

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 April 1, 2006

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

For the Transition Period from _____ to _____

Commission File Number 0-27026

Pericom Semiconductor Corporation

(Exact Name of Registrant as Specified in Its Charter)

California
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

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

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of accelerated filer and large accelerated filer (as defined in Exchange Act Rule 12b-2):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

Yes No

As of May 11, 2006 the Registrant had outstanding 26,328,419 shares of Common Stock.

Pericom Semiconductor Corporation
Form 10-Q for the Quarter Ended April 1, 2006

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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)

	April 1, <u>2006</u> (Unaudited)	July 2, <u>2005</u> (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,839	\$ 20,902
Restricted cash	863	---
Short-term investments	100,471	122,385
Accounts receivable:		
Trade (net of allowances of \$2,597, and \$2,239)	18,731	7,629
Other receivables	2,070	1,813
Inventories	17,429	13,428
Prepaid expenses and other current assets	1,883	409
Deferred income taxes	3,788	5,291
Total current assets	173,074	171,857
Property and equipment – net	22,104	5,927
Investments in investees	8,369	5,932
Goodwill	1,913	1,325
Deferred income taxes – non-current	3,212	2,205
Intangible assets (net of accumulated amortization of \$554 and \$208)	4,644	2,839
Other assets	3,549	3,910
Total	\$ 216,865	\$ 193,995
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,940	\$ 6,899
Accrued liabilities	7,132	5,470
Short-term and current portion of long-term debt	10,032	---
Total current liabilities	28,104	12,369
Long-term debt	4,380	---
Deferred tax liabilities – non-current	225	---
Other long term liabilities	276	207
Minority interest in consolidated subsidiaries	182	257
Total liabilities	33,167	12,833
Shareholders' equity:		
Common stock and paid in capital - no par value, 60,000,000 shares authorized; shares issued and outstanding: April 1, 2006, 26,264,953; July 2, 2005, 26,358,100	140,037	141,233
Accumulated other comprehensive (loss)	(824)	(681)
Retained earnings	44,485	40,610
Total shareholders' equity	183,698	181,162
Total	\$ 216,865	\$ 193,995

(1) The information in this column was derived from the Company's audited consolidated financial statements for the year ended July 2, 2005.

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u> (As Restated, See Note 14)	April 1, <u>2006</u>	March 26, <u>2005</u> (As Restated, See Note 14)
Net revenues	\$27,847	\$19,433	\$76,590	\$58,436
Cost of revenues	18,157	11,982	49,605	37,824
Gross profit	<u>9,690</u>	<u>7,451</u>	<u>26,985</u>	<u>20,612</u>
Operating expenses:				
Research and development	4,170	4,022	12,040	11,775
Selling, general and administrative	4,394	3,849	13,569	11,388
Restructuring charge	---	243	55	243
Total	<u>8,564</u>	<u>8,114</u>	<u>25,664</u>	<u>23,406</u>
Income (loss) from operations	1,126	(663)	1,321	(2,794)
Interest income, net	888	913	2,698	2,719
Other than temporary decline in value of investment	(31)	(4)	(64)	(100)
Income (loss) before income taxes	<u>1,983</u>	<u>246</u>	<u>3,955</u>	<u>(175)</u>
Income tax expense (benefit)	641	95	1,245	(93)
Minority interest in income (loss) of consolidated subsidiaries	32	22	93	32
Equity in net income (loss) of investees	464	(73)	1,072	(196)
Net income (loss)	<u>\$1,838</u>	<u>\$100</u>	<u>\$3,875</u>	<u>(\$246)</u>
Basic income (loss) per share	<u>\$0.07</u>	<u>\$0.00</u>	<u>\$0.15</u>	<u>(\$0.01)</u>
Diluted income (loss) per share	<u>\$0.07</u>	<u>\$0.00</u>	<u>\$0.14</u>	<u>(\$0.01)</u>
Shares used in computing basic income (loss) per share	<u>26,207</u>	<u>26,531</u>	<u>26,271</u>	<u>26,533</u>
Shares used in computing diluted income (loss) per share	<u>26,984</u>	<u>27,112</u>	<u>27,033</u>	<u>26,533</u>

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u> (As Restated See Note 13)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$3,875	(\$246)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,760	2,905
Stock based compensation	929	---
Tax benefit related to stock based compensation plan	31	---
Excess tax benefit on stock based compensation	(120)	---
(Gain)/loss on sale of short-term investments	(41)	(59)
Other than temporary decline in investment	64	100
(Gain)/loss on sale or disposal of assets	---	(407)
Equity in net (income) loss of investees	(1,072)	196
Deferred income taxes	791	(192)
Minority interest in subsidiary's net income (loss)	(93)	(41)
Changes in assets and liabilities net of effects of acquisition		
Accounts receivable	(990)	(2,948)
Inventories	1,014	2,969
Prepaid expenses and other current assets	(568)	(28)
Accounts payable	112	(1,762)
Accrued liabilities	579	(322)
Restructuring liabilities	(77)	---
Other assets	363	(60)
Long term investment	123	---
Other long term liabilities	(119)	(71)
Net cash provided by operating activities	8,561	34
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(3,395)	(2,168)
Net proceeds from sales of property and equipment	---	1,945
Purchase of short-term investments	(496,624)	(232,440)
Maturities of short-term investments	518,346	226,036
Cash paid for eCERA acquisition, net of cash received	(13,064)	---
Cash paid for Azer acquisition, net of cash received	(1,488)	---
Sale of minority interest	---	315
Cash used in the investment in Pericom Electronics Hong Kong Ltd.	(172)	---
Change in restricted cash balance	(863)	---
Net cash provided by (used in) investing activities	2,740	(6,312)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Sale of common stock	1,748	979
Proceeds generated from sale of stock to minority interest	8	---
Excess tax benefit on stock based compensation	120	---
Proceeds from short-term and long-term debts	5,443	---
Principal payments on short-term, long-term debts and capital leases	(7,772)	(40)

Payment of bank loan	---	(1,251)
Repurchase of common stock	(3,904)	(1,691)
Net cash provided by (used in) financing activities	(4,357)	(2,003)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(7)	144
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,937	(8,137)
CASH AND CASH EQUIVALENTS:		
Beginning of period	20,902	13,965
End of period	\$ 27,839	\$ 5,828

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Income taxes	(\$ 56)	(\$ 13)
Interest	(\$276)	(\$1)

See notes to condensed consolidated financial statements.

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

1. Basis of Presentation

The condensed consolidated 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 condensed consolidated 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 April 1, 2006, the results of operations for the three and nine months ended April 1, 2006 and March 26, 2005 and cash flows for the nine months ended April 1, 2006 and March 26, 2005. This unaudited quarterly information should be read in conjunction with the audited consolidated financial statements of Pericom and the notes thereto incorporated by reference in the Company’s Annual Report on Form 10-K/A as filed with the Securities and Exchange Commission.

The preparation of the interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from these estimates. The results of operations for the three and nine month periods ended April 1, 2006 and March 26, 2005 are not necessarily indicative of the results to be expected for the entire year. The three and nine month periods ended April 1, 2006 and March 26, 2005 each had 13 and 39 week periods, respectively.

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

These condensed consolidated financial statements include the accounts of Pericom Semiconductor Corporation and its three majority-owned subsidiaries, Pericom Semiconductor (HK) Limited, eCERA Comtek Corporation (“eCERA”) and Pericom Taiwan Limited Corporation. All significant intercompany balances and transactions are eliminated in consolidation. eCERA Comtek Corporation and its 50% owned subsidiary Azer Crystal Technology Co. Ltd. (“Azer”) was acquired on September 7, 2005 (See Note 3). On February 6, 2006 the remaining 50% of Azer was acquired making it a wholly owned subsidiary of eCERA.

Reclassifications

Certain reclassifications have been made to conform prior period amounts to the current presentation. On the condensed consolidated statements of operations, equity in net income or loss of investee and minority interest in income or loss of consolidated subsidiaries have been reclassified. In addition, changes in other assets were reclassified as an operating activity which was previously classified as an investing activity on the condensed consolidated statements of cash flows.

2. Stock-Based Compensation

Effective July 3, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), “Share-Based Payment” (“SFAS 123(R)”). SFAS 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period. The Company previously applied Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations and provided the required pro forma disclosures of SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). The Company elected to adopt the modified prospective application method as provided by SFAS 123(R), and, accordingly, the Company recorded compensation costs as the requisite service was rendered for the unvested portion of previously issued awards that remain outstanding at the initial date of adoption and any awards issued, modified, repurchased, or cancelled after the effective date of SFAS 123(R). Periods prior to adoption have not been restated.

The following table shows total stock-based compensation expense for the three and nine months ended April 1, 2006 from all of the Company’s stock compensation plans, included in the condensed consolidated statement of operations (in thousands):

	<u>Three Months</u> <u>Ended</u> <u>April 1, 2006</u>	<u>Nine Months</u> <u>Ended</u> <u>April 1, 2006</u>
Cost of revenues	\$26	\$70
Research and development	151	377
Selling, general and administrative	180	482
<hr/>		
Pre-tax stock-based compensation expense	357	929
Income tax	109	293
<hr/>		
Net stock-based compensation expense	\$248	\$636

As required under SFAS 123(R), the reported net income and earnings per share for the three and nine months ended March 26, 2005 have been presented below to reflect the impact had the Company been required to include the amortization of the Black-Scholes option value as an expense. The pro forma amounts are as follows (in thousands except per share amounts):

	<u>Three Months</u> <u>Ended</u> <u>March 26, 2005</u>	<u>Nine Months</u> <u>Ended</u> <u>March 26, 2005</u>
Net income (loss)	\$100	(\$246)
Deduction: total stock-based employee compensation expense determined under the fair value method, net of tax	(696)	(2,345)
<hr/>		
Net (loss) – pro forma	(\$596)	(\$2,591)
<hr/>		
Basic and diluted earnings (loss) per share	\$0.00	(\$0.01)
<hr/>		
Basic and diluted earnings (loss) per share pro forma	(\$0.02)	(\$0.10)

3. Business Combination

Acquisition of eCERA Comtek Corporation

On September 7, 2005 the Company purchased a 99.9% share of eCERA Comtek Corporation (“eCERA”). The total purchase price, including assumed debt of approximately \$14.9 million was approximately \$29.4 million including transaction costs. The Company also had the right through March 7, 2006 to purchase the remaining 50% of eCERA’s 50% owned crystal blank manufacturing subsidiary, AZER Crystal Technology Co, Ltd. (“Azer”). The Company exercised this right to purchase the remaining 50% of Azer for cash consideration of approximately \$1.6 million and assumed debt of approximately \$1.8 million on February 6, 2006. eCERA and its subsidiary Azer, have been key suppliers of quartz crystal blanks and crystal oscillator products for the Company’s frequency control product line.

The results of operations of eCERA from the date of acquisition have been included in the Company’s condensed consolidated financial statements. The assets acquired and liabilities assumed at the date of the acquisition were recorded at estimated fair values as determined by management. Fair values of intangible assets acquired are based on appropriate application of the income, market, and cost approaches and the fair value of tangible assets acquired and liabilities assumed were determined using estimates of current replacement cost, present value of amounts to be collected in the future, and other techniques. Management has completed its preliminary allocation of the purchase price and does not expect the final allocation to differ materially from the preliminary determination. The purchase price has been preliminarily allocated as follows (in thousands):

Current assets	\$ 15,848
Property and equipment	14,646
Other assets	1,187
Goodwill	566
Other intangible assets subject to amortization :	
Trade name	278
Core developed technology	1,110
Customer relations	762
Total assets acquired	<u>34,397</u>
Current liabilities	(12,269)
Long-term liabilities	<u>(7,414)</u>
Total liabilities assumed	<u>(19,683)</u>
Net assets acquired	<u><u>\$14,714</u></u>

Amortization of intangible assets for the three-month and nine month period ended April 1, 2006 was \$113,000 and \$256,000 respectively. The following table sets forth the amortization of intangible assets for the remainder of fiscal 2006 through 2012 and beyond and is as follows (in thousands)

	2006	2007	2008	2009	2010	2011	2012	thereafter
Amortization	\$113	\$452	\$452	\$245	\$198	\$198	\$198	\$38

The fair value of intangible assets acquired excluding goodwill will be amortized over a remaining life of seven years for trade name, seven years for core and current technology, and three years for customer relationships.

The following table sets forth the cost, accumulated amortization, and net value of the intangible assets acquired in the acquisition of eCERA as of April 1, 2006 (in thousands):

	April 1, <u>2006</u>
Cost	\$2,150
Accumulated amortization	<u>(256)</u>
Net value	<u><u>\$1,894</u></u>

The following unaudited pro forma information shows the results of operations for the three and nine month periods ended April 1, 2006 and March 26, 2005 as if the eCERA acquisition occurred on the first day of each three month period, with the exception that the purchase accounting adjustments were estimated based on the closing date of the eCERA acquisition.

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

Unaudited pro-forma information (in thousands except per share amounts):	Three Months Ended		Nine Months Ended	
	April 1, 2006	March 26, 2005	April 1, 2006	March 26, 2005
Net revenue	\$27,847	\$25,611	\$76,590	\$76,721
Net income	1,838	202	3,875	450
Basic income per share	<u>\$0.07</u>	<u>\$0.01</u>	<u>\$0.15</u>	<u>\$0.02</u>
Diluted income per share	<u><u>\$0.07</u></u>	<u><u>\$0.01</u></u>	<u><u>\$0.14</u></u>	<u><u>\$0.02</u></u>

4. Income (Loss) Per Share

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

Basic and diluted income (loss) per share for the three and nine month periods ended April 1, 2006 and March 26, 2005 are computed as follows (in thousands, except for per share data):

	Three Months Ended		Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u>	April 1, <u>2006</u>	March 26, <u>2005</u>
Net income (loss)	\$1,838	\$100	\$3,875	(\$246)
Computation of common shares outstanding – basic income (loss) per share:				
Weighted average shares of common stock	26,207	26,531	26,271	26,533
Shares used in computing basic income (loss) per share	<u>26,207</u>	<u>26,531</u>	<u>26,271</u>	<u>26,533</u>
Basic income (loss) per share	<u>\$0.07</u>	<u>\$0.00</u>	<u>\$0.15</u>	<u>(\$0.01)</u>
Computation of common shares outstanding – diluted income (loss) per share:				
Weighted average shares of common stock	26,207	26,531	26,271	26,533
Dilutive options using the treasury stock method	777	581	762	---
Shares used in computing diluted income (loss) per share	<u>26,984</u>	<u>27,112</u>	<u>27,033</u>	<u>26,533</u>
Diluted income (loss) per share	<u>\$0.07</u>	<u>\$0.00</u>	<u>\$0.14</u>	<u>(\$0.01)</u>

Options to purchase 3,469,154 and 3,648,457 shares of common stock were outstanding as of April 1, 2006 for the three and nine months respectively, but not included in the computation of diluted net income per share because the options had an exercise price greater than the average market price of the common stock for the three months ended April 1, 2006 and therefore would be anti-dilutive under the treasury stock method. Likewise, for the three month period and nine month period ended March 26, 2005, 4,735,045 options and 5,316,063 options to purchase common stock respectively were outstanding, but not included in the computation of diluted net loss per share because the options had an exercise price greater than the average market price for the three months ended March 26, 2005 and the Company had a net loss for the nine month period and those options would be anti-dilutive.

5. Inventories

Inventories consist of (in thousands):

	April 1, <u>2006</u>	July 2, <u>2005</u>
Raw materials	\$5,514	\$6,130
Work in process	3,660	3,562
Finished goods	8,255	3,736
	<u>\$17,429</u>	<u>\$13,428</u>

Raw material inventory is considered obsolete and written off if it has not moved in 270 days. By part number, the quantity of assembled devices in inventory that is in excess of the greater of the quantity shipped in the previous twelve months or the quantity in backlog are considered obsolete and reserved. In certain circumstances, management will determine, based on expected usage or other factors, that inventory considered obsolete by these guidelines should not be reserved. To date as of April 1, 2006 \$8.8 million of inventory on hand had been reserved as compared with \$9.2 million at July 2, 2005. This overall reduction of approximately \$400,000 to inventory reserved for the nine month period ended April 1, 2006 can primarily be attributed to products that were previously reserved being written off and or scrapped.

During the three months ended April 1, 2006 and March 26, 2005, gross profit benefited as a result of the sale of inventory of \$841,000 and \$632,000, respectively, that had been previously identified as excess and written down to zero. In addition, during the nine month periods ended April 1, 2006 and March 26, 2005 gross profit benefited as a result of the sale of inventory of approximately \$2.2 million and \$1.8 million, respectively.

6. Accrued Liabilities

Accrued liabilities consist of (in thousands):

	April 1, <u>2006</u>	July 2, <u>2005</u>
Accrued compensation	\$3,179	\$2,449
Accrued income tax	1,406	1,163
External sales representative commissions	598	833
Other accrued expenses	1,949	1,025
	<u>\$7,132</u>	<u>\$5,470</u>

7. Debt

As part of the acquisition of eCERA the remaining debt obligations assumed by the Company totaled \$14.9 million at the time of the acquisition consisting of both long term and other short term line of credit accounts. The short-term debt obligations are principally made up of lines of credits with variable interest rate terms ranging from the Bank Board Listing rate minus 1.05% to the Bank Board Listing rate minus 2% and the six month SIBOR plus 1.2% to the six Month SIBOR plus 1.5%. The first long-term debt obligation is with Farmers Bank of China which is secured by land the Company owns in Taiwan and has a variable interest rate of 0.25% over the Bank Board Listing Rate and is payable in monthly installments of principal and interest in New Taiwanese Dollars. The second long-term debt obligation is with China Development Industrial bank which is secured by machinery and equipment the Company owns in Taiwan and has a variable interest rate of 2.3% over the benchmark 90 days from the Secondary Markets Telerate fixing rate and is payable in monthly installments of principal and interest in New Taiwanese Dollars. The Company's effective weighted average annual interest rate for the three and nine month periods ended April 1, 2006 were 3.73% and 2.98% respectively. As of April 1, 2006, there was \$10.0 million classified as short-term and current portion of long term debt, and \$4.4 million classified as long-term debt on the balance sheet.

8. Restricted Cash

As part of the acquisition of eCERA, the Company assumed debt obligations that carried with them debt covenants that required the Company to carry a minimum cash balance in support of repayment of the Company's debt obligations. For the three month period ended April 1, 2006 there was \$863,000 of cash designated as restricted cash. For the three month period ended March 26, 2005 there were no debt obligations requiring the Company to restrict cash.

9. Restructuring

In fiscal 2005, there was a reduction in force of 24 employees. Of the employees terminated, 11 were in operations, 1 in research and development, 4 in sales and marketing, and 8 in general and administration. On April 1, 2006, there was no remaining balance of this restructuring charge after incurring restructuring charges of \$294,000 in fiscal 2005 and additional reserves related to the fiscal 2005 reduction in force of \$55,000 in the first quarter of fiscal 2006.

The following table summarizes this restructuring activity through April 1, 2006 (in thousands):

	Reduction In Force
Beginning balance at June 27, 2004	\$ ---
Reserves in fiscal 2005	294
Cash payments in fiscal 2005	<u>(272)</u>
Balance at July 2, 2005	22
Additional reserves in fiscal 2006	55
Cash payments in fiscal 2006	<u>(77)</u>
Ending balance at April 1, 2006	<u>\$ ---</u>

10. Industry and Segment Information

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

There were two direct customers, both distributors, that each accounted for 9% of net revenues in the three months ended April 1, 2006 and two direct customers, both distributors, who individually accounted for 16% and 13% of net revenues in the three months ended March 26, 2005. In the nine month period ended April 1, 2006, a distributor accounted for 13% of net revenues. In the nine month period ended March 26, 2005, two distributors individually accounted for 13% and 12% of net revenues. At April 1, 2006, there were no customers that individually accounted for 10% or greater of accounts receivable. At March 26, 2005, there were three direct customers that individually accounted for 13%, 12% and 11% of accounts receivable.

The following table sets forth the Company's net property and equipment by country of location as a percentage of total net property and equipment as of April 1, 2006 and July 2, 2005.

	April 1, <u>2006</u>	July 2, <u>2005</u>
Taiwan	80.0%	12.4%
United States	11.0%	44.2%
Singapore	6.2%	25.0%
Thailand	0.3%	10.8%
Other (less than 10% each)	2.5%	7.6%
Total	<u>100.0%</u>	<u>100.0%</u>

The following table sets forth net revenues by country as a percentage of total net revenues for the three month and nine month periods ended April 1, 2006 and March 26, 2005.

	Three Months Ended		Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u>	April 1, <u>2006</u>	March 26, <u>2005</u>
China (including Hong Kong)	31.4%	25.5%	27.4%	23.0%
Taiwan	22.0%	21.5%	26.3%	18.1%
United States	20.3%	20.9%	19.6%	22.8%
Singapore	7.9%	12.4%	9.5%	12.8%
Other (less than 10% each)	18.4%	19.7%	17.2%	23.3%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

11. Comprehensive Income (Loss)

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

	Three Months Ended		Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u>	April 1, <u>2006</u>	March 26, <u>2005</u>
Net income (loss)	\$1,838	\$100	\$3,875	(\$246)
Change in unrealized gain (loss) on securities available for sale	42	(1,132)	(195)	(1,227)
Income tax effect	(17)	461	80	426
Reclassification adjustment for gains (loss) on available for sale securities included in net income (loss)	---	---	(39)	102
Income tax effect	---	---	16	(42)
Translation gain (loss)	12	50	(18)	95
Comprehensive income (loss)	<u>\$1,875</u>	<u>(\$521)</u>	<u>\$3,719</u>	<u>(\$892)</u>

12. Stock Repurchase Program

On October 22, 2001 the Company's Board of Directors authorized a stock repurchase program to repurchase up to 2,000,000 shares of Pericom common stock. Purchases may be made in the open market or in privately negotiated transactions from time to time at management's discretion. The Company began repurchasing shares of Pericom stock on July 23, 2002. 150,000 shares were repurchased in the three months ended April 1, 2006 at a cost of approximately \$1.4 million and 450,000 shares were repurchased at a cost of approximately \$3.9 million in the nine month period ended April 1, 2006. The Company has purchased a total of 1,072,087 shares at a total cost of approximately \$9.1 million as of April 1, 2006. Stock repurchases have been funded by current cash balances and the proceeds from stock option exercises and employee stock purchase plan purchases. The Company expects to fund future stock repurchases, if any, from these same sources.

13. Minority Interest

The Company consolidates its investment in Pericom Taiwan Limited Corporation (PTL) and the Company's newly acquired subsidiary eCERA. During the three months ended December 31, 2004, the Company sold 6.82% of PTL to its employees for \$315,000 in cash. At April 1, 2006, the minority interest in PTL was \$163,000. Parties other than Pericom Semiconductor Corporation own approximately 0.1% of the outstanding shares of eCERA Comtek Corporation. As of April 1, 2006, the minority interest in eCERA Comtek Corporation was valued at \$19,000. On February 6, 2006 Pericom's subsidiary eCERA

purchased the remaining 50% of Azer, from Aker Technology Co., Ltd (“Aker”) eliminating Azer’s minority interest during the quarter ended April 1, 2006.

14. Restatement

Subsequent to the issuance of the Company’s interim financial statements for the three and nine month periods ended March 26, 2005, the Company determined that certain errors occurred in the accounting for research and development costs as it redesigned many of its products to be manufactured by a different manufacturing facility. Initially these costs were expensed to research and development. Subsequently, these costs were incorrectly removed from research and development expense and capitalized into inventory. As a result, the operating results for the three and nine month periods ended March 26, 2005 have been restated. A summary of the significant effects of the restatement is as follows (in thousands except for earnings per share):

Effects of the restatement on the statements of operations is as follows:

	Three Months Ended March 26, 2005		Nine Months Ended March 26, 2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	Cost of revenues	\$12,262	\$11,982	\$38,287
Gross profit	7,171	7,451	20,149	20,612
Research and development	3,678	4,022	10,879	11,775
Income tax	125	95	112	(93)
Net income	134	100	(18)	(246)
Basic earnings per share	\$0.01	\$0.00	(\$0.00)	(\$0.01)
Dilutive earnings per share	\$0.00	\$0.00	(\$0.00)	(\$0.01)

Effects of the restatement on the statement of cash flows is as follows:

	Nine Months Ended March 26, 2005	
	As Previously Reported	As Restated
Net income	(\$18)	(\$246)
Changes in inventory	2,535	2,969
Changes in deferred income tax	177	(192)
Changes in accrued liabilities	(485)	(322)
Net cash provided by operating activities	94	34

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

Pericom Semiconductor Corporation

The following information should be read in conjunction with the unaudited financial statements and notes thereto included in Part 1 - Item 1 of this Quarterly Report and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K/A for the year ended July 2, 2005 (the "Form 10-K/A"). The following management discussion and analysis gives effect to the restatement discussed in Note 14 to the unaudited condensed consolidated financial statements.

Factors That May Affect Operating Results

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

Significant Events

On September 7, 2005 Pericom Semiconductor Corporation purchased a 99.9% share of eCERA Comtek Corporation. (see Note 3 to the condensed consolidated financial statements). The Company's operating results include the operations of eCERA for the period of September 7, 2005 through April 1, 2006.

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		Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u>	April 1, <u>2006</u>	March 26, <u>2005</u>
		(As Restated, See Note 14)		(As Restated, See Note 14)
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	65.2%	61.7%	64.8%	64.7%
Gross profit	34.8%	38.3%	35.2%	35.3%
Operating expenses:				
Research and development	15.0%	20.7%	15.7%	20.2%
Selling, general and administrative	15.8%	19.8%	17.7%	19.5%
Restructuring charge	0.0%	1.3%	0.1%	0.4%
Total	30.8%	41.8%	33.5%	40.1%
Income (loss) from operations	4.0%	(3.5%)	1.7%	(4.8%)
Interest income	3.2%	4.7%	3.5%	4.7%
Other than temporary decline in investment	(0.1%)	0.0%	(0.1%)	(0.2%)
Income (loss) before income taxes	7.1%	1.2%	5.1%	(0.3%)
Income (tax) benefit	(2.3%)	(0.5%)	(1.6%)	0.2%
Minority interest in income (loss) of consolidated subsidiaries	0.1%	0.1%	0.1%	0.1%
Equity in net income (loss) of investees	1.7%	(0.4%)	1.4%	(0.3%)
Net income (loss)	6.6%	0.4%	5.0%	(0.3%)

Net Revenues

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

(In thousands)	Three Months Ended			Nine Months Ended		
	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>%</u> <u>Change</u>	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>%</u> <u>Change</u>
Net revenues	\$27,847	\$19,433	43.3%	\$76,590	\$58,436	31.1%
Percentage of net sales accounted for by top 5 direct customers (1)	31.8%	48.5%		35.9%	43.7%	
Number of direct customers that each account for more than 10% of net sales	0	2		1	2	
Percentage of gross sales accounted for by top 5 end customers (2)	21.9%	35.4%		26.1%	35.4%	
Number of end customers that each account for more than 10% of gross sales	0	2		0	1	

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

On September 7, 2005 the Company acquired a 99.9% interest in eCERA Comtek Corporation from Aker Technology Co., Ltd. Beginning with the quarter ended October 1, 2005, the Company's revenues included revenues from eCERA. In the three and nine month periods ended April 1, 2006, net revenues from eCERA product sales were approximately \$7.1 million and \$15.6 million, respectively.

Net revenues consist of product sales, which are recognized upon shipment, less an estimate for returns and allowances. The increase in net revenues for the three-month period ended April 1, 2006 as compared with the same period in the prior year is primarily attributable to the \$7.1 million in revenues contributed by eCERA for the three-month period ended April 1, 2006. The remainder of the increase in net revenues is attributable to customer acceptance of the Company's new product offerings as well as an improved pricing environment for the Company's Digital Switches and Interface Logic product lines. However, the pricing environment could again become more difficult as other companies compete more aggressively for business. Pricing for the Company's higher margin Analog Switch, Clock and Connect products, many of which are proprietary, is more stable and price declines are generally offset by new product introductions and cost reductions. In the three-month and nine month periods ended April 1, 2006 net revenues reflect a deduction for sales reserves for price protection in the amount of \$501,000 and \$1,090,000 respectively. In the three and nine month periods ended March 26, 2005 net revenues reflect a deduction for sales reserves for price protection in the amount of \$104,000 and \$261,000 respectively. The increase in net revenues for the nine month period ended April 1, 2006 as compared with the same period in prior year is primarily attributable to the \$15.6 million in net revenues contributed by eCERA. The remainder of the increase in net revenues for this period is a result of continued customer acceptance of the Company's new product offerings as well as a generally improved pricing environment for the Company's products.

The following table sets forth net revenues by country as a percentage of total net revenues for the three-month and nine-month periods ended April 1, 2006 and March 26, 2005.

	Three-Months Ended		Nine-Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u>	April 1, <u>2006</u>	March 26, <u>2005</u>
China (including Hong Kong)	31.4%	25.5%	27.4%	23.0%
Taiwan	22.0%	21.5%	26.3%	18.1%
United States	20.3%	20.9%	19.6%	22.8%
Singapore	7.9%	12.4%	9.5%	12.8%
Other (less than 10% each)	18.4%	19.7%	17.2%	23.3%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

For the three-months ended April 1, 2006, as compared with the same period in the prior year, the percentage of our net revenues derived from sales to China (including Hong Kong) increased as a result of our acquisition of eCERA as well as a general increase in core business in China for the period. For the nine month period ended April 1, 2006, as compared with the same nine month period ended in the prior year, net revenues increased as a percentage of net revenues by approximately 4.5% in China (including Hong Kong) and by 8.3% in Taiwan. This increase in both China and Taiwan can in large part be attributed to our acquisition of eCERA which provided us with additional customers and products to sell within these markets.

The semiconductor industry is still recovering from the significant industry downturn that began in fiscal 2001 that was caused by an over-supply of inventories in the global distribution and contract manufacturing channels. This inventory imbalance pushed order rates down, caused a corresponding drop in backlog, and caused the percentage of net sales represented by orders placed and shipped in the same quarter to grow. These orders are called “turns” orders. This near-term order pattern has persisted through the present due to the uncertain growth rate of the world economy and distribution channel’s reluctance to build inventory levels again. This keeps longer-term visibility limited, making it difficult to predict near term demand.

Gross Profit

(In thousands)	Three Months Ended			Nine Months Ended		
	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>% Change</u>	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>% Change</u>
Net revenues	\$27,847	\$19,433	43.3%	\$76,590	\$58,436	31.1%
Gross profit	9,690	7,451	30.0%	26,985	20,612	30.9%
Gross profit as a percentage of net revenues (gross margin)	34.8%	38.3%		35.2%	35.3%	

The increase in gross profit in the three-month period ended April 1, 2006, as compared with the same period in the prior year was primarily due to an increase in the unit sales volume of our core integrated circuit products that resulted from improved end-market demand and improved gross margins on core products as well as the inclusion of \$1.9 million of gross profit generated from the addition of eCERA during the three-months ended April 1, 2006. The decrease in gross margin for the three-month period ended April 1, 2006 can be primarily attributable to the negative impact of the addition of lower margin eCERA revenue partially offset by improvements in the gross margins of integrated circuit products during the period caused by improved product mix and a generally favorable pricing environment. Further, the increase in gross profit for the nine month period ended April 1, 2006, as compared with the same period in the prior year was primarily due to an increase in the unit sales volume of our core integrated products that resulted from improved end-market demand, as well as the inclusion of \$3.6 million of gross profit generated from the addition of eCERA in the nine months ended April 1, 2006. The decrease in gross margin for the nine month period ended April 1, 2006 when compared to the nine month period ended

March 26, 2005 can be primarily attributable to the negative impact of the addition of lower margin eCERA revenue partially offset by improvements in the gross margins of integrated circuit products during the period caused by improved product mix and a generally favorable pricing environment.

Future gross profit and gross margin are highly dependent on the level and product mix of net revenues. This includes the mix of sales between lower margin SaRonix and eCERA products and our higher margin integrated circuit products. Although we have been successful at favorably improving our integrated circuit product mix and penetrating new end markets, there can be no assurance that this will continue. Accordingly, we are not able to predict future gross profit levels or gross margins with certainty.

During the three months ended April 1, 2006, and March 26, 2005, gross profit and gross margin benefited as a result of the sale of inventory of \$841,000 and \$632,000 respectively, that had been previously identified as excess and written down to zero. During the nine months ended April 1, 2006, and March 26, 2005, gross profit and gross margin benefited as a result of the sale of inventory of \$2,200,000 and \$1,800,000, respectively, that had been previously identified as excess and written down to zero.

Research and Development

(In thousands)	Three Months Ended			Nine Months Ended		
	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>% Change</u>	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>% Change</u>
Net revenues	\$27,847	\$19,433	43.3%	\$76,590	\$58,436	31.1%
Research and development	4,170	4,022	3.7%	12,040	11,775	2.3%
R&D as a percentage of net revenues	15.0%	20.7%		15.7%	20.2%	

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 design support and technical customer applications support of our products. The expense increase in absolute dollars for the three-month period ended April 1, 2006 as compared to the same period in the previous year is attributable to a combination of an increase in Research and Development spending as a result of the eCERA acquisition of approximately \$263,000 for the three-month period ended April 1, 2006, and \$151,000 of stock based compensation recorded due to the adoption of SFAS 123(R), an increase in personnel costs of approximately \$234,000 partially off-set by approximately \$420,000 in cost savings in fabrication, mask and assembly costs as a result of efficiencies in bringing new products to production capacity in an expedited manner and decreased depreciation and amortization of approximately \$50,000. The expense increase for the nine month period ended April 1, 2006 as compared to the same period in the previous year is attributable to a combination of an increase in Research and Development spending as a result of the eCERA acquisition of approximately \$528,000, and \$377,000 of stock based compensation recorded due to the adoption of SFAS 123(R), an increase in personnel costs of approximately \$463,000, partially off-set by approximately \$876,000 in cost savings in fabrication, mask & assembly costs as a result of efficiencies in bringing new products to production capacity in an expedited manner, decreased depreciation and amortization of approximately \$118,000, and decreased software amortization of approximately \$70,000 resulting from some of the assets reaching the end of their depreciable life. See Note 2 "Stock Based Compensation" of the Notes to Condensed Consolidated Financial Statements for information regarding the adoption of SFAS 123(R).

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

Selling, General and Administrative

(In thousands)	Three Months Ended			Nine Months Ended		
	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>% Change</u>	April 1, <u>2006</u>	March 26, <u>2005</u>	<u>% Change</u>
Net revenues	\$27,847	\$19,433	43.3%	\$76,590	\$58,436	31.1%
Selling, general and administration S, G&A as a percentage of net revenues (gross margin)	4,394 15.8%	3,849 19.8%	14.2%	13,569 17.7%	11,388 19.5%	19.2%

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, finance, administration, human resources and general management. The expense increase in absolute dollars in selling, general and administrative expenses in the three-month period ended April 1, 2006 as compared to the same period in the prior year can be attributable to added expense resulting from eCERA operations of approximately \$723,000 for the three-month period ended April 1, 2006, \$180,000 of stock based compensation recorded due to the adoption of SFAS 123(R), approximately \$100,000 of bonus expense based upon continued profitability of the Company, approximately \$100,000 of additional bad debt expense due to increased collection activities, which was partially offset by decreased professional fees of approximately \$297,000 primarily resulting from the reversal of accrued audit fees that were not required based upon the termination and final billing for audit related services from Deloitte and Touche LLP as well as decreased rep commissions of approximately \$194,000 resulting from a change in the Company's focus product commission structure. The expense increase in selling, general and administrative expenses for the nine months ended April 1, 2006 as compared to the same period in the prior year are a result of added expense from eCERA operations of approximately \$1.5 million, \$482,000 of stock based compensation recorded due to the adoption of SFAS 123(R), as well as not having the benefit of the gain associated with the disposal of a building from the Saronix acquisition totaling approximately \$410,000 that offset expenses for the nine month period ended March 26, 2005, \$351,000 increase in bad debt expense due to decreased collection of previously written off accounts receivable that was from the Saronix acquisition, an increase in sales related engineering fabrication and assembly costs for samples of approximately \$100,000, as well as an increase in supplies of approximately \$100,000, and an increase in bonus expense of approximately \$150,000 resulting from continued profitability of the Company. These increases are partially offset by a decrease in personnel costs of approximately \$320,000 due to efficiencies gained by integration of the corporate functions of Saronix with the Company's corporate functions, as well as decreased sales representative commissions of approximately \$600,000 resulting from a change in the commission structure of the Company's focus product sales program. See Note 2 "Stock Based Compensation" of the Notes to Condensed Consolidated Financial Statements for information regarding the adoption of SFAS 123(R).

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

Restructuring Charge

In the three month period ended April 1, 2006 we had no restructuring activities and accordingly had no restructuring expense included in the financial results. For the three month period ended March 26, 2005 there was \$243,000 of restructuring expense included in the financial results. In the nine month periods ended April 1, 2006 and March 26, 2005 there was \$55,000 and \$243,000 respectively in restructuring charges included in the financial results. The \$55,000 in restructuring charges in the nine month period

ended April 1, 2006, is a result of a final settlement of an outstanding claim from the February 2005 reduction in force.

Interest Income

(In thousands)	Three Months Ended		<u>% Change</u>
	April 1, <u>2006</u>	March 26, <u>2005</u>	
Interest income, net	\$888	\$913	(2.7%)

(In thousands)	Nine Months Ended		<u>% Change</u>
	April 1, <u>2006</u>	March 26, <u>2005</u>	
Interest income, net	\$2,698	\$2,719	(0.8%)

The decrease in interest income for the three month period ended April 1, 2006 as compared to the comparable prior year period was primarily due to a decline in overall invested capital partially offset by increased returns on investment. Likewise, interest income for the nine month period ended April 1, 2006 as compared to the comparable prior year period decreased slightly. This decrease is attributable to a decline in overall total invested capital, which was partially by improved returns on invested capital.

Provision for Income Taxes

(In thousands)	Three Months Ended		Nine Months Ended	
	April 1, <u>2006</u>	March 26, <u>2005</u>	April 1, <u>2006</u>	March 26, <u>2005</u>
Pre-tax income (loss)	\$2,015	\$268	\$4,048	(\$143)
Income tax (benefit)	641	95	1,245	(93)
Effective tax rate	31.8%	35.4%	30.8%	65%

Our effective tax rate differs from the federal statutory rate primarily due to state income taxes, the utilization of research and development tax credits, stock-based compensation from incentive stock options, changes in the deferred tax asset valuation allowance, and differing tax rates in income-earning jurisdictions. The rate for the three month period ended April 1, 2006 is lower than the three month period ended March 26, 2005 because the estimated fiscal year rate expected as of April 1, 2006 was lower than that expected at March 26, 2005 due to various adjustments including changes in estimates and actual results. Likewise, the rate for the nine month period ended April 1, 2006 is different than the nine month period ended March 26, 2005 because the estimated fiscal year rate expected as of April 1, 2006 was lower than that expected at March 26, 2005 due to various adjustments including changes in estimates and actual results. The pre-tax income for the three month and nine month periods ended March 26, 2005 is much lower than for the three month and nine month periods ended April 1, 2006. The effective tax rate is lower because various tax adjustments and credits that reduce taxable income were greater for the three month and nine month periods ended on April 1, 2006 due to various adjustments including changes in estimates and actual results.

Equity in Net Income (Loss) of Investees

(In thousands)	Three Months Ended		<u>Change</u>
	April 1, <u>2006</u>	March 26, <u>2005</u>	
Equity in net income (loss) of investees	\$464	(\$73)	\$537

(In thousands)	Nine Months Ended		<u>Change</u>
	April 1, <u>2006</u>	March 26, <u>2005</u>	
Equity in net income (loss) of investees	\$1,072	(\$196)	\$1,268

Equity in net income (loss) of investees is the Company's allocated portion of the net income or losses of Pericom Technology, Inc. ("PTI"), a British Virgin Islands corporation based in Shanghai, People's Republic of China. PTI was formed by Pericom and certain Pericom shareholders in 1994 to develop and market semiconductors in China and certain other Asian countries. The Company adopted Emerging Issue Task Force ("EITF") Issue No. 02-14, Whether the Equity Method of Accounting Applies When an Investor Does Not Have an Investment in Voting Stock of an Investee but Exercises Significant Influence through Other Means in the quarter ended December 31, 2004. This adoption did not cause the Company to cease recognizing its allocated portion of the net income or losses of PTI. The Company's allocated portion of PTI's results improved to income of \$464,000 for the three month period ended April 1, 2006 from a loss of \$73,000 for the comparable period in the prior year. Likewise the Company's allocated portion of PTI's results improved to income of \$1.1 million from a net loss of \$196,000 for the nine month periods ended April 1, 2006 and March 26, 2005 respectively. These improved results can be attributed to the improvement in the China telecommunications and consumer product markets that PTI serves and acceptance of PTI's new product introductions by PTI's customers. The Company's allocated portion of Azer's financial results prior to eCERA acquiring the remaining 50% on February 6, 2006 during the three month period ended April 1, 2006 was a gain of \$19,000 and a loss of \$16,000 for the nine month period ended April 1, 2006. Azer's financial results ceased to be accounted for under the equity method after the remaining 50% of the Company was acquired by eCERA and accordingly its financial results were and will continue to be consolidated from February 6, 2006. In addition the Pericom Semiconductor Hong Kong Limited results for the three-month and nine month period ended April 1, 2006 was a loss of \$11,400 and a loss of \$41,200, respectively.

Liquidity and Capital Resources

As of April 1, 2006, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately \$128.3 million as compared with \$143.3 million on July 2, 2005. On September 7, 2005, the Company purchased for approximately \$29.4 million, a 99.93% ownership position in eCERA Comtek Corporation of Taiwan. The purchase price consisted of approximately \$14.7 million in cash of which \$12.3 million was paid on September 7, 2005 and the remaining \$2.3 million was paid in October 2005, and assumption of debt of approximately \$14.9 million. eCERA and its 50% owned subsidiary, AZER Crystal Technology Co, Ltd. have been a key supplier to the Company of quartz crystal blanks and crystal oscillator products. As part of the eCERA acquisition the Company was given the option to purchase the remaining 50% of Azer. The Company on February 6, 2006 purchased the remaining 50% of Azer for approximately \$1.5 million in cash consideration and debt assumed of \$1.8 million.

As of April 1, 2006, \$27.8 million is liquid and classified as cash and cash equivalents compared with \$20.9 million as of July 2, 2005. The maturities of the Company's short term investments are staggered throughout the year so that cash requirements are met. Because the Company is a fabless semiconductor

manufacturer, it has lower capital equipment requirements than other semiconductor manufacturers that own wafer fabrication facilities. For the nine -month period ended April 1, 2006, the Company spent approximately \$3.4 million on property and equipment compared to \$2.2 million for the nine-month period ended March 26, 2005. Interest rates continue to trend upwards as a result of actions taken by the Federal Reserve Board. For this reason despite a decrease in total capital available for investment the Company was able to generate approximately \$2.7 million of net interest income in both the nine-month periods ended April 1, 2006 and March 26, 2005. Higher return on invested capital contributed to interest income remaining the same despite a decrease of \$14.1 million in cash and cash equivalents and short-term investments when comparing the nine month periods ended April 1, 2006 and March 26, 2005. In the longer term the Company may generate less interest income if its total invested balance continues to decrease and these decreases are not offset by rising interest rates or increased cash generated from operations or other sources.

The Company's net cash provided by operating activities of \$8.6 million in the nine months ended April 1, 2006 was primarily a result of net income of \$3.9 million, a reduction in net inventories of \$1.0 million, depreciation and amortization of approximately \$3.8 million, non-cash stock based compensation expense of \$929,000 as well as an increase in accrued liabilities of \$579,000. These factors were partially offset by an increase in accounts receivable of approximately \$1.0 million and non-cash income of approximately \$1.1 million from equity of net income from investees. The reduction in net inventories during the nine month period ended April 1, 2006 is due to a combination of tightening of supply and a continued concerted effort to reduce inventory levels to a lower level in fiscal 2006 as well as reserving inventory that has become excess and obsolete. The increase in accounts receivable during this period was primarily due to increasing sales and the addition of the receivables from the eCERA and Azer acquisition. The increase in non-cash stock based compensation expense is the result of the Company's adoption of FAS 123(R) that commenced during the quarter ended October 1, 2005. The Company's net cash used in operating activities of \$34,000 in the nine months ended March 26, 2005 was primarily due to a net loss of \$246,000, a \$1.8 million decrease in accounts payable, a decrease in accrued liabilities of \$322,000, and a \$2.9 million increase in accounts receivable, a \$407,000 decrease from the loss on the sale of an asset, which were partially offset by depreciation and amortization of \$2.9 million and change in inventory of \$2.9 million.

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

The Company's cash provided in investing activities of \$2.7 million for the nine months ended April 1, 2006 was primarily due to the Company's maturities of short term investments exceeding purchases of short-term investments by \$21.7 million, partially offset by cash paid for the eCERA acquisition totaling \$13.1 million, cash paid for the Azer acquisition of \$1.5 million, \$3.4 million used to purchase additional property and equipment for the Company, and the change in restricted cash balance of \$863,000. The Company's cash used in investing activities of \$6.3 million for the nine months ended March 26, 2005 was primarily due to purchases of short-term investments exceeding maturities by \$6.4 million, purchases of property and equipment of \$2.2 million, which were off-set, in part, by proceeds from the sale of property and equipment of \$1.9 million.

The Company's cash used in financing activities in the nine months ended April 1, 2006 of \$4.4 million was primarily due to principal payments on short-term, long-term debts and capital leases of approximately \$7.8 million from debt obligations from eCERA as well as repurchases of common stock of \$3.9 million which were offset in part by \$5.4 million in proceeds from short and long term debt and \$1.7 million in proceeds generated from the sale of common stock from the Company's employee stock plans. The Company's cash provided by financing activities in the nine months ended March 26, 2005 of \$2.0 million was primarily due to proceeds of approximately \$1.0 million from the sale of common stock from the Company's employee stock plans which was largely off-set by repurchases of common stock of \$1.7 million and payment of a bank loan of approximately \$1.3 million.

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 April 1, 2006, the Company has repurchased an aggregate of 1,072,087 shares at a cost of approximately \$9.1 million. The Company repurchased 450,000 shares during the nine months ended April 1, 2006 at an approximate cost of \$3.9 million. The Company intends to continue

repurchasing shares under this program over time depending upon price and share availability. Stock repurchases have been funded by current cash balances and the proceeds from stock option exercises and employee stock purchase plan purchases. The Company expects to fund future stock repurchases from these same sources.

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

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

Contractual Obligations and Commitments

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

The Company's contractual obligations and commitments including eCERA's debt obligations at April 1, 2006 are as follows (in thousands):

Fiscal Year	Payments Due by Period				
	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 – 3 Years</u>	<u>3 – 5 Years</u>	<u>Thereafter</u>
Operating leases	\$8,210	\$1,119	\$2,000	\$2,058	\$3,033
Notes payable	14,412	10,032	4,048	204	128
Operating lease obligations	<u>\$22,622</u>	<u>\$11,151</u>	<u>\$6,048</u>	<u>\$2,262</u>	<u>\$3,161</u>

Off-Balance Sheet Arrangements

The Company has no off balance sheet arrangements, defined by Regulation S-K item 303(a)(4), other than operating leases.

Critical Accounting Policies

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

The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results the Company reports in its financial statements. The Securities and Exchange Commission has defined the most critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results of operations, and require the Company to make its most difficult and subjective accounting judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company's most critical accounting policies include revenue recognition and accounts receivable allowances, which impact the recording of revenues; valuation of inventories, which impacts costs of goods sold and gross margins; accounting for income taxes, which impacts the income tax provision; impairment of goodwill, other intangible assets and investments, which impacts goodwill, intangible assets and investments; and stock-based compensation,

which impacts costs of goods sold, research and development and selling, general and administrative expenses. These policies and the estimates and judgments involved are discussed further below.

We consider the following accounting policies to be “critical” as defined by the Securities and Exchange Commission, in that they are both highly important to the portrayal of our financial condition and results, and require us to make difficult judgments and assumptions about matters that are inherently uncertain.

REVENUE RECOGNITION. We recognize revenue from the sale of our products upon shipment, provided title and risk of loss has passed to the customer, the fee is fixed or determinable, and collection of the revenue is reasonably assured. A provision for estimated future returns and other charges against revenue is recorded at the time of shipment. For the three and nine months ended April 1, 2006 the majority of our sales were to distributors.

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

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

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

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

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

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

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

The revenue we record for sales to our distributors is net of estimated provisions for these programs. When determining this net revenue, we must make significant judgments and estimates. Our estimates are based on historical experience rates, inventory levels in the distribution channel, current trends and other related factors. However, because of the inherent nature of estimates, there is a risk that there could be significant differences between actual amounts and our estimates. Our financial condition and operating results depend on our ability to make reliable estimates and we believe that our estimates are reasonable.

INVENTORIES. Inventories are recorded at the lower of standard cost (which generally approximates actual cost on a first-in, first-out basis) or market value. We adjust the carrying value of inventory for excess and obsolete inventory based on inventory age, shipment history and our forecast of demand over a specific future period of time. Raw material inventory is considered obsolete and written off if it has not moved in 270 days. By part number, the quantity of assembled devices in inventory that is in excess of the greater of the quantity shipped in the previous twelve months or the quantity in backlog are considered obsolete and written off. In certain circumstances, management will determine, based on expected usage or other factors, that inventory considered obsolete by these guidelines should not be written off. The semiconductor markets that we serve are volatile and actual results may vary from our forecast or other assumptions, potentially impacting our assessment of excess and obsolete inventory resulting in material effects on our gross margin.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS. As required by Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets”, which the Company adopted in fiscal 2002. In addition, the Company also has other intangible assets resulting from the acquisition of eCERA which includes trade name, core developed technology, customer relations and goodwill. Accordingly, SFAS No. 142 requires that goodwill be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company also tests other intangible assets for impairment when events or changes in circumstances indicate that the assets might be impaired. The Company determined that no impairment of goodwill other intangible assets existed in the three and nine month period ended April 1, 2006 other than that incurred as a result of the eCERA acquisition and detailed in Note 3 to the Condensed Consolidated Financial Statements in PART I, Item I of this report on Form 10Q.

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

DEFERRED TAX ASSETS. The Company’s deferred income tax assets represent temporary differences between the financial statement carrying amount and the tax basis of existing assets and liabilities that will result in deductible amounts in future years, including net operating loss carry forwards. Based on estimates, the carrying value of our net deferred tax assets assumes that it is more likely than not that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. If, in the future, the Company experiences losses for a sustained period of time, the Company may not be able to conclude that it is more likely than not that the Company

will be able to generate sufficient future taxable income to realize our deferred tax assets. If this occurs, the Company may be required to increase the valuation allowance against the deferred tax assets resulting in additional income tax expense.

STOCK BASED COMPENSATION. Effective July 3, 2005, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Accordingly, stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee's requisite service period. The measurement of stock based compensation cost is based on several criteria including, but not limited to, the valuation model used and associated input factors such as expected term of the award, stock price volatility, dividend rate, risk free interest rate, and award cancellation rate. The input factors to use in the valuation model are based on subjective future expectations combined with management judgment. If there is a difference between the forfeiture assumptions used in determining stock based compensation costs and the actual forfeitures which become known over time, the Company may change the input factors used in determining stock based compensation costs. These changes may materially impact the Company's results of operations and statement of cash flows in the period such changes are made.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

At April 1, 2006 our investment portfolio consisted of investment-grade fixed income securities, excluding those classified as cash equivalents, of \$100.5 million. These securities are subject to interest rate risk and will decline in value if market interest rates increase. For example, if market interest rates were to increase immediately and uniformly by 10% per annum from levels as of April 1, 2006, 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.

The Company transacts business in various non-U.S. currencies, primarily the New Taiwan Dollar. The Company is exposed to fluctuations in foreign currency exchange rates on accounts receivable from sales in these foreign currencies and the net monetary assets and liabilities of the related foreign subsidiary. A hypothetical 10% favorable or unfavorable change in foreign currency exchange rates would not have a material impact on our financial position or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO) of the effectiveness of our disclosure controls and procedures. Disclosure controls and procedures include controls to ensure that information that the Company is required to disclose in reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to the Company's management, including the CEO and CFO of the Company, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer has concluded that our disclosure controls and procedures were effective as of April 1, 2006.

At December 31, 2005, the Company's controls over the consolidation process, including the proper accounting for the foreign currency translation of subsidiary financial statements and the review of the consolidation of subsidiary financial statements for proper classifications in the consolidated financial statements, did not operate effectively, representing a material weakness in the operation of internal controls over financial reporting. This material weakness related to accounting reporting from the Company's eCERA Comtek Corporation subsidiary. The Company acquired eCERA, which is based in

Taiwan, on September 7, 2005. The Company is still addressing the integration and consolidation of the accounting and financial reporting of eCERA with that of the Company. During the quarter ended December 31, 2005, the Company detected and corrected accounting errors from eCERA in the following areas: the misclassification of debt between short and long term debt obligations; the failure to break out restricted cash from the cash accounts; the incorrect classification of a contract cancellation fee; and the accounting for the currency translation of fixed assets at the historical foreign currency exchange rate as opposed to the current foreign exchange rate. Although these accounting errors were corrected, the Company concluded that, in light of the number of such errors, they represented a material weakness in the internal controls over financial reporting.

It should be noted that any control system, no matter how well designed and operated, can provide only reasonable assurance to the tested objectives. The design of any control systems is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control over Financial Reporting

With respect to the material weakness in the operation of internal control over financial reporting identified during the quarter ended December 31, 2005, management made the following changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended April 1, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management has implemented changes in the internal control over financial reporting during the quarter ended April 1, 2006 to address the material weakness identified during the quarter ended December 31, 2005, which weakness related in general to the consolidation process, including the proper accounting for the foreign currency translation of subsidiary financial statements and the review of the consolidation of subsidiary financial statements for proper classifications in the consolidated financial statements. The control activities, which are discussed below, are reasonably likely to materially affect our internal control.

- As part of the Company's monthly and quarterly closing procedures, controls were implemented to ensure that proper reviews of subsidiary financial statements, trial balance and disclosures are carried out each month and quarter.
- One chart of accounts will be maintained at the corporate level. A centralized chart of accounts will be used for consolidations. Requests for new accounts will be authorized and maintained at the corporate level.
- Consolidated results will have multiple-level reviews with subsidiary financial statements and trial balance for consistency, omissions and balances.
- Regular communication and conference calls have been set up to discuss accounting, U.S. GAAP and close-related issues. These meetings will highlight any potential accounting or business items that should be discussed prior to the month-end or quarter-end close.

PART II. OTHER INFORMATION

Item 1A: Risk Factors

This quarterly report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking statement as a result of various factors, including those set forth below.

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

- changes in the quantity of our products sold;
- changes in the average selling price of our products;
- general conditions in the semiconductor industry;
- currency fluctuation that effect our foreign subsidiaries;
- changes in our product mix;
- a decline in the gross margins of our products;
- the operating results of SaRonix and eCERA product line, which we acquired on October 1, 2003 and September 7, 2005 respectively;
- expenses incurred respectively in obtaining, enforcing, and defending intellectual property rights;
- the timing of new product introductions and announcements by us and by our competitors;
- customer acceptance of new products introduced by us;
- delay or decline in orders received from distributors;
- growth or reduction in the size of the market for interface ICs;
- the availability of manufacturing capacity with our wafer suppliers;
- changes in manufacturing costs;
- fluctuations in manufacturing yields;
- disqualification by our customers for quality or performance related issues;
- the ability of customers to pay us; and
- increased research and development expenses associated with new product introductions or process changes.

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

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

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

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

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

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

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

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

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

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

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

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

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

We believe that our future success will depend on our ability to continue to improve and develop our products and processes. Unlike us, many of our competitors maintain internal manufacturing capacity for the fabrication and assembly of semiconductor products. This ability may provide them with more reliable manufacturing capability, shorter development and manufacturing cycles and time-to-market advantages. In addition, competitors with their own wafer fabrication facilities that are capable of producing products with the same design geometries, as ours may be able to manufacture and sell competitive products at

lower prices. Any introduction of products by our competitors that are manufactured with improved process technology could seriously harm our business. As is typical in the semiconductor industry, our competitors have developed and marketed products that function similarly or identically to ours. If our products do not achieve performance, price, size or other advantages over products offered by our competitors, our products may lose market share. Competitive pressures could also reduce market acceptance of our products, reduce our prices and increase our expenses.

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

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

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

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

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

Our acquisition of eCERA, Azer , and other potential future acquisitions may not be successful.

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

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

- large one-time write-offs;
- the difficulty in integrating newly-acquired businesses and operations in an efficient and effective manner;
- the challenges in achieving strategic objectives, cost savings, and other benefits from acquisitions as anticipated;
- the risk of diverting the attention of senior management from other business concerns;
- risks of entering geographic and business markets in which we have no or limited prior experience and potential loss of key employees of acquired organizations;
- the risk that our markets do not evolve as anticipated and that the technologies and capabilities acquired do not prove to be those needed to be successful in those markets;
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities or amortization expenses related to intangible assets;
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies; and
- difficulties in expanding information technology systems and other business processes to accommodate the acquired businesses;
- Foreign currency exchange rate risk.

As part of our business strategy, we expect to seek other acquisition prospects, in addition to eCERA, that would complement our existing product offerings, improve our market coverage or enhance our technological capabilities. Although we are evaluating acquisition and strategic investment opportunities on an ongoing basis, we may not be able to locate suitable acquisition or investment opportunities. In addition, from time to time, we invest in other companies, without actually acquiring them, and such investments involve many of the same risks as are involved with acquisitions

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

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

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

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

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

We determined that we had a material weakness in our internal control over financial reporting as of July 2, 2005, October 1, 2005, and at December 31, 2005, all of which we have implemented procedures to remediate. As a result, we had to implement supplemental compensating procedures to determine that our financial statements are fairly stated in all material respects. The existence of one or more material weaknesses could result in a loss of investor confidence in our financial reports and have an adverse impact on our stock price.

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

We have performed the system and process documentation and evaluation needed to comply with section 404 of the Sarbanes-Oxley Act of 2002, which is both costly and challenging. Through such evaluation the Company has previously identified material weaknesses in its internal control over financial reporting. On July 2, 2005, it identified a material weakness relating to the accounting for certain research and development costs. On October 1, 2005, it identified a material weakness relating to procedures for inventory review. On December 31, 2005, it identified material weaknesses relating to the controls over the process of consolidating the results of its subsidiaries.

The Company believes that it has implemented measures that remediate all of the material weaknesses that there can be no assurance, however, that other material weaknesses will not be identified in the future.

If further material weaknesses in our internal control are identified, this could cause investors to lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

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

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

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

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

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

In fiscal 2005, 2004 and 2003 we purchased approximately 43%, 75% and 72%, respectively, of our wafers from Chartered Semiconductor Manufacturing Ltd ("Chartered"). Also in fiscal 2005, 2004 and 2003 we purchased approximately 43%, 16% and 14% respectively, of our wafers from MagnaChip. In fiscal 2005, five other suppliers manufactured the remainder of our wafers. In fiscal 2004, only four other suppliers manufactured the remainder of our wafers. In fiscal 2003, three other suppliers manufactured the remainder of our wafers. Our reliance on independent wafer suppliers to fabricate our wafers at their production facilities subjects us to possible risks such as:

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

Any inability or unwillingness of our wafer suppliers generally, and Chartered and MagnaChip in particular, to provide adequate quantities of finished wafers to meet our needs in a timely manner would

delay our production and product shipments and seriously harm our business. In March 2004, Chartered shut down one of their production facilities that is used to manufacture our products. We have transitioned the production of these products to different facilities. This was a major project requiring significant technological coordination between Chartered and Pericom. The transfer of production of our products to other facilities subjects us to the above listed risks as well as potential yield or other production problems, which could arise as a result of the change.

At present, we purchase wafers from our suppliers through the issuance of purchase orders based on our rolling six month forecasts. The purchase orders are subject to acceptance by each wafer supplier. We do not have long-term supply contracts that obligate our suppliers to a minimum supply or set prices. We also depend upon our wafer suppliers to participate in process improvement efforts, such as the transition to finer geometries. If our suppliers are unable or unwilling to do so, our development and introduction of new products could be delayed. Furthermore, sudden shortages of raw materials or production capacity constraints can lead wafer suppliers to allocate available capacity to customers other than us or for the suppliers' internal uses, interrupting our ability to meet our product delivery obligations. Any significant interruption in our wafer supply would seriously harm our operating results and our customer relations. Our reliance on independent wafer suppliers may also lengthen the development cycle for our products, providing time-to-market advantages to our competitors that have in-house fabrication capacity.

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

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

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

We may have difficulty accurately predicting revenues for future periods.

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

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

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

could delay product development cycles or otherwise harm our business, financial condition and results of operations.

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

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

Our success depends in part on our ability to obtain patents and licenses and preserve other intellectual property rights covering our products and development and testing tools. In the United States, we hold over 91 patents covering certain aspects of our product designs and have at least 25 additional patent applications pending. Copyrights, mask work protection, trade secrets and confidential technological know-how are also key to our business. Additional patents may not be issued to us or our patents or other intellectual property may not provide meaningful protection. We may be subject to, or initiate, interference proceedings in the U.S. Patent and Trademark Office. These proceedings can consume significant financial and management resources. We may become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This type of litigation is frequently expensive to both the winning party and the losing party and takes up significant amounts of management's time and attention. In addition, if we lose such a lawsuit, a court could require us to pay substantial damages and/or royalties or prohibit us from using essential technologies. For these and other reasons, this type of litigation could seriously harm our business. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

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

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

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

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

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

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

If the Company is unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or

deductible, the Company could be required to increase its valuation allowances against its deferred tax assets resulting in an increase in its effective tax rate and an adverse impact on future operating results.

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

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

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

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

We do not manufacture any of our IC products. Therefore, we are referred to in the semiconductor industry as a "fabless" producer. Consequently, we depend upon third party manufacturers to produce semiconductors that meet our specifications. We currently have third party manufacturers that can produce semiconductors that meet our needs. However, as the industry continues to progress to smaller manufacturing and design geometries, the complexities of producing semiconductors will increase. Decreasing geometries may introduce new problems and delays that may affect product development and deliveries. Due to the nature of the industry and our status as a "fabless" IC semiconductor company, we could encounter fabrication-related problems that may affect the availability of our products, delay our shipments or increase our costs. With the acquisition of eCERA, in the future we will be directly involved in the manufacture of our FCP products. As we have not previously operated a manufacturing facility, we may not be successful in operating the FCP facility, and as a consequence, there may be manufacturing related problems that affect our FCP products. See "Risk Factors; Factors That May Affect Operating Results – Our Acquisition of eCERA And Other Potential Future Acquisitions May Not Be Successful."

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

A relatively small number of customers have accounted for a significant portion of our net revenues in each of the past several fiscal years. In general we expect this to continue for the foreseeable future. With the addition of SaRonix, Inc. and eCERA the concentration of top customers has been reduced, as the top customers of SaRonix, Inc. and eCERA are somewhat different than those of our core integrated circuit business. There were two direct customers, both distributors that accounted for more than 9% of net revenues during the quarter ended April 1, 2006. For the quarter ended March 26, 2005 there were two direct customers, both distributors, that individually accounted for more than 10% of net revenues. As a percentage of net revenues, sales to our top five direct customers for the quarter ended April 1, 2006 totaled 31.8%, and was 48.5% for the quarter ended March 26, 2005.

We do not have long-term sales agreements with any of our customers. Our customers are not subject to minimum purchase requirements, may reduce or delay orders periodically due to excess inventory and may discontinue purchasing our products at any time. Our distributors typically offer competing products in addition to ours. For the quarter ended April 1, 2006 sales to our distributors were approximately 53% of net revenues as compared to approximately 49% of net revenues in the same quarter ended March 26, 2005. The loss of one or more significant customers, or the decision by a significant distributor to carry the product lines of our competitors, could decrease our revenues.

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

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

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

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

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

In fiscal year 2005, approximately 68% of our net revenues derived from sales in Asia and approximately 6% from net sales in Europe. In fiscal year 2004, approximately 61% of our net revenues derived from sales in Asia and approximately 6% from net sales in Europe. In fiscal year 2003, approximately 59% of our net revenues derived from sales in Asia and approximately 8% from net sales in Europe. We expect that export sales will continue to represent a significant portion of net revenues. We intend to expand our sales efforts outside the United States. This expansion will require significant management attention and financial resources and further subject us to international operating risks. These risks include:

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

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

Our shareholder rights plan may adversely affect existing shareholders.

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

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

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

Our headquarters and some of our major suppliers' manufacturing facilities are located near major earthquake faults. One of the foundries we use is located in Taiwan, which suffered a severe earthquake during fiscal 2000. We did not experience significant disruption to our operations as a result of that earthquake. However, if a major earthquake or other natural disaster were to affect our suppliers, our sources of supply could be interrupted, which would seriously harm our business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2006 to January 28, 2006	---	---	922,087	1,077,913
January 29, 2006 to February 25, 2005	28,461	\$9.42	950,548	1,049,452
February 26 to April 1, 2006	121,539	\$9.25	1,072,087	927,913
Total	<u>150,000</u>	<u>\$9.28</u>		

In October, 2001, the Company's Board of Directors approved the repurchase of up to 2,000,000 shares of the Company's common stock. As of April 1, 2006, the Company has repurchased an aggregate of 1,072,087 shares at a cost of approximately \$9.1 million. The Company repurchased 150,000 shares during the three months ended April 1, 2006 at an approximate cost of \$1.4 million.

Item 6. Exhibits.

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

SIGNATURES

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

Pericom Semiconductor Corporation
(Registrant)

Date: **May 16, 2006**

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

By: /s/ Angela Chen
Angela Chen
Chief Financial Officer

EXHIBIT 31.1

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

I, Alex C. Hui, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pericom Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2006

/s/ Alex C. Hui

Alex C. Hui

Chief Executive Officer

Pericom Semiconductor Corporation

EXHIBIT 31.2

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

I, Angela Chen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pericom Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally acceptable accounting principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - c) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and
 - d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2006

/s/ Angela Chen
Chief Financial Officer
Pericom Semiconductor Corporation

EXHIBIT 32.1

PERICOM SEMICONDUCTOR CORPORATION

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

In connection with this quarterly report of Pericom Semiconductor Corporation (the “Company”) on Form 10-Q for the three-months ended April 1, 2006 (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.

May 16, 2006

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

EXHIBIT 32.2

PERICOM SEMICONDUCTOR CORPORATION

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

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

In connection with this quarterly report of Pericom Semiconductor Corporation (the “Company”) on Form 10-Q for the three months ended April 1, 2006 (the “Report”), I, Angela Chen, 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.

May 16, 2006

By: /s/ Angela Chen
Chief Financial Officer
Pericom Semiconductor Corporation