flows for the nine months ended March 31, 2003 and 2002. This unaudited quarterly and nine-month 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 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 and nine-month periods ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire year.

The Company’s fiscal periods in the accompanying financial statements have been shown as ending on June 30 and March 31. The Company’s fiscal year 2002 ended on June 29, 2002. The three and nine-month periods in fiscal years 2003 and 2002 ended on March 29, 2003 and March 30, 2002, respectively, and each period included thirteen and thirty-nine weeks, respectively. Certain reclassifications have been made to conform prior year amounts to the current year’s presentation.

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 and services offered by the Company; changes in customer relationships; 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 wholly owned subsidiary, Pericom Semiconductor (HK) Limited. Pericom Semiconductor (HK) Limited was incorporated in Hong Kong on May 31, 2000 and is engaged in circuit design services solely for Pericom Semiconductor Corporation. All significant intercompany balances and transactions are eliminated in consolidation.

**2. Loss Per Share**

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

Basic and diluted loss per share for the three and nine-month periods ended March 31, 2003 and 2002 are computed as follows (in thousands, except for per share data):

|  | Three Months Ended<br>March 31, |                 | Nine Months Ended<br>March 31, |                 |
|--|---------------------------------|-----------------|--------------------------------|-----------------|
|  | <u>2003</u>                     | <u>2002</u>     | <u>2003</u>                    | <u>2002</u>     |
| Net loss   | (\$631)                         | (\$1,260)       | (\$3,957)                      | (\$4,573)       |
| Computation of common shares outstanding – basic loss per share:   |                                 |                 |                                |                 |
| Weighted average shares of common stock                            | 25,717                          | 25,394          | 25,726                         | 25,275          |
| Shares used in computing basic loss per share                      | <u>25,717</u>                   | <u>25,394</u>   | <u>25,726</u>                  | <u>25,275</u>   |
| Basic loss per share   | <u>(\$0.02)</u>                 | <u>(\$0.05)</u> | <u>(\$0.15)</u>                | <u>(\$0.18)</u> |
| Computation of common shares outstanding – diluted loss per share: |                                 |                 |                                |                 |
| Weighted average shares of common stock                            | 25,717                          | 25,394          | 25,726                         | 25,275          |
| Dilutive options using the treasury stock method                   | ---                             | ---             | ---                            | ---             |
| Shares used in computing diluted loss per share                    | <u>25,717</u>                   | <u>25,394</u>   | <u>25,726</u>                  | <u>25,275</u>   |
| Diluted loss per share   | <u>(\$0.02)</u>                 | <u>(\$0.05)</u> | <u>(\$0.15)</u>                | <u>(\$0.18)</u> |

For the three and nine-month periods ended March 31, 2003, options to purchase 5,238,258 shares of common stock were not included in the computation of diluted net loss per share because the Company had net losses for those periods and those options would be anti-dilutive. For the three and nine-month periods ended March 31, 2002, options to purchase 5,289,650 shares of common stock were not included in the computation of diluted net loss per share because the Company had net losses for those periods and those options would be anti-dilutive.

### 3. Inventories

Inventories consist of (in thousands):

|                 | March 31,<br><u>2003</u> | June 30,<br><u>2002</u> |
|-----------------|--------------------------|-------------------------|
| Raw materials   | \$2,228                  | \$2,523                 |
| Work in process | 3,083                    | 3,921                   |
| Finished goods  | 4,822                    | 2,895                   |
|                 | <u>\$10,133</u>          | <u>\$9,339</u>          |

#### 4. Accrued Liabilities

Accrued liabilities consist of (in thousands):

|   | March 31,<br><u>2003</u> | June 30,<br><u>2002</u> |
|---|--------------------------|-------------------------|
| Accrued compensation                      | \$1,375                  | \$1,132                 |
| External sales representative commissions | 694                      | 727                     |
| Restructuring accrual                     | 647                      | 197                     |
| Other accrued expenses                    | 706                      | 784                     |
|   | <u>\$3,422</u>           | <u>\$2,840</u>          |

#### 5. Other Investments

The Company has investments in certain privately held companies, which it accounts for under the cost method. In the three months ended March 31, 2003, the Company invested an additional \$4.3 million. The carrying amount of such investments was approximately \$8.2 million and \$2.7 million at March 31, 2003 and June 30, 2002, respectively, and these amounts are recorded in other assets.

One of these investments is a loan agreement the Company has entered into with a private company. The Company has agreed to provide up to \$8.2 million in borrowings. The loan bears interest of 8%. This rate will be adjusted upward uniformly with changes in the prime rate but will not be reduced. The loan is secured by physical and intangible assets of the private company as well as a product and technology license agreement. In addition, the Company entered into a purchase option agreement whereby the Company may acquire certain assets and assume certain liabilities of this private company for the amounts previously provided under the loan agreement. As of March 31, 2003, a total of \$4.9 million has been loaned.

#### 6. Restructuring

In fiscal 2001, the Company recorded a restructuring charge of \$522,000 related to an unused portion of its San Jose, California leased facilities. The restructuring charge represented the Company's lease payments it would be required to make, net of sublease payments received, through March 2003. The lease term expires in May 2005 and the Company estimated that it would continue to sublease this portion of its facility through the end of the lease term or would utilize this portion of the facility if operations improved.

During the quarter ended December 31, 2002, the Company recorded an additional restructuring charge of \$1.4 million related to this facility. This charge represents the future lease payments and estimated utility and maintenance costs for the remainder of the lease. The Company received notice that the sublessee would move from this facility and the Company estimates that it will not be able to sublease the facility due to the excess available real estate in the San Jose, California area. Due to the continued depression in the Company's business, the Company has determined that this portion of the facility will not be utilized over the remaining lease term.

The following table sets forth the activity of the restructuring accrual as of March 31, 2003 (in thousands):

|  |                |
|--|----------------|
| Balance at June 30, 2002                     | \$ 197         |
| Payments                                     | (197)          |
| Restructuring charge recorded in fiscal 2003 | <u>1,431</u>   |
| Balance at March 31, 2003                    | <u>\$1,431</u> |

The Company has classified \$784,000 of this accrual in other long-term liabilities and \$647,000 in current accrued liabilities in the accompanying balance sheet.

## 7. 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.

## 8. Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" requires an enterprise to report, by major components and as a single total, the change in net assets during the period from non-owner sources. For the three and nine-month periods ended March 31, 2003 and 2002, comprehensive income, which was comprised of the Company's net loss for the periods and changes in cumulative unrealized gain/(loss) on short-term investments net of tax was as follows:

|                                      | Three Months Ended<br>March 31, |                  | Nine Months Ended<br>March 31, |                  |
|--------------------------------------|---------------------------------|------------------|--------------------------------|------------------|
|                                      | <u>2003</u>                     | <u>2002</u>      | <u>2003</u>                    | <u>2002</u>      |
| Net loss                             | (\$631)                         | (\$1,260)        | (\$3,957)                      | (\$4,573)        |
| Unrealized gain/(loss) on investment | 51                              | (631)            | 885                            | (1,101)          |
| Comprehensive loss                   | <u>(\$580)</u>                  | <u>(\$1,891)</u> | <u>(\$3,072)</u>               | <u>(\$5,674)</u> |

## 9. Recently Issued Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. It supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of Accounting Principles Board No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for the disposal of a segment of a business. The Company adopted SFAS No. 144 on July 1, 2002. The adoption of SFAS No. 144 had no impact on the Company's financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provisions of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized. The Company adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 had no effect on the Company's financial position, results of operations or cash flows.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a

company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. Since the Company does not have any guarantee obligations, the Company has determined that this pronouncement does not have an effect on the Company's financial position, results of operations or cash flows.

## 10. Stock Repurchase Program

On October 22, 2001 the Company's Board of Directors authorized a stock repurchase program to repurchase up to 2,000,000 shares of Pericom's 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's stock on July 23, 2002. The Company purchased 49,500 shares at a total cost of approximately \$400,000 in the quarter ended March 31, 2003. The Company has purchased a total of 219,500 shares at a total cost of approximately \$1.8 million as of March 31, 2003.

## 11. Pro Forma Net Loss and Loss Per Share

Had the Company amortized to expense the computed fair values of the awards under the 1990 Stock Option Plan, 1995 Stock Option Plan, 2001 Stock Option Plan, 2000 Employee Stock Purchase Plan, and 1997 Employee Stock Purchase Plan, for the three and nine month periods ended March 21, 2003 and March 31, 2002, the Company's pro forma net loss and loss per share would have been as follows:

|   | Three Months Ended<br>March 31, |                  | Nine Months Ended<br>March 31, |                   |
|---|---------------------------------|------------------|--------------------------------|-------------------|
|   | <u>2003</u>                     | <u>2002</u>      | <u>2003</u>                    | <u>2002</u>       |
| Net loss, as reported   | (\$631)                         | (\$1,260)        | (\$3,957)                      | (\$4,573)         |
| Deduct: Total stock-based employee compensation<br>expense determined under fair value based method<br>for all awards, net of related tax effects | (1,534)                         | (1,864)          | (4,803)                        | (5,782)           |
| Pro forma net loss  | <u>(\$2,165)</u>                | <u>(\$3,124)</u> | <u>(\$8,760)</u>               | <u>(\$10,355)</u> |
| Loss per share:   |                                 |                  |                                |                   |
| Basic and diluted loss per share, as reported   | <u>(\$0.02)</u>                 | <u>(\$0.05)</u>  | <u>(\$0.15)</u>                | <u>(\$0.18)</u>   |
| Basic and diluted loss per share, pro forma   | <u>(\$0.08)</u>                 | <u>(\$0.12)</u>  | <u>(\$0.34)</u>                | <u>(\$0.41)</u>   |

## 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 (the "Form 10-K").

#### **Critical Accounting Policies**

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

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

**Revenue Recognition.** We recognize revenue from the sale of our products upon shipment, provided title and risk of loss has passed to the customer, the fee is fixed and determinable and collection of the revenue is reasonably assured. A provision for estimated future returns and other charges against revenue is recorded at the time of shipment. Approximately 60% of our sales are to distributors. We have agreements for price protection and stock rotation programs with our distributors. The revenue we record for sales to our distributors is net of estimated provisions for these programs. When determining this net revenue, we must make significant judgements and estimates. Our estimates are based on historical experience rates, inventory levels in the distribution channel, current trends and other related factors. However, because of the inherent nature of estimates, there is a risk that there could be significant differences between actual amounts and our estimates. Our financial condition and operating results depend on our ability to make reliable estimates and we believe that our estimates are reasonable.

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

**Investments.** As required by SFAS No. 142, Goodwill and Other Intangible Assets, which we adopted in fiscal 2002, we ceased amortizing goodwill with a net carrying value of \$1.3 million that resulted from business combinations initiated prior to the adoption of SFAS No. 141, Business Combinations. SFAS No. 142 also requires that goodwill be tested for impairment at least annually. We determined that no impairment of this goodwill existed in fiscal 2002, and we will continue to evaluate such goodwill at least annually.

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.

### 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<br>March 31, |             | Nine Months Ended<br>March 31, |             |
|--|---------------------------------|-------------|--------------------------------|-------------|
|  | <u>2003</u>                     | <u>2002</u> | <u>2003</u>                    | <u>2002</u> |
| Net revenues                               | 100.0%                          | 100.0%      | 100.0%                         | 100.0%      |
| Cost of revenues                           | 69.9%                           | 63.2%       | 70.1%                          | 73.9%       |
| Gross profit                               | 30.1%                           | 36.8%       | 29.9%                          | 26.1%       |
| Operating expenses:                        |                                 |             |                                |             |
| Research and development                   | 24.0%                           | 23.6%       | 25.3%                          | 25.1%       |
| Selling, general and administrative        | 23.3%                           | 21.6%       | 25.8%                          | 25.5%       |
| Restructuring charge                       | ---                             | ---         | 4.3%                           | ---         |
| Total                                      | 47.3%                           | 45.2%       | 55.4%                          | 50.6%       |
| Loss from operations                       | (17.2%)                         | (8.4%)      | (25.5%)                        | (24.5%)     |
| Equity in net loss of investee             | (1.5%)                          | (3.7%)      | (2.5%)                         | (2.9%)      |
| Interest income                            | 10.4%                           | 10.6%       | 12.0%                          | 11.9%       |
| Other-than-temporary decline in investment | (0.0%)                          | (14.2%)     | (3.4%)                         | (5.1%)      |
| Loss before income taxes                   | (8.3%)                          | (15.7%)     | (19.4%)                        | (20.6%)     |
| Income tax benefit                         | (2.7%)                          | (5.7%)      | (7.6%)                         | (7.4%)      |
| Net loss                                   | (5.6%)                          | (10.0%)     | (11.8%)                        | (13.2%)     |

### Net Revenues

| (In thousands)  | Three Months Ended<br>March 31, |             |                     | Nine Months Ended<br>March 31, |             |                     |
|---|---------------------------------|-------------|---------------------|--------------------------------|-------------|---------------------|
|   | <u>2003</u>                     | <u>2002</u> | <u>%<br/>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%<br/>Change</u> |
| Net revenues  | \$11,492                        | \$12,546    | (8.4%)              | \$33,452                       | \$34,622    | (3.4%)              |
| Percentage of net sales accounted for by top 5 direct customers (1)         | 48.1%                           | 44.0%       |                     | 45.7%                          | 45.8%       |                     |
| Number of direct customers that each account for more than 10% of net sales | 3                               | 1           |                     | 2                              | 1           |                     |
| Percentage of gross sales accounted for by top 5 end customers (2)          | 37.3%                           | 51.7%       |                     | 40.2%                          | 49.8%       |                     |
| Number of end customers that each account for more than 10% of gross sales  | 0                               | 3           |                     | 2                              | 3           |                     |

(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 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 customers.

Net revenues consist primarily of product sales, which are recognized upon shipment, less an estimate for returns and allowances. The decline in revenues for the quarter and nine months ended March 31, 2003 as compared with the same periods in the prior year is primarily attributable to erosion of average selling prices caused by an extremely competitive pricing environment because of ongoing reduced business levels. In the nine-month period ending March 31, 2002 the Company recorded special allowances totaling \$3.2 million for distributor returns and price protection. Excluding these special allowances, net revenue for the nine-month period would have declined \$4.4 million, or 11.6%.

The following table sets forth net revenues by geographic area as a percentage of total net revenues for the three and nine months ended March 31, 2003 and 2002.

|                        | Three Months Ended<br>March 31, |               | Nine Months Ended<br>March 31, |               |
|------------------------|---------------------------------|---------------|--------------------------------|---------------|
|                        | <u>2003</u>                     | <u>2002</u>   | <u>2003</u>                    | <u>2002</u>   |
| Asia (excluding Japan) | 53.3%                           | 47.2%         | 53.4%                          | 46.9%         |
| Europe                 | 9.4%                            | 11.6%         | 8.7%                           | 8.9%          |
| Japan                  | 5.0%                            | 4.4%          | 4.1%                           | 4.6%          |
| North America          | 32.3%                           | 36.8%         | 33.8%                          | 39.6%         |
| Total                  | <u>100.0%</u>                   | <u>100.0%</u> | <u>100.0%</u>                  | <u>100.0%</u> |

In the three and nine months ended March 31, 2003, as compared with the three and nine months ended March 31, 2002, respectively, the percentage of our net revenues derived from sales in Asia, excluding Japan, increased and the percentage derived from sales in North America decreased. These changes were primarily driven by the ongoing shift of contract manufacturing production from North America to Asia.

### ***Gross Profit***

| (In thousands)                               | Three Months Ended<br>March 31, |             |                     | Nine Months Ended<br>March 31, |             |                     |
|--|---------------------------------|-------------|---------------------|--------------------------------|-------------|---------------------|
|  | <u>2003</u>                     | <u>2002</u> | <u>%<br/>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%<br/>Change</u> |
| Net revenues                                 | \$11,492                        | \$12,546    | (8.4%)              | \$33,452                       | \$34,622    | (3.4%)              |
| Gross profit                                 | 3,464                           | 4,620       | (25.0%)             | 10,011                         | 9,045       | 10.7%               |
| Gross profit as a percentage of net revenues | 30.1%                           | 36.8%       |                     | 29.9%                          | 26.1%       |                     |

The decline in gross profit in the three months ended March 31, 2003, as compared with the same period in the prior year was due to reduced sales and reduced gross profit as a percentage of net revenue (gross margin). The reduction in gross margin was due to declines in average selling prices as well as change in mix of certain product lines. The increase in gross profit and gross margin in the nine months ended March 31, 2003, as compared to the same period in the prior year is due to inventory write downs of \$1.1 million, charges of \$48,000 related to a reduction in workforce and to special allowances of \$3.2 million for distributor returns and price protection that were taken in the quarter ended December 31, 2001. Excluding the effect of these charges, gross profit for the nine-month periods would have declined \$3.3 million or 25.1% for the same reasons cited above.

For both the three and nine month periods ended March 31, 2003, the factors causing the decline in gross profit were partially offset by ongoing cost reduction efforts including reduced costs from our wafer and assembly suppliers, migration of certain operations to low-cost offshore suppliers, and internal programs to reduce product cost.

### ***Research and Development***

| (In thousands)                      | Three Months Ended<br>March 31, |             |                     | Nine Months Ended<br>March 31, |             |                     |
|-------------------------------------|---------------------------------|-------------|---------------------|--------------------------------|-------------|---------------------|
|                                     | <u>2003</u>                     | <u>2002</u> | <u>%<br/>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%<br/>Change</u> |
| Net revenues                        | \$11,492                        | \$12,546    | (8.4%)              | \$33,452                       | \$34,622    | (3.4%)              |
| Research and development            | 2,758                           | 2,966       | (7.0%)              | 8,476                          | 8,705       | (2.6%)              |
| R&D as a percentage of net revenues | 24.0%                           | 23.6%       |                     | 25.3%                          | 25.1%       |                     |

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 decrease in the three months ended March 31, 2003 as compared to the same period in the previous year was primarily due to improved first-time design success which reduces nonrecurring engineering cost and other internal cost control measures. In addition, the expense decrease in the nine months ended March 31, 2003 as compared to the same period in the previous year was due to legal and settlement costs in the quarter ended December 31, 2001 associated with a patent infringement suit brought by a competitor. These cost decreases were partially offset by costs associated with the development of new products.

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 plan, the Company may implement further cost-cutting actions.

### ***Selling, General and Administrative***

| (In thousands)  | Three Months Ended<br>March 31, |             |                     | Nine Months Ended<br>March 31, |             |                     |
|---|---------------------------------|-------------|---------------------|--------------------------------|-------------|---------------------|
|   | <u>2003</u>                     | <u>2002</u> | <u>%<br/>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%<br/>Change</u> |
| Net revenues  | \$11,492                        | \$12,546    | (8.4%)              | \$33,452                       | \$34,622    | (3.4%)              |
| Selling, general and administrative S,G&A as a percentage of net revenues | 2,673                           | 2,701       | (1.0%)              | 8,630                          | 8,829       | (2.3%)              |
|   | 23.3%                           | 21.5%       |                     | 25.8%                          | 25.5%       |                     |

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 decrease in the three months ended March 31, 2003 as compared to the same period in the prior year was primarily due to reduced personnel costs due to a reduction in workforce, offset in part by routine fluctuations in normal expenses. The expense decrease in the nine months ended March 31, 2003 as compared to the same period in the prior year was primarily due to reduced personnel related costs associated with a reduction in workforce that was partially offset by professional fees for legal and tax matters.

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, the Company intends to continue to focus on controlling costs until business conditions improve. If business conditions deteriorate or the rate of improvement does not meet our goals, the Company may implement further cost-cutting actions.

### ***Restructuring Charge***

In the nine months ended March 31, 2003 a \$1.4 million restructuring charge related to an unused leased facility was recorded. There were no other restructuring charges recorded in the three months ended March 31, 2003 or in the three or nine months ended March 31, 2002.

### ***Equity in Net Loss of Investee***

| (In thousands)                 | Three Months Ended<br>March 31, |             |                     | Nine Months Ended<br>March 31, |             |                     |
|--------------------------------|---------------------------------|-------------|---------------------|--------------------------------|-------------|---------------------|
|                                | <u>2003</u>                     | <u>2002</u> | <u>%<br/>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%<br/>Change</u> |
| Equity in net loss of investee | (\$169)                         | (\$458)     | (63.1%)             | (\$839)                        | (\$990)     | (15.3%)             |

Equity in net loss of investee is the Company's allocated portion of the net income or losses of Pericom Technology, Inc. ("PTI"). The Company's allocated portion of PTI's net losses for the three and nine months ended March 31, 2003 as compared with the three and nine months ended March 31, 2002, respectively, decreased as PTI's losses decreased due to improving conditions in the China markets that PTI serves and increasing market acceptance of PTI's new product offerings.

### ***Interest Income***

| (In thousands)  | Three Months Ended<br>March 31, |             |                     | Nine Months Ended<br>March 31, |             |                     |
|-----------------|---------------------------------|-------------|---------------------|--------------------------------|-------------|---------------------|
|                 | <u>2003</u>                     | <u>2002</u> | <u>%<br/>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%<br/>Change</u> |
| Interest income | \$1,193                         | \$1,326     | (10.0%)             | \$4,020                        | \$4,123     | (2.5%)              |

The decrease in interest income for the three and nine months ended March 31, 2003 as compared to the three and nine months ended March 31, 2002, respectively, was due to interest rate reductions offset in part by gains on sale of investments.

### ***Other-Than-Temporary Decline in Investment***

For the nine months ended March 31, 2003 investment write-offs totaled \$1.1 million. In the quarter ended March 31, 2002 we wrote off a debt security investment and accrued interest receivable totaling approximately \$1.8 million that related to a bridge loan that we made to a start up technology company.

### ***Provision for Income Taxes***

| (In thousands)     | Three Months Ended<br>March 31, |             |                           | Nine Months Ended<br>March 31, |             |                           |
|--------------------|---------------------------------|-------------|---------------------------|--------------------------------|-------------|---------------------------|
|                    | <u>2003</u>                     | <u>2002</u> | <u>%</u><br><u>Change</u> | <u>2003</u>                    | <u>2002</u> | <u>%</u><br><u>Change</u> |
|                    | Pre-tax loss                    | (\$944)     | (\$1,969)                 | (52.1%)                        | (\$6,487)   | (\$7,146)                 |
| Income tax benefit | (313)                           | (709)       | (55.9%)                   | (2,530)                        | (2,573)     | (1.7%)                    |
| Effective tax rate | 33.2%                           | 36.0%       |                           | 39.0%                          | 36.0%       |                           |

Our effective tax rate, which is a benefit, for the full fiscal year has been reduced from 40% to 39%. The primary reason for the change is the projected improvements in the results of our PTI subsidiary, and provision adjustments associated with the completion of our fiscal 2002 tax returns. Because a 40% rate was used through the quarter ended December 31, 2002, the 33% effective tax rate used in the quarter ended March 31, 2003 includes an adjustment for the first half of the fiscal year. Although 39% is projected to be our full year tax rate, this rate is subject to change if there are significant changes to forecasted results or additional investment write downs or other charges for which a tax benefit may or may not be realizable.

### **Liquidity and Capital Resources**

| (In thousands)                                      | Nine Months Ended<br>March 31, |             |                           |
|---|--------------------------------|-------------|---------------------------|
|   | <u>2003</u>                    | <u>2002</u> | <u>%</u><br><u>Change</u> |
| Net cash provided by operating activities           | \$2,361                        | \$6,829     | (65.4%)                   |
| Net cash used in investing activities               | 7,249                          | 83,803      | (91.3%)                   |
| Net cash provided by (used in) financing activities | (597)                          | 1,639       | (136.4%)                  |

The decrease in net cash provided by operating activities in the nine months ended March 31, 2003 as compared with the nine months ended March 31, 2002 was primarily due to an approximate \$4.2 million decrease in cash generated by changes in assets and liabilities. The decrease in net cash used in investing activities in the nine months ended March 31, 2003 as compared with the same period in the prior year was primarily due to the transfer of funds from cash and equivalents to short-term investments in the nine months ended March 31, 2002. The decrease in net cash provided by financing activities in the nine months ended March 31, 2003 as compared with the same period in the prior year was primarily due to stock repurchases in the current period.

As of March 31, 2003, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately \$151.5 million as compared with \$155.8 million as of June 30, 2002. Management believes that existing cash balances and cash generated from operations will be sufficient to fund necessary purchases of capital equipment and to provide working capital at least through the next twelve months. However, future events may require the Company to seek additional capital sooner. If the Company determines that it needs to seek additional capital, the Company may not be able to obtain such additional capital on terms acceptable to it.

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 March 31, 2003, the Company has repurchased 219,500 shares at a cost

of approximately \$1.8 million. The Company intends to continue repurchasing shares under this program over time depending upon price and share availability.

The Company has entered into a loan agreement with a private company. The Company has agreed to provide up to \$8.2 million in borrowings. As of March 31, 2003 a total of \$4.9 million has been provided under this agreement (see Note 5 to our condensed consolidated financial statements included with this quarterly report).

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.

### ***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 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 effect of the adoption of SFAS No. 141 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 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.

### **Our results of operations have been adversely affected by the continuing slowdown in the global economy.**

For over two years, the global economy has been experiencing a slowdown due to many factors, including decreased consumer confidence, unemployment, threat of terrorism, and reduced corporate profits and capital spending. As a result of these unfavorable conditions, our new customer order rates have stabilized at a much lower level than in fiscal 2001. If these weak economic conditions in the United States continue or worsen or if a wider or global economic slowdown occurs, our business, financial condition and results of operations may be materially and adversely affected.

### **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. We believe that the semiconductor industry is currently in such a downturn. Our net revenues may continue to be adversely

affected if this downturn continues. In general, we may in the future 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.

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

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

**The 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.

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

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

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

All of these factors are difficult to forecast and could seriously harm our operating results. Our expense levels are based in part on our expectations regarding future sales and are largely fixed in the short term.

Therefore, we may be unable to reduce our expenses fast enough to compensate for any unexpected shortfall in sales. Any significant decline in demand relative to our expectations or any material delay of customer orders could harm our operating results. In addition, if our operating results in future quarters fall below public market analysts' and investors' expectations, the market price of our common stock would likely decrease.

**The 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 over 700 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 Cypress Semiconductor Corporation, Integrated Circuit Systems, Inc., Integrated Device Technology, Inc., Maxim Integrated Products, Inc., Fairchild Semiconductor, Int'l., Intel Corp., On Semiconductor Corp., Motorola, STMicroelectronics, Toshiba, Hitachi, and Texas Instruments, Inc. 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.

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

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

**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 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.

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

Typically Chartered Semiconductor Manufacturing Ltd. produces more than 50% of our wafer requirements. In the first nine months of fiscal 2003 only three other suppliers manufactured the remainder of our wafers. In fiscal 2002 and 2001, only five other suppliers manufactured the remainder of our wafers. Our reliance on independent wafer suppliers to fabricate our wafers at their production facilities subjects us to possible risks such as:

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

Any inability or unwillingness of our wafer suppliers generally, and Chartered in particular, to provide adequate quantities of finished wafers to meet our needs in a timely manner would delay our production and product shipments and seriously harm our business. We have been notified by Chartered that they will be shutting down one of their production facilities in March 2004 that is used to manufacture our products and we will be transitioning our products to a different facility. This is a major project requiring significant technological coordination between Chartered and Pericom. The transfer of production of our products by Chartered to another facility subjects us to the above listed risks as well as potential yield or other production issues 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.

Further, the spread of the Severe Acute Respiratory Syndrome (SARS) virus and the extent of local preventative measures could affect the production capabilities of our manufacturers, all of which are located in Asia. If this or any factor hinders our ability to obtain products from our manufacturers in a timely basis, there could be significant disruption in our business.

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 54 patents covering certain aspects of our product designs and have at least 26 additional patent applications pending. Copyrights, mask work protection, trade secrets and confidential technological know-how are also key to our business. Additional patents may not be issued to us or our patents or other intellectual property may not provide meaningful protection. We may be subject to, or initiate, interference proceedings in the U.S. Patent and Trademark Office. These proceedings can consume significant financial and management resources. We may become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This type of litigation is frequently expensive to both the winning party and the losing party and takes up significant amounts of management's time and attention. In addition, if we lose such a lawsuit, a court could require us to pay substantial damages and/or royalties or prohibit us from using essential technologies. For these and other reasons, this type of litigation could seriously harm our business. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

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

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

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

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

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

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

The manufacture and assembly of our over 700 products are highly complex and sensitive to a wide variety of factors, including:

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

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

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

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

A relatively small number of customers have accounted for a significant portion of our net revenues in each of the past several fiscal years. We expect this trend to continue for the foreseeable future. Three direct customers each accounted for more than 10% of net revenues during the three months ended March 31, 2003. Sales to our top five direct customers accounted for approximately 48% of net revenues in the same period. There were no end-user customers that individually accounted for more than 10% of our gross revenues in the three months ended March 31, 2003 and sales to our top five end-user customers accounted for approximately 37% of gross revenues in the same period. Two direct customers each accounted for more than 10% of net revenues during the nine months ended March 31, 2003. Sales to our top five direct customers accounted for approximately 46% of net revenues in the same period. Two of our end-user customers each accounted for more than 10% of our gross revenues in the nine months ended March 31, 2003 and sales to our top five end-user customers accounted for approximately 40% of gross revenues in the same period.

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 nine months ended March 31, 2003 sales to our distributors were approximately 57% of net revenues. The loss of one or more significant customers, or the decision by a significant distributor to carry the product lines of our competitors, could decrease our revenues.

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

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

- disruptions or delays in shipments;
- changes in economic conditions in the countries where these subcontractors are located;
- currency fluctuations;
- changes in political conditions;
- potentially reduced protection for intellectual property;
- foreign governmental regulations;
- import and export controls; and
- changes in tax laws, tariffs and freight rates.

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

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

In the nine months ended March 31, 2003, approximately 53% of our net revenues derived from sales in Asia excluding Japan, approximately 9% from sales in Europe and approximately 4% from sales in Japan. 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 potential future acquisitions, or acquisition related investments, may not be successful because we have not made acquisitions in the past.**

We have depended on internal growth in the past and have not made any acquisitions. As part of our business strategy, we expect to seek acquisition prospects that would complement our existing product offerings, improve market coverage or enhance our technological capabilities. Future acquisitions could result in the following:

- large one-time write-offs;
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies;

- diversion of management's attention from other business concerns; and
- 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.

We are not certain that we will be able to successfully integrate any businesses, products, technologies or personnel that may be acquired in the future. Our failure to do so could seriously harm our business. In addition, from time to time, we invest in other companies, without actually acquiring them, and such investments involve many of the same risks as are involved with acquisitions. For example, we have previously had to write off all or portions of investments due to an other-than-temporary decline in value.

**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 March 31, 2003, our investment portfolio consisted of investment-grade fixed income securities, excluding those classified as cash equivalents, of \$144.4 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 March 31, 2003, 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.**

Within 90 days of the filing date of this quarterly report, an evaluation was performed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, and with the participation of the Company's executive management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that material information required to be disclosed is included in the reports that it files with the Securities and Exchange Commission. There were no significant changes in the Company's internal controls or, to the knowledge of the management of the Company, in other factors that could significantly affect these controls subsequent to the evaluation date.

## PART II. OTHER INFORMATION

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

a. Exhibits

| <u>Exhibit<br/>Number</u> | <u>Description</u>  |
|---------------------------|---|
| 99.1                      | Certification of Alex C. Hui, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.         |
| 99.2                      | Certification of Michael D. Craighead, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

b. Reports on Form 8-K.

- 1) On April 22, 2003, Pericom filed a report on Form 8-K regarding the quarterly results press release issued the same day.

## SIGNATURES

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

Pericom Semiconductor Corporation  
(Registrant)

Date: May 13, 2003

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

Date: May 13, 2003

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

## CERTIFICATION

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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

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

## CERTIFICATION

I, Michael D. Craighead, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pericom Semiconductor Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ Michael D. Craighead  
Michael D. Craighead  
Chief Financial Officer

**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 period ended March 31, 2003 (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.

Date: May 13, 2003

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

**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 period ended March 31, 2003 (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.

Date: May 13, 2003

/s/ Michael D. Craighead  
Michael D. Craighead  
Chief Financial Officer