

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 2, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller Reporting Company

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 4, 2011 the Registrant had outstanding 25,029,000 shares of Common Stock.

Pericom Semiconductor Corporation
Form 10-Q for the Quarter Ended April 2, 2011
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PART I. FINANCIAL INFORMATION
Item 1: Condensed Consolidated Financial Statements

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

	April 2, 2011	July 3, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,324	\$ 29,495
Restricted cash	2,947	-
Short-term investments	61,997	76,454
Accounts receivable		
Trade (net of allowances of \$2,386 and \$2,665)	25,007	25,365
Other receivables	6,011	3,940
Inventories	25,452	23,431
Prepaid expenses and other current assets	2,918	2,885
Deferred income taxes	3,184	3,119
Total current assets	150,840	164,689
Property, plant and equipment – net	60,247	50,760
Investments in unconsolidated affiliates	2,507	13,183
Deferred income taxes – non-current	3,904	3,868
Long-term investments in marketable securities	35,532	12,977
Goodwill	16,443	1,681
Intangible assets	16,359	1,452
Other assets	9,894	7,438
Total assets	\$ 295,726	\$ 256,048
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 6,995	\$ -
Accounts payable	12,518	15,585
Accrued liabilities and other	17,983	10,781
Total current liabilities	37,496	26,366
Industrial development subsidy	8,811	6,577
Deferred income taxes	6,820	-
Other long-term liabilities	1,818	1,199
Total liabilities	54,945	34,142
Commitments (Note 7)		
Shareholders' equity:		
Common stock and paid in capital - no par value, 60,000,000 shares authorized; shares issued and outstanding: April 2, 2011, 24,956,000; July 3, 2010, 24,898,000	132,351	130,536
Retained earnings	101,153	89,299
Accumulated other comprehensive income	7,277	2,071
Total shareholders' equity	240,781	221,906
Total liabilities and shareholders' equity	\$ 295,726	\$ 256,048

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 2, 2011	March 27, 2010	April 2, 2011	March 27, 2010
Net revenues	\$ 39,555	\$ 36,661	\$ 123,001	\$ 105,418
Cost of revenues	27,190	23,723	82,488	69,900
Gross profit	12,365	12,938	40,513	35,518
Operating expenses:				
Research and development	5,238	4,251	14,695	12,633
Selling, general and administrative	7,231	6,201	21,960	19,065
Total operating expenses	12,469	10,452	36,655	31,698
Income (loss) from operations	(104)	2,486	3,858	3,820
Interest and other income	1,132	1,219	13,683	4,150
Income before income taxes	1,028	3,705	17,541	7,970
Income tax expense	514	1,260	6,338	2,737
Net income from consolidated companies	514	2,445	11,203	5,233
Equity in net income of unconsolidated affiliates	17	608	651	1,671
Net income	531	3,053	11,854	6,904
Net income attributable to noncontrolling interests	-	-	-	(28)
Net income attributable to Pericom shareholders	\$ 531	\$ 3,053	\$ 11,854	\$ 6,876
Basic income per share to Pericom shareholders	\$ 0.02	\$ 0.12	\$ 0.48	\$ 0.27
Diluted income per share to Pericom shareholders	\$ 0.02	\$ 0.12	\$ 0.47	\$ 0.27
Shares used in computing basic income per share	24,993	25,386	24,926	25,479
Shares used in computing diluted income per share	25,341	25,697	25,291	25,762

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	April 2, 2011	March 27, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 11,854	\$ 6,904
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,878	5,855
Share-based compensation	3,255	2,861
Tax benefit resulting from stock option transactions	715	225
Excess tax benefit resulting from stock option transactions	(101)	(32)
Gain on previously held shares in PTI	(11,004)	-
Gain on sale of investments	(1,520)	(1,988)
Write-off of property and equipment	68	-
Equity in net income of unconsolidated affiliates	(651)	(1,671)
Deferred taxes	4,091	683
Changes in assets and liabilities:		
Accounts receivable	4,515	1,040
Inventories	2,604	(2,014)
Prepaid expenses and other current assets	(707)	190
Other assets	(225)	(754)
Accounts payable	(4,502)	298
Accrued liabilities and other	(3,089)	(5,659)
Other long-term liabilities	1,638	1,363
Net cash provided by operating activities	<u>14,819</u>	<u>7,301</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(9,661)	(6,668)
Purchase of available-for-sale investments	(158,187)	(84,278)
Maturities and sales of available-for-sale investments	161,447	81,145
Acquisition of PTI, net of cash acquired	(17,514)	-
Cash paid for SRe noncontrolling interest acquisition	-	(1,223)
Change in restricted cash balance	(2,947)	3,200
Net cash used in investing activities	<u>(26,862)</u>	<u>(7,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock issuance under stock plans	1,043	1,488
Proceeds from short-term debt	6,446	-
Excess tax benefit resulting from stock option transactions	101	32
Mortgage financing	-	(31)
Repurchase of common stock	(2,483)	(4,251)
Net cash provided by (used in) financing activities	<u>5,107</u>	<u>(2,762)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	765	492
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,171)	(2,793)
CASH AND CASH EQUIVALENTS:		
Beginning of period	29,495	37,321
End of period	<u>\$ 23,324</u>	<u>\$ 34,528</u>

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 2, 2011, the results of operations for the three and nine months ended April 2, 2011 and March 27, 2010 and cash flows for the nine months ended April 2, 2011 and March 27, 2010. This unaudited quarterly information should be read in conjunction with the audited consolidated financial statements of Pericom and the notes thereto included in the Company’s Annual Report on Form 10-K as filed with the Securities and Exchange Commission on August 31, 2010.

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 months ended April 2, 2011 are not necessarily indicative of the results to be expected for the entire year. The three and nine month periods ended April 2, 2011 and March 27, 2010 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 and environmental laws; availability of necessary components; interruptions at wafer suppliers and subcontractors; fluctuations in currencies given the Company’s sales and operations heavily weighted and paid in foreign currencies; and the Company’s ability to attract and retain employees necessary to support its growth.

These interim condensed consolidated financial statements include the accounts of Pericom Semiconductor Corporation and its wholly owned subsidiaries, PSE Technology Corporation (“SRE”), Pericom Semiconductor Hong Kong Limited (“PSC-HK”) and Pericom Asia Limited (“PAL”). In addition, PAL has three wholly-owned subsidiaries, PSE Technology (Shandong) Corporation (“PSE-SD”) and Pericom Technology Yangzhou Corporation (“PSC-YZ”) for the Jinan, China and Yangzhou, China operations, respectively, and Pericom Technology Inc. (“PTI”) from August 31, 2010. The Company eliminates all intercompany balances and transactions in consolidation.

FISCAL PERIOD – For purposes of reporting the financial results, the Company’s fiscal years end on the Saturday closest to the end of June. The year ended July 3, 2010 contained 53 weeks and is referred to as fiscal year 2010 or fiscal 2010, whereas the current fiscal year 2011 or fiscal 2011 includes 52 weeks and will end on July 2, 2011.

WARRANTY – The Company offers a standard one-year product replacement warranty. In the past, the Company has not had to accrue for a general warranty reserve, but assesses the level and materiality of RMAs and determines whether it is appropriate to accrue for estimated returns of defective products at the time revenue is recognized. On occasion, management may determine to accept product returns beyond the standard one-year warranty period. In those instances, the Company accrues for the estimated cost at the time management decides to accept the return. Because of the Company’s standardized manufacturing

processes and product testing procedures, returns of defective product are infrequent and the quantities have not been significant. Accordingly, historical warranty costs have not been material.

2. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the activity related to the carrying value of our goodwill during the nine months ended April 2, 2011 and March 27, 2010 (in thousands):

	<u>April 2, 2011</u>	<u>March 27, 2010</u>
Beginning balance	\$ 1,681	\$ 1,673
PTI acquisition	15,543	—
Elimination of previous PTI goodwill	(1,325)	—
Currency translation adjustments	545	8
Ending balance	<u>\$ 16,443</u>	<u>\$ 1,681</u>

The following table summarizes the components of other intangible assets and related accumulated amortization balances for each of the period-ending dates shown, which were recorded as a result of business combinations (in thousands):

(in thousands)	<u>April 2, 2011</u>			<u>July 3, 2010</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trade name	\$ 44	\$ (35)	\$ 9	\$ 40	\$ (28)	\$ 12
Customer relationships	5,699	(664)	5,035	-	-	-
Existing and core technology	9,406	(1,996)	7,410	1,856	(1,021)	835
Order backlog	377	(377)	-	-	-	-
Supplier relationship	398	(257)	141	398	(208)	190
Total amortizable purchased intangible assets	<u>15,924</u>	<u>(3,329)</u>	<u>12,595</u>	<u>2,294</u>	<u>(1,257)</u>	<u>1,037</u>
In-process research and development	3,349	-	3,349	-	-	-
SaRonix trade name	415	-	415	415	-	415
Total purchased intangible assets	<u>\$ 19,688</u>	<u>\$ (3,329)</u>	<u>\$ 16,359</u>	<u>\$ 2,709</u>	<u>\$ (1,257)</u>	<u>\$ 1,452</u>

The increase in intangible assets during the nine months ended April 2, 2011 is the result of obtaining control of Pericom Technology Inc. ("PTI") by completing the purchase of the balance of outstanding shares in PTI the Company did not own. PTI is now a wholly-owned subsidiary of the Company. Amortization expense related to finite-lived purchased intangible assets was approximately \$628,000 and \$1.9 million for the three and nine month periods ended April 2, 2011 and \$83,000 and \$247,000 for the three and nine month periods ended March 27, 2010, respectively.

The Company performs an impairment review of its intangible assets at least annually. Based on the results of its most recent impairment review, the Company determined that no impairment of its intangible assets existed as of July 3, 2010. However, future impairment reviews could result in a charge to earnings.

The finite-lived purchased intangible assets consist of supplier and customer relationships, order backlog, trade names and existing and core technology, which have remaining weighted average useful lives from three months to nine years. We expect our future amortization expense associated with the Company's intangible assets to be:

(in thousands)	Months from April 2, 2011					
	Next 12	13-24	25-36	37-48	49-60	Over 60
	Months	Months	Months	Months	Months	Months
Expected amortization-PTI	\$ 2,170	\$ 2,170	\$ 2,170	\$ 2,170	\$ 2,170	\$ 904
Expected amortization-PTL	203	203	119	-	-	-
Expected amortization-SaRonix	117	117	37	-	-	-
Expected amortization-eCERA	32	13	-	-	-	-
	<u>\$ 2,522</u>	<u>\$ 2,503</u>	<u>\$ 2,326</u>	<u>\$ 2,170</u>	<u>\$ 2,170</u>	<u>\$ 904</u>

3. INCOME PER SHARE

Basic income per share is based upon the weighted average number of common shares outstanding. Diluted income 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 per share attributable to Pericom shareholders for the three and nine month periods ended April 2, 2011 and March 27, 2010 are computed as follows:

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	April 2, 2011	March 27, 2010	April 2, 2011	March 27, 2010
Net income attributable to Pericom shareholders	\$ 531	\$ 3,053	\$ 11,854	\$ 6,876
Computation of common shares outstanding – basic earnings per share:				
Weighted average shares of common stock	24,993	25,386	24,926	25,479
Basic earnings per share attributable to Pericom shareholders	\$ 0.02	\$ 0.12	\$ 0.48	\$ 0.27
Computation of common shares outstanding – diluted earnings per share:				
Weighted average shares of common stock	24,993	25,386	24,926	25,479
Dilutive shares using the treasury stock method	348	311	365	283
Shares used in computing diluted earnings per share	25,341	25,697	25,291	25,762
Diluted earnings per share attributable to Pericom shareholders	\$ 0.02	\$ 0.12	\$ 0.47	\$ 0.27

Options to purchase 2,417,000 and 2,442,000 shares of common stock, and restricted stock units of 95 and 54,000 were outstanding during the three and nine months ended April 2, 2011 respectively, but not included in the computation of diluted earnings per share because the options and units would be anti-dilutive under the treasury stock method. Options to purchase 2,897,000 and 2,819,000 shares of common stock, and restricted stock units of 75,000 and 80,000 were outstanding during the three and nine months ended March 27, 2010 respectively, but not included in the computation of diluted earnings per share because the options and units would be anti-dilutive under the treasury stock method.

4. INVENTORIES

Inventories consist of:

(in thousands)	April 2, 2011	July 3, 2010
Raw materials	\$ 14,206	\$ 9,037
Work in process	5,044	6,793
Finished goods	6,202	7,601
	<u>\$ 25,452</u>	<u>\$ 23,431</u>

The Company considers raw material inventory obsolete and reserves it if the raw material has not moved in 365 days. The Company reviews its assembled devices for excess and records a reserve if the quantity of assembled devices in inventory is in excess of the greater of the quantity shipped in the previous twelve months, the quantity in backlog or the quantity forecasted to be shipped in the following twelve months. In certain circumstances, management will determine, based on expected usage or other factors, that inventory considered excess by these guidelines should not be reserved. The Company does occasionally determine that the last twelve months' sales levels will not continue and reserves inventory in line with the quantity forecasted. As of April 2, 2011, the Company had reserved for \$3.5 million of inventory as compared to

\$3.4 million at July 3, 2010. The Company attributes this increase in inventory reserves between July 3, 2010 and April 2, 2011 to increased wafer reserves, partially offset by sales of previously reserved inventory and physically scrapping previously reserved products.

5. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consist of:

(in thousands)	April 2, 2011	July 3, 2010
Accrued compensation	\$ 5,207	\$ 5,632
Acquisition-related liabilities	3,541	-
Contingent earnout liability	4,568	-
Accrued construction liabilities	2,001	1,960
Income tax payable	1,053	1,357
Accrued commissions	556	639
Other accrued expenses	1,057	1,193
	<u>\$ 17,983</u>	<u>\$ 10,781</u>

The acquisition-related liabilities consist of approximately \$2.3 million in an escrow fund in respect of certain indemnity obligations, \$92,000 in a purchase price adjustment fund related to working capital, and approximately \$1.1 million of purchase consideration, the latter to be paid in the quarter ending October 1, 2011.

6. BUSINESS COMBINATION

Acquisition of PTI

On August 31, 2010, the Company completed the acquisition and obtained control of PTI pursuant to the terms of the Agreement and Plan of Merger (the “Merger Agreement”) for cash consideration of \$30.6 million, of which acquisition-related liabilities of \$3.5 million remain outstanding. Up to an additional approximately \$6 million in earn-out consideration and bonus payments are also payable by the Company pursuant to the Merger Agreement upon achievement of gross profit milestones during fiscal year 2011. Portions of the merger consideration are being held in an escrow fund in respect of the PTI shareholders’ indemnity obligations owed to Pericom.

Fair Value of Consideration Transferred (in thousands):

Cash consideration	\$ 30,570
Acquisition date fair value of contingent earn-out consideration	4,087
Acquisition date fair value of previously held interest in PTI	23,672
Total	<u>\$ 58,329</u>

Immediately prior to the acquisition, remeasurement of our interest in PTI led to a gain of \$11 million, which amount is recorded in interest and other income in the condensed consolidated statement of operations. This fair value measurement was based on the per share consideration paid in the transaction, including the fair value of the earn-out, applied to the number of shares held by the Company immediately prior to closing.

In accordance with Accounting Standards Codification (“ASC”) 805, Business Combinations, a liability was recognized for the estimated acquisition date fair value of the contingent consideration based on the probability of the achievement of PTI’s gross profit target. Any change in the fair value of the contingent earn-out consideration subsequent to the acquisition date, including changes from events after the acquisition date, such as changes in the Company’s estimate of the gross profit expected to be achieved, will be recognized in earnings in the period as estimated fair value changes. The fair value estimate assumes that the probability-weighted gross profit is achieved over the earn-out period. If actual

achievement of PTI gross profit is at 100% of the threshold, the PTI stockholders will receive the maximum consideration of \$4,774,000. If the amount of PTI gross profit is equal to or greater than \$8,718,000, the PTI stockholders will receive an earn-out consideration of at least \$2,387,000. As of April 2, 2011, there has been no change in the Company's assessment that 100% of the threshold will be met. A change in the fair value of the contingent earn-out consideration could have a material impact on the Company's statement of operations and financial position in the period of the change in estimate.

The estimated initial earn-out liability was based on the Company's probability assessment of PTI's gross profit achievements during the earn-out period, which is from July 4, 2010 to July 3, 2011. In developing these estimates, the Company considered the revenue and gross profit projections of PTI management, PTI's historical results, and general macro-economic environment and industry trends. This fair value measurement is based on significant revenue and gross profit inputs not observed in the market and thus represents a Level 3 measurement as defined by ASC 820, Fair Value Measurements and Disclosures. Level 3 instruments are valued based on unobservable inputs that are supported by little or no market activity and reflect the Company's own assumptions in measuring fair value.

Preliminary Allocation of Consideration Transferred

The acquisition was accounted for as a business combination under ASC 805. The estimated total preliminary purchase price of \$58.3 million was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their fair values as of the date of the completion of the acquisition as follows (in thousands):

Net tangible assets	\$ 26,665
Amortizable intangible assets:	
Existing and core technology	7,165
Customer relationships	5,368
Backlog	365
Indefinite-lived intangible asset:	
In-process research and development	3,223
Goodwill	15,543
Total	\$ 58,329

As of the date of acquisition, inventories are required to be measured at fair value. The fair value of inventory of \$3.4 million was based on assumptions applied to the PTI acquired inventory balance. In estimating the fair value of finished goods and work-in-progress inventory, the Company made assumptions about the selling prices and selling cost associated with the inventory. The Company assumed that estimated selling prices would yield gross margins consistent with actual margins earned by PTI during the second half of fiscal year 2010. The Company assumed that selling cost as a percentage of revenue would be consistent with actual rates experienced by PTI during the second half of fiscal year 2010.

The fair value of the acquired land and buildings in Shanghai, China was estimated based on the recent real estate transactions of comparable properties in the same geographic area. The acquired land and buildings are being depreciated over estimated useful lives of 15 to 48 years.

Existing and core technology consisted of products which have reached technological feasibility and relate to the PTI products. The value of the developed technology was determined by discounting estimated net future cash flows of these products. The Company is amortizing the existing and core technology on a straight-line basis over an estimated life of 6 years.

Customer relationships relate to the Company's ability to sell existing and future versions of products to existing PTI customers. The fair value of the customer relationships was determined by discounting

estimated net future cash flows from the customer contracts. The Company is amortizing customer relationships on a straight-line basis over an estimated life of 6 years.

The backlog fair value relates to the estimated selling cost to generate backlog at August 31, 2010. The fair value of backlog at closing was amortized over an estimated life of 3 months and is fully amortized as of April 2, 2011.

In-process research and development (“IPRD”) consisted of the in-process projects to complete development of certain PTI products. The value assigned to IPRD was determined by considering the importance of products under development to the overall development plan, estimating costs to develop the purchased IPRD into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. This methodology is referred to as the income approach, which discounts expected future cash flows to present value. The discount rate used in the present value calculations was derived from a weighted-average cost of capital analysis, adjusted to reflect additional risks related to the product’s development and success as well as the product’s stage of completion. Acquired IPRD assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. Accordingly, during the development period after the acquisition date, these assets will not be amortized as charges to earnings; instead this asset will be subject to periodic impairment testing. Upon successful completion of the development process for the acquired IPRD projects, the asset would then be considered a finite-lived intangible asset and amortization of the asset will commence. Development of the PTI IPRD products is currently estimated to be approximately 70% complete and expected to be completed in the second quarter of fiscal year 2012. Validation, testing and further re-work may be required prior to achieving volume production which is anticipated to occur from fiscal year 2012 through fiscal year 2013. The estimated incremental cost to complete the product technology is approximately \$0.7 million.

The deferred tax liability of \$3.0 million associated with the estimated fair value adjustments of assets acquired and liabilities assumed was recorded using the estimated statutory tax rate in the jurisdictions where the fair value adjustments occurred.

Of the total estimated purchase price paid at the time of acquisition, approximately \$15.5 million has been allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets and is not deductible for tax purposes. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets was the acquisition of an assembled workforce of experienced semiconductor engineers, synergies in products, technologies, skill sets, operations, customer base and organizational cultures that can be leveraged to enable the Company to build an enterprise greater than the sum of its parts. In accordance with ASC 350, Intangibles—Goodwill and Other, goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. In the event that management determines that the value of goodwill has become impaired, the Company will record an expense for the amount impaired during the fiscal quarter in which the determination is made.

The amount of net revenues included in the Company’s condensed consolidated statement of operations from the PTI acquisition date of August 31, 2010 to April 2, 2011, was approximately \$11.3 million.

Pro Forma Data for the PTI Acquisition

The following table presents the unaudited pro forma results of the Company as though the PTI acquisition described above occurred at the beginning of the prior fiscal year, June 28, 2009. The data below includes the historical results of the Company and PTI on a standalone basis through the closing date of acquisition, with adjustments as noted in the supplemental information. The pro forma results presented do not purport to be indicative of the results that would have been achieved had the acquisition been made as of that date nor of the results which may occur in the future.

(unaudited) (in thousands except per share)	Three Months Ended		Nine Months Ended	
	April 2,	March 27,	April 2,	March 27,
	2011	2010	2011	2010
Revenue	\$ 39,555	\$ 41,008	\$ 127,167	\$ 117,084
Net income	1,011	2,670	7,349	13,412
Net income per share - basic	0.04	0.11	0.29	0.53
Net income per share - diluted	0.04	0.10	0.29	0.52

Supplemental Information on Pro Forma Adjustments

Pro forma adjustment to revenue

Eliminate intercompany sales	\$ -	\$ (304)	\$ (383)	\$ (738)
Total revenue adjustment	\$ -	\$ (304)	\$ (383)	\$ (738)

Pro forma adjustments to net income

Depreciation and amortization	\$ -	\$ (500)	\$ 510	\$ (2,286)
Earnout and compensation expense accruals	480	(453)	1,130	(1,204)
Eliminate the Company's share of PTI income	-	(521)	(468)	(1,418)
Acquisition related costs	-	-	636	(636)
Gain on previously held interest in PTI	-	-	(7,263)	8,938
Other	-	(129)	(155)	(203)
Total net income adjustments	\$ 480	\$ (1,603)	\$ (5,610)	\$ 3,191

7. COMMITMENTS

The Company's future minimum commitments at April 2, 2011 are as follows:

(in thousands)	Months from April 2, 2011					Total
	Less than	12-24	24-36	36-48	48-60	
	12 Months	Months	Months	Months	Months	
Operating lease payments	\$ 1,430	\$ 1,315	\$ 1,056	\$ 26	\$ -	\$ 3,827
Yangzhou capital injection	7,000	8,000	-	-	-	15,000
Short-term debt	6,995	-	-	-	-	6,995
Capital equipment purchase commitments	967	698	-	-	-	1,665
Total	\$ 16,392	\$ 10,013	\$ 1,056	\$ 26	\$ -	\$ 27,487

The operating lease commitments are primarily the lease on the Company's corporate headquarters, which expires in 2013 but with two consecutive options to extend for an additional five years each.

We have no purchase obligations other than routine purchase orders and the capital equipment purchase commitments shown in the table as of April 2, 2011.

On December 1, 2009, the Company entered into an R&D Center Investment Agreement (the "R&D Agreement") with the Administrative Committee of the Yangzhou Economic and Technology Development Zone (the "Zone") for the Company's investment in the Zone, located in Jiangsu Province, People's Republic of China. Under the R&D Agreement, the Company or its majority-owned affiliate will invest in and establish a research and development center to engage in the research and development of the IC design technologies related to "high-speed serial connectivity" and the "XO crystal oscillator" and the manufacture of relevant products. It is expected that the Company's total investment, over a period of two to three years, will be approximately \$30 million. As of April 2, 2011, the Company's further commitment for the Yangzhou project is \$15 million, which is included in the table above.

8. INDUSTRY AND SEGMENT INFORMATION

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.

The following table indicates the percentage of our net revenues and accounts receivable in excess of 10 percent with any single customer:

	Net Revenues			
	Three Months Ended		Nine Months Ended	
	April 2, 2011	March 27, 2010	April 2, 2011	March 27, 2010
Customer A	16%	22%	20%	21%
Customer B	19%	14%	14%	14%
All others	65%	64%	66%	65%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

	Accounts Receivable	
	April 2, 2011	July 3, 2010
	Customer A	19%
Customer B	15%	9%
All others	66%	65%
	<u>100%</u>	<u>100%</u>

For geographical reporting, the Company attributes net revenues to the country where customers are located (the “bill to” location). The Company neither conducts business in nor sells to persons in Iran, Syria, Sudan, or North Korea, countries located in referenced regions identified as state sponsors of terrorism by the U.S. Department of State and subject to U.S. economic sanctions and export controls. The following table sets forth net revenues by country for the three and nine month periods ended April 2, 2011 and March 27, 2010:

(in thousands)	Net Revenues			
	Three Months Ended		Nine Months Ended	
	April 2, 2011	March 27, 2010	April 2, 2011	March 27, 2010
Taiwan	\$ 18,724	\$ 17,851	\$ 55,829	\$ 53,410
China (including Hong Kong)	13,712	10,130	42,311	29,381
United States	2,294	3,272	7,852	8,427
Other (less than 10% each)	4,825	5,408	17,009	14,200
Total net revenues	<u>\$ 39,555</u>	<u>\$ 36,661</u>	<u>\$ 123,001</u>	<u>\$ 105,418</u>

Long-lived assets consist of all non-monetary assets, excluding financial assets, deferred taxes, goodwill and intangible assets. The Company attributes long-lived assets to the country where they are located. The following table sets forth the Company’s long-lived assets by country of location as of April 2, 2011 and July 3, 2010:

(in thousands)	April 2, 2011	July 3, 2010
China (including Hong Kong)	\$ 35,910	\$ 27,883
Taiwan	19,651	17,519
United States	3,248	3,751
Other countries	1,438	1,607
Total	<u>\$ 60,247</u>	<u>\$ 50,760</u>

9. STOCK REPURCHASE PROGRAM

On April 26, 2007, the Company’s Board of Directors authorized the repurchase of 2.0 million shares of the Company’s common stock, and on April 29, 2008, the Board of Directors authorized the repurchase of an additional \$30 million of common stock. The Company may repurchase the shares from time to time in open market or private transactions, at the discretion of the Company’s management.

During the three and nine month periods ended April 2, 2011, the Company repurchased approximately 115,700 and 278,900 shares for an aggregate cost of approximately \$1.1 and \$2.5 million, respectively.

During the three and nine month periods ended March 27, 2010, the Company repurchased approximately 337,600 and 440,100 shares for an aggregate cost of approximately \$3.2 and \$4.3 million, respectively.

Current cash balances and the proceeds from stock option exercises and purchases in the stock purchase plan have funded stock repurchases in the past, and the Company expects to fund future stock repurchases from these same sources.

10. SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

PREFERRED STOCK

The Company's shareholders have authorized the Board of Directors to issue 5,000,000 shares of preferred stock from time to time in one or more series and to fix the rights, privileges and restrictions of each series. As of April 2, 2011, the Company has issued no shares of preferred stock.

STOCK OPTION PLANS

At April 2, 2011 the Company had four stock incentive plans and an employee stock purchase plan, consisting of the 1995 Stock Option Plan, 2001 Stock Option Plan, SaRonix Acquisition Stock Option Plan, 2004 Stock Incentive Plan and the 2010 Employee Stock Purchase Plan.

Under the four stock incentive plans, the Company has reserved an aggregate of 6.5 million shares of common stock as of April 2, 2011 for issuance to employees, officers, directors, independent contractors and consultants of the Company in the form of incentive or nonqualified stock options, or grants of restricted stock.

The Company may grant stock options at the fair value on the grant date for incentive stock options and nonqualified stock options. Options vest over periods of generally 48 months as determined by the Board of Directors. Options granted under the Plans expire 10 years from the grant date.

The Company estimates the fair value of each employee stock option on the date of grant using the Black-Scholes option valuation model and expenses that value as compensation using a straight-line method over the option's vesting period, which corresponds to the requisite employee service period. The Company estimates expected stock price volatility based on actual historical volatility for periods that the Company believes represent predictors of future volatility. The Company uses historical data to estimate option exercises, expected option holding periods and option forfeitures. The Company bases the risk-free interest rate for periods within the contractual life of the option on the U.S. Treasury yield corresponding to the expected life of the underlying option.

The value of the Company's stock options granted under its stock incentive plans during the three months ended April 2, 2011 and March 27, 2010 was estimated at the date of grant using the following weighted average assumptions:

	Three Months Ended March 27, 2010
Expected Life	5.5 years
Risk-free interest rate	2.60%
Volatility	53%
Dividend Yield	-

No options were granted during the three months ended April 2, 2011. The weighted average fair value of options granted during the three months ended March 27, 2010 was \$4.86.

The following table summarizes the Company's stock option activity for the nine months ended April 2, 2011:

	<u>Shares</u> (in thousands)	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u> (years)	<u>Aggregate Intrinsic Value</u> (in millions)
Options outstanding at July 3, 2010	3,477	\$ 11.85	5.2	\$ 0.9
Granted (weighted average grant date fair value of \$4.49)	176	8.83		
Exercised	(60)	8.30		
Cancelled or expired	(250)	18.29		
Options outstanding at April 2, 2011	<u>3,343</u>	<u>\$ 11.28</u>	<u>4.9</u>	<u>\$ 2.3</u>
Options vested and expected to vest at April 2, 2011	<u>3,266</u>	<u>\$ 11.30</u>	<u>4.8</u>	<u>\$ 2.3</u>
Options exercisable at April 2, 2011	<u>2,683</u>	<u>\$ 11.41</u>	<u>4.0</u>	<u>\$ 1.9</u>

At April 2, 2011, 2.3 million shares were available for future grants under the incentive plans. The aggregate intrinsic value of options exercised during the nine months ended April 2, 2011 was approximately \$127,000.

At April 2, 2011, expected future compensation expense relating to options outstanding is \$2.7 million, which will be amortized to expense over a weighted average period of 2.4 years.

Additional information regarding options outstanding and exercisable as of April 2, 2011 is as follows:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Exercisable Options</u>	
	<u>Number Outstanding as of April 2, 2011</u>	<u>Weighted Average Remaining Contractual Term (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable as of April 2, 2011</u>	<u>Weighted Average Exercise Price</u>
\$ 4.89 \$ 8.55	824,000	5.6	\$ 8.11	650,000	\$ 8.08
\$ 8.60 \$ 10.20	669,000	6.4	\$ 9.60	418,000	\$ 9.41
\$ 10.25 \$ 11.50	820,000	4.6	\$ 11.04	709,000	\$ 11.03
\$ 11.63 \$ 15.70	670,000	3.1	\$ 14.42	584,000	\$ 14.33
\$ 15.73 \$ 18.10	<u>360,000</u>	4.6	\$ 16.31	<u>322,000</u>	\$ 16.32
\$ 4.89 \$ 18.10	<u>3,343,000</u>	4.9	\$ 11.28	<u>2,683,000</u>	\$ 11.41

Restricted Stock Units

Restricted stock units (“RSUs”) are converted into shares of the Company’s common stock upon vesting on a one-for-one basis. Typically, vesting of RSUs is subject to the employee’s continuing service to the Company. RSUs generally vest over a period of 4 years and are expensed ratably on a straight-line basis over their respective vesting period net of estimated forfeitures. The fair value of RSUs granted pursuant to the Company’s 2004 Stock Incentive Plan is the product of the number of shares granted and the grant date fair value of our common stock. A summary of activity of RSUs for the nine months ended April 2, 2011 is presented below:

	<u>Shares</u>	<u>Weighted Average Award Date Fair Value</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
	(in thousands)	\$	(years)	\$ (in millions)
RSUs outstanding at July 3, 2010	591	\$ 10.18	1.7	\$ 5.4
Awarded	117	8.88		
Released	(176)	9.53		
Forfeited	(9)	11.12		
RSUs outstanding at April 2, 2011	<u>523</u>	<u>\$ 10.10</u>	<u>1.5</u>	<u>\$ 5.4</u>
RSUs expected to vest after April 2, 2011	<u>448</u>	<u>\$ 10.13</u>	<u>1.4</u>	<u>\$ 4.6</u>

At April 2, 2011, expected future compensation expense relating to RSUs is \$3.3 million, which will be amortized to expense over a weighted average remaining recognition period of 2.5 years.

2010 EMPLOYEE STOCK PURCHASE PLAN

The Company's 2010 Employee Stock Purchase Plan (the "Stock Purchase Plan") became effective during the quarter and allows eligible employees of the Company to purchase shares of Common Stock through payroll deductions. The Company reserved 2.0 million shares of the Company's Common Stock for issuance under this Plan, all of which remain available at April 2, 2011 and which may be released at the Board of Directors' discretion. The Stock Purchase Plan permits eligible employees to purchase Common Stock at a discount through payroll deductions during six-month purchase periods. The six-month periods come to an end on or about May 1 and November 1 and the purchases are then made. Thus there were no ESPP purchases in the quarter ended April 2, 2011. Participants in the Stock Purchase Plan may purchase stock at 85% of the lower of the stock's fair market value on the first day and last day of the offering period. The maximum number of shares of Common Stock that any employee may purchase during any offering period under the plan is 1,000 shares, and an employee may not accrue more than \$10,000 for share purchases in any offering period. During the first nine months of fiscal years 2011 and 2010, the Company issued 101,452 and 152,497 shares of common stock under this plan and the predecessor 2000 Stock Purchase Plan at weighted average prices of \$5.41 and \$5.32, respectively. The weighted average fair value of the awards for the first nine months of fiscal 2011 and 2010 were \$2.49 and \$3.10 per share, respectively.

The Company estimates the fair value of stock purchase rights granted under the Company's Stock Purchase Plan on the date of grant using the Black-Scholes option valuation model. ASC Topic 718 states that a "lookback" pricing provision with a share limit should be considered a combination of stock and a call option. The valuation results for these elements have been combined to value the specific features of the stock purchase rights. The Company bases volatility on the expected volatility of the Company's stock during the offering period. The expected term is determined by the time from enrollment until purchase, and the Company uses the U.S. Treasury yield for the risk-free interest rate for the offering period.

The following table lists the values of the assumptions the Company used to calculate stock compensation under the Stock Purchase Plan and the predecessor 2000 Stock Purchase Plan:

	<u>Three Months Ended</u>	
	<u>April 2, 2011</u>	<u>March 27, 2010</u>
Expected Life	6 months	6 months
Risk-free interest rate	0.16%	0.17%
Volatility	47%	52%
Dividend Yield	-	-

The following table summarizes activity in the Company's employee stock purchase plan during the nine months ended April 2, 2011:

	<u>Shares</u>	<u>Weighted Average Purchase Price</u>
Beginning Available	1,964,173	
Purchases	(101,452)	\$5.41
Plan shares expired	(1,862,721)	
New plan shares	<u>2,000,000</u>	
Ending Available	<u><u>2,000,000</u></u>	

At April 2, 2011, the Company had \$21,000 in unamortized share-based compensation related to its employee stock purchase plan which will be amortized and recognized in the consolidated statement of operations over the next quarter.

SHARE-BASED COMPENSATION

The following table shows total share-based compensation expense classified by Consolidated Statements of Operations reporting caption for the three and nine months ended April 2, 2011 and March 27, 2010 generated from the plans described above:

(In thousands)	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>April 2, 2011</u>	<u>March 27, 2010</u>	<u>April 2, 2011</u>	<u>March 27, 2010</u>
Cost of revenues	\$ 62	\$ 70	\$ 192	\$ 198
Research and development	421	371	1,164	1,065
Selling, general and administrative	<u>708</u>	<u>557</u>	<u>1,899</u>	<u>1,598</u>
Pre-tax share-based compensation expense	1,191	998	3,255	2,861
Income tax impact	<u>398</u>	<u>299</u>	<u>1,066</u>	<u>798</u>
Net share-based compensation expense	<u>\$ 793</u>	<u>\$ 699</u>	<u>\$ 2,189</u>	<u>\$ 2,063</u>

Share-based compensation by type of award is as follows:

(In thousands)	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>April 2, 2011</u>	<u>March 27, 2010</u>	<u>April 2, 2011</u>	<u>March 27, 2010</u>
Stock options	\$ 553	\$ 587	\$ 1,606	\$ 1,616
Restricted stock units	571	293	1,402	734
Stock purchase plan	<u>67</u>	<u>118</u>	<u>247</u>	<u>511</u>
Total share-based compensation expense	<u>\$ 1,191</u>	<u>\$ 998</u>	<u>\$ 3,255</u>	<u>\$ 2,861</u>

The amount of share-based compensation expense in inventory at April 2, 2011 and July 3, 2010 is immaterial.

11. INCOME TAXES

Accounting for Uncertainty in Income Taxes

The Company's total amount of unrecognized tax benefits as of April 2, 2011 was \$545,000. All of this amount would affect the corporation's tax rate if recognized. In addition, as of April 2, 2011 the Company had accrued \$56,000 for any interest and penalties related to unrecognized tax benefits.

Our effective tax rate may differ from the federal statutory rate primarily due to state income taxes, research and development tax credits, stock-based compensation from incentive stock options, tax-exempt interest income, and differing tax rates in income-earning foreign jurisdictions.

The Company is subject to examination by Federal, foreign, and various state jurisdictions for the years 2004 through 2010. To the Company's knowledge, there are currently no examinations underway.

Income Tax Expense

Income tax expense for the nine months ended April 2, 2011 and March 27, 2010 was \$6.3 million and \$2.7 million, respectively, and was comprised of domestic federal and state income tax and foreign income and withholding tax. As of April 2, 2011, the Company has recorded a valuation allowance of \$965,000 against its deferred tax assets.

12. INVESTMENTS IN AFFILIATES

Our investments in unconsolidated affiliates are comprised of the following:

(in thousands)	<u>April 2, 2011</u>	<u>July 3, 2010</u>
Jiyuan Crystal Photoelectric Frequency Technology Ltd.	\$ 2,507	\$ 2,307
Pericom Technology, Inc.	-	10,876
Total	<u>\$ 2,507</u>	<u>\$ 13,183</u>

Prior to completing the PTI acquisition on August 31, 2010, the Company had a 42.04% ownership interest PTI (40.3% on a fully-diluted basis). Pericom accounted for its investment in PTI prior to the acquisition using the equity method due to the Company's significant influence over its operations. PTI was incorporated in 1994 and in 1995 established a design center and sales office to pursue opportunities and participate in joint ventures in the People's Republic of China. For July and August 2010, and the nine months ended March 27, 2010, the Company's allocated portion of PTI's results was income of \$467,000 and \$1.4 million, respectively. Condensed operating results of PTI prior to the acquisition were as follows:

(in thousands)	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>April 2, 2011</u>	<u>March 27, 2010</u>	<u>April 2, 2011 (1)</u>	<u>March 27, 2010</u>
Revenue	\$ -	\$ 4,651	\$ 4,549	\$ 12,404
Gross profit	-	2,321	2,261	6,182
Operating income	-	1,240	1,201	2,983
Net income	-	1,220	1,105	3,317

(1) Reflects operating results for the two months prior to acquisition on August 31, 2010.

SRe has a 49% equity interest in Jiyuan Crystal Photoelectric Frequency Technology Ltd. ("JCP"), an FCP manufacturing company located in Science Park of Jiyuan City, Henan Province, China. JCP is a key manufacturing partner of SRe and supplies SRe with blanks for its surface mount device (SMD) production lines. For the first nine months of fiscal 2011 and 2010, the Company's allocated portion of JCP's results was income of \$184,000 and \$253,000, respectively.

13. EQUITY AND COMPREHENSIVE INCOME

The Company recognizes noncontrolling interest as a component of equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to noncontrolling interest is shown on the face of the condensed consolidated statement of operations.

The Company does not have any noncontrolling interest in fiscal 2011. The Company's subsidiary SRe had a noncontrolling interest for the first four months of fiscal 2010. Parties other than the Company owned

approximately 2.71% of the outstanding shares of SRe, and these shares were acquired by the Company in November 2009 for approximately \$1.2 million.

Comprehensive income consists of net income, changes in net unrealized gains (losses) on available-for-sale investments and changes in cumulative currency translation adjustments at consolidated subsidiaries. Changes in equity including comprehensive income for the nine months ended March 27, 2010 and April 2, 2011 are as follows:

(In thousands)	<u>Shareholders' Equity</u>	<u>Noncontrolling Interests</u>	<u>Total Equity</u>
Balance June 27, 2009	\$ 212,208	\$ 1,233	\$ 213,441
Net income	6,876	28	6,904
Other comprehensive income			
Unrealized gain on securities available for sale, net	106	-	106
Translation gain	1,390	-	1,390
Total comprehensive income	8,372	28	8,400
Issuance of common stock - options and ESPP	1,488	-	1,488
Share-based compensation - APIC	2,861	-	2,861
Stock repurchases	(4,252)	-	(4,252)
Cash paid for noncontrolling interest	38	(1,261)	(1,223)
Balance March 27, 2010	<u>\$ 220,715</u>	<u>\$ -</u>	<u>\$ 220,715</u>
Balance July 3, 2010	\$ 221,906	\$ -	\$ 221,906
Net income	11,854	-	11,854
Other comprehensive income			
Unrealized loss on securities available for sale, net	(630)	-	(630)
Translation gain	5,836	-	5,836
Total comprehensive income	17,060	-	17,060
Issuance of common stock - options and ESPP	1,043	-	1,043
Share-based compensation - APIC	3,255	-	3,255
Stock repurchases	(2,483)	-	(2,483)
Balance April 2, 2011	<u>\$ 240,781</u>	<u>\$ -</u>	<u>\$ 240,781</u>

As of April 2, 2011, accumulated other comprehensive income consists of \$173,000 of unrealized gains net of tax and \$7.1 million of accumulated currency translation gains.

14. SHORT-TERM DEBT

As of April 2, 2011, the Company's subsidiary SRe has made short-term borrowings under its credit facilities totaling approximately \$7.0 million. The loans are denominated in New Taiwan Dollars, U.S. Dollars and Japanese Yen and carry variable rates of interest currently ranging from 0.84% to 1.35% per annum. The loans have maturities ranging from 51 to 234 days.

15. INVESTMENTS IN MARKETABLE SECURITIES

The Company's policy is to invest in instruments with investment grade credit ratings. The Company classifies its short-term investments as "available-for-sale" securities and the Company bases the cost of securities sold using the specific identification method. The Company accounts for unrealized gains and losses on its available-for-sale securities as a separate component of shareholders' equity in the consolidated balance sheets in the period in which the gain or loss occurs. The Company classifies its available-for-sale securities as current or noncurrent based on each security's attributes. At April 2, 2011 a summary of our investments by major security type is as follows:

As of April 2, 2011

(in thousands)	<u>Amortized</u> <u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gains</u>	<u>Gross</u> <u>Unrealized</u> <u>Losses</u>	<u>Net</u>	<u>Fair Market</u> <u>Value</u>
				<u>Unrealized</u> <u>Gains</u> <u>(Losses)</u>	
Available-for-Sale Securities					
Time deposits	\$ 11,584	\$ -	\$ -	\$ -	\$ 11,584
National government and agency securities	8,844	120	(15)	105	8,949
State and municipal bond obligations	3,467	31	-	31	3,498
Corporate bonds and notes	55,900	371	(173)	198	56,098
Asset-backed securities	8,030	24	(52)	(28)	8,002
Mortgage-backed securities	9,456	32	(90)	(58)	9,398
Total	<u>\$ 97,281</u>	<u>\$ 578</u>	<u>\$ (330)</u>	<u>\$ 248</u>	<u>\$ 97,529</u>

At July 3, 2010 a summary of our investments by major security type is as follows:

As of July 3, 2010

(in thousands)	<u>Amortized</u> <u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Gains</u>	<u>Gross</u> <u>Unrealized</u> <u>Losses</u>	<u>Net</u>	<u>Fair Market</u> <u>Value</u>
				<u>Unrealized</u> <u>Gains</u> <u>(Losses)</u>	
Available-for-Sale Securities					
US Treasury securities	\$ 204	\$ 6	\$ -	\$ 6	\$ 210
National government and agency securities	14,832	178	(3)	175	15,007
State and municipal bond obligations	8,029	80	-	80	8,109
Corporate bonds and notes	44,595	1,094	(76)	1,018	45,613
Asset-backed securities	11,670	35	(30)	5	11,675
Mortgage-backed securities	8,848	62	(93)	(31)	8,818
Total	<u>\$ 88,178</u>	<u>\$ 1,455</u>	<u>\$ (202)</u>	<u>\$ 1,253</u>	<u>\$ 89,431</u>

The above investments are included in short-term and long-term investments in marketable securities on our condensed consolidated balance sheets.

The following tables show the unrealized losses and fair market values of the Company's investments that have unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at April 2, 2011 and July 3, 2010:

Continuous Unrealized Losses at April 2, 2011

(In thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Market	Gross	Fair Market	Gross	Fair Market	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
National government and agency securities	\$ 2,306	\$ 15	\$ -	\$ -	\$ 2,306	\$ 15
Corporate bonds and notes	26,429	171	251	2	26,680	173
Asset-backed securities	2,892	51	115	1	3,007	52
Mortgage-backed securities	3,668	30	369	60	4,037	90
	<u>\$ 35,295</u>	<u>\$ 267</u>	<u>\$ 735</u>	<u>\$ 63</u>	<u>\$ 36,030</u>	<u>\$ 330</u>

Continuous Unrealized Losses at July 3, 2010

(In thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Market	Gross	Fair Market	Gross	Fair Market	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
National government and agency securities	\$ 574	\$ 3	\$ -	\$ -	\$ 574	\$ 3
Corporate bonds and notes	9,279	76	-	-	9,279	76
Asset-backed securities	4,959	29	472	1	5,431	30
Mortgage-backed securities	2,090	2	497	91	2,587	93
	<u>\$ 16,902</u>	<u>\$ 110</u>	<u>\$ 969</u>	<u>\$ 92</u>	<u>\$ 17,871</u>	<u>\$ 202</u>

The unrealized losses are of a temporary nature due to the Company's intent and ability to hold the investments until maturity or until the cost is recoverable. The unrealized losses are primarily due to fluctuations in market interest rates. The Company reports unrealized gains and losses on its "available-for-sale" securities in accumulated other comprehensive income in shareholders' equity.

The Company records gains or losses realized on sales of available-for-sale securities in interest and other income on its condensed consolidated income statement. The cost of securities sold is based on the specific

identification of the security and its amortized cost. For the nine months ended April 2, 2011 and March 27, 2010, proceeds from sales and maturities of available-for-sale securities were \$161.4 million and \$81.1 million, respectively, and realized gains were \$1.5 million and \$2.0 million, respectively. Securities sales were higher than normal for the nine months ended April 2, 2011 both to raise cash for the PTI share acquisition and to reposition the portfolio for changing market conditions and opportunities.

Activity for the nine months ended April 2, 2011 related to the pretax available-for-sale credit loss component reflected within retained earnings reflects sale of the securities during the current quarter as follows:

(In thousands)	Nine Months ended April 2, 2011
Beginning balance of credit losses on available-for-sale securities	\$ 414
Additional credit gain recognized for which an OTTI loss was previously recognized	(51)
Reductions for securities sold during the period	(363)
Ending balance of credit losses on available-for-sale securities	<u>\$ -</u>

The following table lists the fair market value of the Company's short- and long-term investments by length of time to maturity as of April 2, 2011. Securities with maturities over multiple dates are mortgage-backed (MBS) or asset-backed securities (ABS) featuring periodic principle paydowns through 2059.

(in thousands) Contractual Maturities	April 2, 2011
Less than 12 months	\$ 14,002
One to three years	35,972
Over three years	28,304
Multiple dates	19,251
Total	<u>\$ 97,529</u>

16. FAIR VALUE MEASUREMENTS

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last is considered unobservable:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this statement with respect to our financial assets and liabilities did not impact our consolidated results of operations and financial condition, but requires additional disclosure for assets and liabilities measured at fair value. The following table represents our fair value hierarchy for financial assets measured at fair value on a recurring basis. Most of our investments are classified as Level 2 at April 2, 2011. Level 2 investment valuations are obtained from readily-available pricing sources for comparable instruments. A majority of our investments are priced by pricing vendors and are classified as Level 2 investments based on the use of observable inputs from comparable securities.

(in thousands)	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at April 2, 2011 (1)				
Time deposits	\$ 11,584	\$ -	\$ 11,584	\$ -
Government and agency securities	8,949	-	8,949	-
State and municipal bond obligations	3,498	-	3,498	-
Corporate bonds and notes	56,098	-	56,098	-
Asset-backed securities	8,002	-	8,002	-
Mortgage-backed securities	9,398	-	9,398	-
Total	<u>\$ 97,529</u>	<u>\$ -</u>	<u>\$ 97,529</u>	<u>\$ -</u>

The Company had no transfers into or out of Level 2 during the nine months ended April 2, 2011.

The Company's investment in debt securities includes time deposits, government securities, commercial paper, corporate debt securities and mortgage-backed and asset-backed securities. Government securities include US treasury securities, US federal agency securities, foreign government and agency securities, and US state and municipal bond obligations. Many of the municipal bonds are insured; those that are not are nearly all AAA/Aaa rated. The corporate debt securities are all investment grade and nearly all are single A-rated or better. The asset-backed securities are AAA/Aaa rated and are backed by auto loans, student loans, credit card balances and residential or commercial mortgages. When assessing marketable securities for other-than-temporary declines in value, we consider a number of factors. Our analyses of the severity and duration of price declines, portfolio manager reports, economic forecasts and the specific circumstances of issuers indicate that it is reasonable to expect marketable securities with unrealized losses at April 2, 2011 to recover in fair value up to our cost bases within a reasonable period of time. We do not intend to sell investments with unrealized losses before maturity, when the obligors are required to redeem them at full face value or par, and we believe the obligors have the financial resources to redeem the debt securities. Accordingly, we do not consider our investments to be other-than-temporarily impaired at April 2, 2011.

As described in Note 6, the Company's estimate of the earn-out liability in the PTI acquisition represents a Level 3 measurement. Any change in the fair value of the earn-out liability subsequent to the acquisition date, including changes from events after the acquisition date, will be recognized in earnings in the period the estimated fair value changes. The change in fair value of the earn-out liability of \$481,000 during the nine months ended April 2, 2011 was as a result of change in the time value of money, and was recognized as interest expense in the condensed consolidated statement of operations. The following table represents a reconciliation of the change in the fair value measurement of the earn-out liability for the nine months ended April 2, 2011:

(in thousands)	April 2, 2011
Beginning balance	\$ —
Acquisition date fair value measurement of earn-out liability	4,087
Adjustment to fair value measurement	481
Ending balance	\$ 4,568

The Company has determined that the amounts reported for cash and cash equivalents, accounts receivable, deposits, accounts payable, accrued liabilities and debt approximate fair value because of their short maturities and/or variable interest rates.

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 for the year ended July 3, 2010 (the "Form 10-K").

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 the Company's sales to Taiwan and China, plans to remediate the material weaknesses in our internal control over financial reporting, the Company's total investment in the Yangzhou Economic and Technology Development Zone, the effect on supply chain and our operations of the 2011 Japan earthquake and tsunami, the continuation of a high level of turns orders, higher or lower levels of inventory, future gross profit and gross margin; the plans and objectives of management for future operations; the Company's tax rate; currency fluctuations; the adequacy of allowances for returns, price protection and other concessions; the sufficiency of cash generated from operations and cash balances; the Company's exposure to interest rate risk; expectations regarding our research and development and selling, general and administrative expenses; and our 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, and (ii) 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.

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 2, 2011	March 27, 2010	April 2, 2011	March 27, 2010
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	68.7 %	64.7 %	67.1 %	66.3 %
Gross profit	31.3 %	35.3 %	32.9 %	33.7 %
Operating expenses:				
Research and development	13.3 %	11.6 %	11.9 %	12.0 %
Selling, general and administrative	18.3 %	16.9 %	17.9 %	18.1 %
Total	31.6 %	28.5 %	29.8 %	30.1 %
Income (loss) from operations	(0.3)%	6.8 %	3.1 %	3.6 %
Interest and other income	2.9 %	3.3 %	11.1 %	3.9 %
Income before income taxes	2.6 %	10.1 %	14.2 %	7.6 %
Income tax expense	1.3 %	3.4 %	5.1 %	2.6 %
Net income	1.3 %	6.7 %	9.1 %	5.0 %
Equity in net income of unconsolidated affiliates	0.0 %	1.7 %	0.5 %	1.5 %
Net income attributable to Pericom shareholders	1.3 %	8.4 %	9.6 %	6.5 %

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 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Net revenues	\$ 39,555	\$ 36,661	7.9%	\$ 123,001	\$ 105,418	16.7%
% of net sales accounted for by top 5 direct customers (1)	52.3%	54.7%		51.5%	54.5%	
Number of direct customers that each account for more than 10% of net sales	2	2		2	2	
% of net sales accounted for by top 5 end customers (2)	30.0%	30.3%		26.2%	30.7%	
Number of end customers that each account for more than 10% of net sales	0	1		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 to provide this information.

The Company designs, develops and markets high-performance integrated circuits ("ICs" or IC products) and frequency control products ("FCPs" or FCP products) used in many of today's advanced electronic systems. Our IC products include products that support the connectivity, timing and signal conditioning of high-speed parallel and serial protocols that transfer data among a system's microprocessor, memory and various peripherals, such as displays and monitors, and between interconnected systems. Our FCPs are electronic components that provide frequency references such as crystals, oscillators, and hybrid timing generation products for computer, communication and consumer electronic products. Our analog, digital and mixed-signal ICs, together with our FCP products enable higher system bandwidth and signal quality, resulting in better operating reliability, signal integrity, and lower overall system cost in applications such as notebook computers, servers, network switches and routers, storage area networks, digital TVs, cell phones, GPS and digital media players.

Net revenues consist of product sales, which are recognized upon shipment, less an estimate for returns and allowances. Net revenues increased by \$2.9 million or 7.9% in the third quarter of fiscal 2011 versus the third quarter of fiscal 2010. This increase is the result of completing the acquisition of Pericom Technology Inc. (“PTI”) in August 2010, which added revenues of \$4.2 million. Exclusive of PTI, net revenue for IC and FCP products in the third quarter of fiscal 2011 versus the third quarter of fiscal 2010 reflected:

- a decrease of \$852,000 or 3.7% in sales of IC products to \$22.1 million, and
- a decrease of \$440,000 or 3.2% in sales of our FCP products to \$13.3 million.

Net revenue increased \$17.6 million or 16.7% in the first nine months of fiscal 2011 versus the first nine months of fiscal 2010. This increase reflects improving business conditions since the 2009 global recession and the acquisition of PTI. Net revenue in the first nine months of fiscal 2011 versus the first nine months of fiscal 2010 reflected:

- an increase of \$5.1 million or 7.7% in sales of IC products to \$71.2 million,
- an increase of \$1.2 million or 2.9% in sales of our FCP products to \$40.5 million, and
- an addition of \$11.3 million in sales attributable to PTI after close of the acquisition.

The following table sets forth net revenues by country as a percentage of total net revenues for the three and nine months ended April 2, 2011 and March 27, 2010:

	Three Months Ended		Nine Months Ended	
	April 2,	March 27,	April 2,	March 27,
	2011	2010	2011	2010
Taiwan	47%	49%	45%	51%
China (including Hong Kong)	35%	28%	34%	28%
United States	6%	9%	6%	8%
Other (less than 10% each)	12%	14%	15%	13%
Total	100%	100%	100%	100%

For the three and nine months ended April 2, 2011 as compared with the same period of the prior year, the percentage of our net revenues derived from sales to Taiwan decreased somewhat in favor of China as a result of continued demand for technological devices and an increasing concentration of contract manufacturing in China. We expect our future sales to continue to grow, as a percentage of net revenues, in both Taiwan and China in future periods. As the migration of assembly operations to Asia continues, we expect our net revenues from sales in North America to continue a modest decline.

In March 2011 an earthquake and tsunami occurred off the northeast coast of Japan, which has disrupted the global supply chain for core materials manufactured in Japan that are incorporated in our products, or equipment, or included in the end user products of our customers. While we believe our supply is relatively secure, we are closely monitoring the effect of the events in Japan on end demand patterns and inventory levels throughout the supply chain.

Our net revenue levels have been highly dependent on the number of new orders that are received for products to be delivered to the customer within the same quarter, also called “turns” orders. Because of our lack of visibility into demand when turns orders are high, it is difficult to predict which products to build to match future demand. We believe the current high level of turns orders will continue indefinitely. The sustainability of customer demand is uncertain and our markets are highly dependent on worldwide economic conditions. The high level of turns orders together with the uncertainty of product mix and pricing makes it difficult to predict future levels of sales and may require us to carry higher levels of inventory.

Gross Profit

The following table sets forth our gross profit for the periods indicated.

(In thousands)	Three Months Ended			Nine Months Ended		
	April 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Net revenues	\$ 39,555	\$ 36,661	7.9%	\$ 123,001	\$ 105,418	16.7%
Gross profit	12,365	12,938	-4.4%	40,513	35,518	14.1%
Gross profit as a percentage of net revenues (gross margin)	31.3%	35.3%		32.9%	33.7%	

The decrease in gross profit in the third quarter of fiscal 2011 as compared to the third quarter of fiscal 2010 of \$573,000 is primarily the result of:

- a 3.5% decrease in sales, excluding sales of PTI, which led to \$391,000 of decreased gross profit, and
- a gross margin decrease from 35.3% to 30.3%, excluding margins of PTI products, resulting in a \$1.8 million reduction in gross profit, partially offset by
- the PTI acquisition, which added \$1.6 million of gross profit for the quarter.

The increase in gross profit in the first nine months of fiscal 2011 as compared to the first nine months of fiscal 2010 of \$5.0 million is primarily the result of:

- the PTI acquisition, which added \$4.2 million of gross profit for the first nine months, and
- a 5.9% increase in sales, excluding sales of PTI, which led to \$2.0 million of increased gross profit, partially offset by
- a gross margin decrease from 33.7% to 32.6%, excluding margins of PTI products, resulting in a \$1.2 million reduction in gross profit.

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 FCP 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 and nine months ended April 2, 2011, gross profit and gross margin benefited as a result of the sale of inventory of \$14,000 and \$42,000 respectively, that we had previously identified as excess and written down to zero value, as compared with \$51,000 and \$183,000, respectively, for the same periods of the prior year.

Research and Development (“R&D”)

(In thousands)	Three Months Ended			Nine Months Ended		
	April 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Net revenues	\$ 39,555	\$ 36,661	7.9%	\$ 123,001	\$ 105,418	16.7%
Research and development	5,238	4,251	23.2%	14,695	12,633	16.3%
R&D as a percentage of net revenues	13.2%	11.6%		11.9%	12.0%	

Research and development expenses consist primarily of costs related to personnel and overhead, non-recurring engineering charges, and other costs associated with the design, prototyping, testing, manufacturing process design support, and technical customer applications support of our products. The \$987,000 expense increase for the three month period ended April 2, 2011 as compared to the same period of the prior year is attributable in part to the acquisition of PTI, which added \$704,000 of research and development expenses for the quarter, with overall increases of \$647,000 in compensation expenses and \$232,000 in depreciation, rent, utilities and supplies. The approximately \$2.1 million expense increase for the nine month period ended April 2, 2011 as compared to the same period of the prior year is primarily attributable to the acquisition of PTI, which added approximately \$1.8 million of research and development expenses for the period, with overall increases of \$1.7 million in compensation expenses and \$456,000 in depreciation and supplies.

The Company believes that continued spending on research and development to develop new products and improve manufacturing processes is critical to the Company’s long-term success, and as a result expects to

continue to invest in research and development projects. In the short term, the Company intends to continue to focus on cost control as business conditions improve. If business conditions deteriorate or the rate of improvement does not meet our expectations, the Company may implement further cost-cutting actions.

Selling, General and Administrative (“SG&A”)

(In thousands)	Three Months Ended			Nine Months Ended		
	April 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Net revenues	\$ 39,555	\$ 36,661	7.9%	\$ 123,001	\$ 105,418	16.7%
Selling, general and administrative	7,231	6,201	16.6%	21,960	19,065	15.2%
SG&A as a percentage of net revenues	18.3%	16.9%		17.9%	18.1%	

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 of approximately \$1.0 million for the three month period ended April 2, 2011 as compared to the same period of the prior year is attributable primarily to the acquisition of PTI, which added \$827,000 of selling, general and administrative expenses for the quarter, with overall increases of \$382,000 in compensation expenses, \$271,000 in depreciation and amortization expense, and \$360,000 in other departmental expenses. The expense increase of approximately \$2.9 million for the nine month period ended April 2, 2011 as compared to the same period of the prior year is attributable in part to the acquisition of PTI, which added approximately \$2.1 million of selling, general and administrative expenses for the period, with overall increases of \$1.6 million in compensation expenses, \$282,000 in travel and entertainment expenses, \$925,000 in rent, utilities, depreciation and amortization expenses and \$1.1 million for various other department expenses, partially offset by decreased expenditures of \$1.0 million for legal and accounting fees, which were high in the prior year due to the fiscal 2009 year-end accounting review, quarterly restatements and delayed 10-K filing.

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

Interest and Other Income

(In thousands)	Three Months Ended			Nine Months Ended		
	April 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Interest income	\$ 1,128	\$ 1,172	-3.8%	\$ 3,366	\$ 4,232	-20.5%
Gain on previously held interest in PTI	-	-		11,004	-	
Other income (expense), net	(238)	34		(514)	34	
Foreign currency exchange gain (loss)	242	13		(173)	(116)	
Interest and other income	\$ 1,132	\$ 1,219		\$ 13,683	\$ 4,150	

Interest and other income for the three month period ended April 2, 2011 decreased \$87,000 as compared with the same period of the prior year due to modestly lower returns on short-term investments as well as the increase in fair value of the earn-out liability on the PTI acquisition of \$204,000, partially offset by \$242,000 of foreign currency exchange gains. Interest and other income for the nine month period ended April 2, 2011 increased approximately \$9.5 million as compared with the same period of the prior year due primarily to the \$11.0 million gain recorded on the Company’s previously held interest in PTI, partially offset by somewhat lower returns on invested balances as well as the increase in fair value of the earn-out liability on the PTI acquisition of \$481,000.

Income Tax Expense

(In thousands)	Three Months Ended			Nine Months Ended		
	April 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Pre-tax income	\$ 1,028	\$ 3,705	-72.3%	\$ 17,541	\$ 7,970	120.1%
Income tax	514	1,260	-59.2%	6,338	2,737	131.6%
Effective tax rate	50%	34%		36%	34%	

The increase in the effective tax rate for the three months ended April 2, 2011 over the same period of the prior year is due to a combination of reduced current period pre-tax income coupled with the quarterly income tax accrual needed to achieve the appropriate tax accrual for the year-to-date period.

The increase in income tax expense for the nine months ended April 2, 2011 over the same period of the prior year is due to the significant increase in income before income taxes resulting from improved operating performance on increased sales and deferred taxes on the one-time gain on the Company's previously held interest in PTI. The effective tax rates for the nine month periods ended April 2, 2011 and March 27, 2010 were comparable at 36% and 34%, respectively.

Our effective tax rate may differ from the federal statutory rate primarily due to state income taxes, research and development tax credits, share-based compensation from incentive stock options, tax-exempt interest income, and differing tax rates in income-earning foreign jurisdictions.

Equity in Net Income of Unconsolidated Affiliates

(In thousands)	Three Months Ended			Nine Months Ended		
	April 2, 2011	March 27, 2010	% Change	April 2, 2011	March 27, 2010	% Change
Equity in net income of PTI	\$ -	\$ 521	-100%	\$ 467	\$ 1,418	-67%
Equity in net income of JCP	17	87	-80%	184	253	-27%
Total	\$ 17	\$ 608	-97%	\$ 651	\$ 1,671	-61%

Equity in net income of unconsolidated affiliates includes our allocated portion of the net income of Pericom Technology Inc. ("PTI"), a British Virgin Islands corporation based in Shanghai, People's Republic of China and Hong Kong prior to the acquisition of the rest of PTI at the end of August 2010. Our allocated portion of PTI's results was income of \$467,000 for July and August 2010 as compared with income of \$521,000 and \$1.4 million for the three and nine month periods ended March 27, 2010, respectively.

Equity in net income of unconsolidated affiliates also includes the Company's allocated portion of the net income of Jiyuan Crystal Photoelectric Frequency Technology Ltd. ("JCP"), an FCP manufacturing company located in Science Park of Jiyuan City, Henan Province, China. JCP is a key manufacturing partner of SRe, and SRe has acquired a 49% equity interest in JCP. For the three and nine month periods ended April 2, 2011, the Company's allocated portion of JCP's results was income of \$17,000 and \$184,000, respectively, as compared with income of \$87,000 and \$253,000 for the three and nine month periods ended March 27, 2010, respectively.

Liquidity and Capital Resources

As of April 2, 2011, the Company's principal sources of liquidity included cash, cash equivalents and short-term and long-term investments of approximately \$120.9 million as compared with \$118.9 million on July 3, 2010.

The Company's investment in debt securities includes government securities, commercial paper, corporate debt securities and mortgage-backed and asset-backed securities. Government securities include US

treasury securities, US federal agency securities, foreign government and agency securities, and US state and municipal bond obligations. Many of the municipal bonds are insured; those that are not are nearly all AAA/Aaa rated. The corporate debt securities are all investment grade and nearly all are single A-rated or better. The asset-backed securities are AAA/Aaa rated and are backed by auto loans, student loans, credit card balances and residential or commercial mortgages. Most of our mortgage-backed securities are collateralized by prime residential mortgages issued by government agencies including FNMA, FHLMC and FHLB. Those issued by banks are AAA-rated. At April 2, 2011, unrealized gains on marketable securities net of taxes were \$173,000. When assessing marketable securities for other than temporary declines in value, we consider a number of factors. Our analyses of the severity and duration of price declines, portfolio manager reports, economic forecasts and the specific circumstances of issuers indicate that it is reasonable to expect marketable securities with unrealized losses at April 2, 2011 to recover in fair value up to our cost bases within a reasonable period of time. We have the ability and intent to hold investments with unrealized losses until maturity, when the obligors are required to redeem them at full face value or par, and we believe the obligors have the financial resources to redeem the debt securities. Accordingly, we do not consider our investments to be other than temporarily impaired at April 2, 2011.

As of April 2, 2011, \$23.3 million was classified as cash and cash equivalents compared with \$29.5 million as of July 3, 2010. 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 2, 2011, the Company spent approximately \$9.7 million on property and equipment compared to \$6.7 million for the nine month period ended March 27, 2010. The Company generated approximately \$3.4 million of interest income for the nine month period ended April 2, 2011, as compared with \$4.2 million of interest income for the nine month period ended March 27, 2010. In the longer term the Company may generate less interest income if its total invested balance decreases and these decreases are not offset by rising interest rates or increased cash generated from operations or other sources.

The Company's net cash provided by operating activities of \$14.8 million for the nine months ended April 2, 2011 was primarily the result of net income of \$11.9 million, non-cash expenses of \$7.9 million in depreciation and amortization, \$3.3 million of share-based compensation expense and \$4.1 million of deferred taxes, partially offset by an \$11.0 million gain on previously held shares of PTI, a \$1.5 million gain on sale of investments in marketable securities and \$651,000 equity in net income of unconsolidated affiliates. Additional contributions to cash included decreases of \$4.5 million in accounts receivable, \$2.6 million in inventory and an increase of \$1.6 million in long-term liabilities. Such contributions were partially offset by increases of \$707,000 in prepaid expenses and other current assets, and \$225,000 in other assets, and decreases of \$4.5 million in accounts payable and \$3.1 million in other current liabilities. The Company's net cash provided by operating activities was \$7.3 million in the nine months ended March 27, 2010.

The Company's cash used in investing activities of \$26.9 million for the nine months ended April 2, 2011 was due to the use of \$17.5 million for the acquisition of PTI net of cash acquired, additions to property and equipment of approximately \$9.7 million and a \$2.9 million increase in restricted cash balances, partially offset by sales and maturities of short-term investments exceeding purchases of short-term investments by approximately \$3.3 million. The Company's cash used in investing activities was \$7.8 million for the nine months ended March 27, 2010.

The Company's cash provided by financing activities for the nine months ended April 2, 2011 of \$5.1 million was primarily the result of \$6.4 million generated from short-term bank loans and \$1.0 million in proceeds generated from the issuance of common stock in the Company's employee stock plans, partially offset by using \$2.5 million for repurchase of the Company's common stock. The Company's cash used in financing activities was \$2.8 million for the nine months ended March 27, 2010.

On August 31, 2010, the Company completed the acquisition of PTI for approximately \$30.6 million, of which \$25 million was paid out at close and \$5.6 million held in escrow and certain other accounts pending satisfaction of terms and conditions in the Merger Agreement. Upon satisfaction of certain of those conditions, approximately \$1.9 million has been paid out since the acquisition. In addition up to an additional approximately \$6 million in earn-out consideration and bonus payments is also payable by the Company upon achievement of gross profit objectives during fiscal year 2011.

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. We believe our current cash balances and cash flows generated by operations will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures.

Contractual Obligations and Commitments

The Company's contractual obligations and commitments at April 2, 2011 are as follows:

(In thousands)	Total	Payments Due by Period			Thereafter
		Less than 1 Year	1 – 3 Years	3 – 5 Years	
Operating leases	\$ 3,827	\$ 1,430	\$ 2,371	\$ 26	\$ -
Yangzhou capital injection commitment	15,000	7,000	8,000	-	-
Short-term debt	6,995	6,995	-	-	-
Capital equipment purchase obligations	1,665	967	698	-	-
Total obligations	<u>\$ 27,487</u>	<u>\$ 16,392</u>	<u>\$11,069</u>	<u>\$ 26</u>	<u>\$ -</u>

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.

We have no purchase obligations other than routine purchase orders and the capital equipment purchase commitments shown in the table as of April 2, 2011.

We completed the initial phase of our new FCP facility in Jinan, People's Republic of China, during fiscal 2010 and the plant commenced operations in the quarter ended March 27, 2010. While further expansion of the plant is anticipated in the future, we have not yet begun planning for the next phase and do not anticipate significant outlays in the next twelve months.

On December 1, 2009, the Company entered into an R&D Center Investment Agreement (the "R&D Agreement") with the Administrative Committee of the Yangzhou Economic and Technology Development Zone (the "Zone") for the Company's investment in the Zone, located in Jiangsu Province, People's Republic of China. Under the R&D Agreement, the Company or its majority-owned affiliate will invest in and establish a research and development center to engage in the research and development of the IC design technologies related to "high-speed serial connectivity" and the "XO crystal oscillator" and the manufacture of relevant products. It is expected that the Company's total investment, over a period of two to three years, will be approximately \$30 million. As of April 2, 2011, the Company's remaining commitment for the Yangzhou project is \$15 million, which is included in the table above.

Off-Balance Sheet Arrangements

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

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 and net income; impairment of goodwill, other intangible assets and investments, which impacts the goodwill, intangible asset and investment accounts; and stock-based compensation, which impacts costs of goods sold and operating expenses. These policies and the estimates and judgments involved are discussed further below.

REVENUE RECOGNITION. The Company recognizes revenue from the sale of its products upon shipment, provided title and risk of loss has passed to the customer, the price 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 2, 2011, the majority of the Company's revenues were from sales to distributors.

The Company sells products to large, domestic distributors at the price listed in its price book for that distributor. The Company recognizes revenue at the time of shipment. At the time of sale the Company books 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. The sales reserve is offset against revenues, which then leads to the net revenue amount reported.

The market price for the Company's products can be significantly different from the book price at which the product was sold to the distributor. When the market price, as compared with the book price, of a particular sales opportunity from the distributor to their customer would result in low or negative margins to the 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. The Company captures these historical SSD rates from its historical records to estimate the ultimate net sales price to the distributor.

The Company's distribution agreements provide for semi-annual stock rotation privileges of typically 10% of net sales for the previous three-month period. The contractual stock rotation applies only to shipments at book price. Asian distributors typically buy the Company's product at less than book price and therefore are not entitled to the 10% stock rotation privilege. In order to provide for routine inventory refreshing, for the Company's benefit as well as theirs, the Company grants Asian distributors stock rotation privileges between 1% and 5% even though the Company is not contractually obligated to do so. Each month a sales reserve is recorded for the estimated stock rotation privilege anticipated to be utilized by the distributors that month. This reserve is the sum of product of each distributor's net sales for the month and their 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 RMA being established. The Company is only obligated to accept returns of defective parts. For customer convenience, the Company may approve a particular return request even though it is not obligated to do so. Each month a sales reserve is recorded for the approved RMAs that have not yet been returned. The Company does not keep 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.

Price protection is granted solely at the discretion of Pericom management. The purpose of price protection is to reduce the distributor's cost of inventory as market prices fall, thus reducing SSD rates. Pericom sales management prepares price protection proposals for individual products located at individual distributors. Pericom general management reviews these proposals and if a particular price protection arrangement is approved, 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 the distributor's inventory. A sales reserve is then recorded in that period for the estimated amount.

At the discretion of Pericom management, the Company 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 the Company charges its distributor customers. The rebate 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 the Company records for sales to its distributors is net of estimated provisions for these programs. When determining this net revenue, the Company must make significant judgments and estimates. The Company's 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 the Company's estimates. The Company's financial condition and operating results depend on its ability to make reliable estimates and management believes such estimates are reasonable.

PRODUCT WARRANTY. The Company offers a standard one-year product replacement warranty. In the past the Company has not had to accrue for a general warranty reserve, but assesses the level and materiality of RMAs and determines whether it is appropriate to accrue for estimated returns of defective products at the time revenue is recognized. On occasion, management may determine to accept product returns beyond the standard one-year warranty period. In those instances, the Company accrues for the estimated cost at the time the decision to accept the return is made. As a consequence of the Company's standardized manufacturing processes and product testing procedures, returns of defective product are infrequent and the quantities have not been significant. Accordingly, historical warranty costs have not been material.

SHIPPING COSTS. Shipping costs are charged to cost of revenues as incurred.

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 reserved if it has not moved in 365 days. The Company reviews its assembled devices for excess and writes them off if the quantity of assembled devices in inventory is in excess of the greater of the quantity shipped in the previous twelve months, the quantity in backlog or the quantity forecasted to be shipped in the following twelve months. 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 Company does occasionally determine that the last twelve months' sales levels will not continue and reserves inventory in line with the quantity forecasted. 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 and resulting in material effects on our gross margin.

IMPAIRMENT OF GOODWILL AND INTANGIBLE ASSETS. The Company performs an impairment review of its goodwill and intangible assets at least annually and more frequently if certain indicators of impairment are present. In the event that management determines that the value of goodwill or intangible assets has become impaired, the Company will record an expense for the amount impaired during the fiscal quarter in which the determination is made. Based on the results of its most recent impairment review, the Company determined that no impairment of its goodwill and intangible assets existed as of July 3, 2010. However, future impairment reviews could result in a charge to earnings.

INVESTMENTS. We have made 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 carryforwards. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

At April 2, 2011 our investment portfolio consisted of investment-grade fixed income securities, excluding those classified as cash equivalents, of \$97.5 million. These securities are subject to interest rate risk and will decline in value if market interest rates increase. 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.

When the general economy weakens significantly, as it did in 2008 and 2009, the credit profile, financial strength and growth prospects of certain issuers of interest-bearing securities held in our investment portfolios may deteriorate, and our interest-bearing securities may lose value either temporarily or other than temporarily. We may implement investment strategies of different types with varying duration and risk/return trade-offs that do not perform well. At April 2, 2011, we held a significant portion of our corporate cash in diversified portfolios of investment-grade marketable securities, mortgage- and asset-backed securities, and other securities that had unrealized gains net of tax of \$173,000. Although we consider unrealized gains and losses on individual securities to be temporary, there is a risk that we may incur other-than-temporary impairment charges if credit and equity markets are unstable and adversely impact securities issuers.

The Company transacts business in various non-U.S. currencies, primarily the New Taiwan Dollar, the Hong Kong Dollar, the Chinese Renminbi and the Japanese Yen. The Company is exposed to fluctuations in foreign currency exchange rates on accounts receivable and accounts payable from sales and purchases in these foreign currencies and the net monetary assets and liabilities of our foreign subsidiaries. A hypothetical 10% favorable or unfavorable change in foreign currency exchange rates would have a material impact on our financial position and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer has evaluated the effectiveness of our disclosure controls and procedures. Based on such evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of April 2, 2011 due to the fact that management had not fully remediated the material weakness described in our annual report on Form 10-K for the year ended July 3, 2010.

Changes in Internal Control over Financial Reporting

As previously disclosed in our Form 10-K for the year ended July 3, 2010, our Company's management identified and reported to our Audit Committee the following control deficiencies, each of which constitutes a material weakness in our internal control over financial reporting as of July 3, 2010:

- We did not maintain sufficient controls over the review of period-end inventory accounting. In addition, as a result of the implementation of our new enterprise resource planning ("ERP") system in fiscal 2009, certain cost data was inadvertently misclassified which led to an error in cost of goods sold.
- We did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the Company's financial reporting requirements. As a result, the Company concluded that controls over the financial statement close process related to account reconciliations and analyses, including investment accounts, accounts receivable reserves, inventories, accounts payable and accrued liabilities, were not effective.

As a result, we concluded that as of July 3, 2010 our internal control over financial reporting was not effective.

The Company is committed to continuing to improve its internal control processes and will continue to diligently and vigorously review its internal control over financial reporting in order to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In response to the material weaknesses discussed above, we plan to continue to review and make necessary changes to improve our internal control over financial reporting, including the roles and responsibilities of each functional group within the organization and reporting structure, as well as the appropriate policies and procedures to improve the overall internal control over financial reporting.

We consider the remediation of our material weaknesses in our internal control over financial reporting which we identified in the fiscal year ended July 3, 2010 a significant priority for the Company. We will continue our efforts in this regard. During the third quarter ended April 2, 2011, we have implemented new controls and policies surrounding the preparation and review of significant period-end account reconciliations, particularly in the area of inventory and related reserves, accounts payable and accrued liabilities, and accounts receivable reserves, to remediate the material weaknesses described in our fiscal 2010 Form 10-K. We have added personnel with accounting knowledge, experience and training in the application of U.S. generally accepted accounting principles for inventories and related processes to further enhance the controls in our period-end close processes. Additionally, we have substantially completed the enhancement and re-engineering of our enterprise-wide financial application to support the timeliness and accuracy of our period-end reporting process with the assistance of a qualified third party consulting firm. While we believe we have made progress, we will not be able to conclude whether remediation has been effective until testing is completed later in our fiscal year.

Except for the changes described above, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended April 2, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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. The listing below includes any material changes to and supersedes the description of the risk factors affecting our business previously disclosed in "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended July 3, 2010.

FACTORS THAT MAY AFFECT OPERATING RESULTS

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

We continue to face a challenging business environment and limited visibility on end-market demands. Wide varieties of factors affect our operating results. These factors include the following:

- changes in the quantity of our products sold;
- changes in the average selling price of our products;
- general conditions in the semiconductor industry;
- changes in our product mix;
- a change in the gross margins of our products;
- the operating results of the FCP product line, which normally has a lower profit margin than IC products;
- expenses incurred in obtaining, enforcing, and defending intellectual property rights;
- the timing of new product introductions and announcements by us and by our competitors;
- customer acceptance of new products introduced by us;
- delay or decline in orders received from distributors;
- growth or reduction in the size of the market for interface ICs;
- the availability of manufacturing capacity with our wafer suppliers, especially to support sales growth and new products;
- 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.

Our earnings are subject to substantial quarterly and annual fluctuations and to adverse economic conditions and market downturns

Our revenues and earnings have fluctuated significantly in the past and may fluctuate significantly in the future. General economic or other conditions could cause a downturn in the market for our products or technology. The 2008-2009 financial disruption affecting the banking system, investment banks, insurance companies and financial markets resulted in a tightening in the credit markets, a low level of liquidity in many financial markets and extreme volatility in fixed income, credit and equity markets. In addition to the potential impact of such disruptions on our marketable securities portfolio, there could be a number of follow-on effects on our business that could also adversely affect our operating results. Disruptions may result in the insolvency of key suppliers resulting in product delays; the inability of our customers to obtain credit to finance purchases of our products and/or customer insolvencies that cause our customers to change delivery schedules, cancel or reduce orders; a slowdown in global economies which could result in lower end-user demand for our products; and increased impairments of our investments. Net investment income could vary from expectations depending on the gains or losses realized on the sale or exchange of securities, gains or losses from equity method investments, and impairment charges related to marketable securities. Our cash and marketable securities investments represent significant assets that may be subject to fluctuating or even negative returns depending upon interest rate movements and financial market conditions in fixed income securities. Volatility in the financial markets and overall economic uncertainty increases the risk of substantial quarterly and annual fluctuations in our earnings.

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

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

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

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 potential future acquisitions may not be successful.

Our 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.

In August 2010, we completed the acquisition of outstanding PTI shares not owned by us, as described in Note 6 of Notes to Condensed Consolidated Financial Statements. We are in the process of integrating PTI as a wholly-owned subsidiary and may experience one or more of the risks summarized above in the process of completing that integration.

As part of our business strategy, we expect to seek acquisition prospects 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 new FASB rules 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 and our independent registered public accounting firm determined that we had material weaknesses in our internal control over financial reporting as of the end of our fiscal year ended July 3, 2010. There can be no assurance that a material weakness will not arise in the future. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Under SEC rules, we are required to maintain, and evaluate the effectiveness of, our internal control over financial reporting and disclosure controls and procedures.

In our annual reports on Form 10-K for the years ended July 3, 2010, June 27, 2009, June 30, 2007 and July 2, 2005, we reported material weaknesses in our internal control over financial reporting. The June 30, 2007 and July 2, 2005 material weaknesses were subsequently remediated.

As reported in Item 4 of Part I of this Form 10-Q, Pericom had material weaknesses in internal control over financial reporting as of July 3, 2010, and management and our independent registered public accounting firm determined that as of July 3, 2010, our internal control over financial reporting was not effective. As set forth in this Form 10-Q, we also determined that our disclosure controls and procedures were not effective as of April 2, 2011 due to the fact that management had not fully remediated the material weaknesses described in the prior year Form 10-K. The material weaknesses are also described in Item 4 of this report.

In addition, we are expanding our overseas operations, and as we grow in these locations, we may have difficulty in recruiting and retaining a complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with our financial reporting requirements. Our current and future results of operations may be adversely affected by significant costs related to our investigation of and remedial measures relating to internal control of financial reporting. Although we have renewed our efforts to maintain effective internal control of financial reporting as described in Item 4 of this report on Form 10-Q, there can be no assurance that we will succeed in remediating the material weaknesses that have been identified. There also can be no assurance that other material weaknesses or significant deficiencies will not arise in the future. Should we or our independent registered public accounting firm determine in future periods that we have a material weakness in our internal control over financial reporting, the reliability of our financial reports may be impacted, and investors could lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price and we could suffer other materially adverse consequences if our future internal control over financial reporting and disclosure controls and procedures are not effective.

Our finance department has undergone, and continues to undergo, significant changes.

The Company has recently undergone significant turnover of personnel in the finance department, including in significant positions. During the prior fiscal year, the Company hired a new Chief Financial Officer, Corporate Controller, Director of Internal Audit, General Accounting Manager and Cost Accounting Manager. The Company is in the process of implementing changes in its finance department, including but not limited to implementing improved processes and procedures and enhancing training in certain areas. There can be no assurance that these changes will sufficiently improve the Company's finance functions, or that the finance personnel turnover the Company has experienced will not continue. In either event, the reliability of our financial reports may be impacted, and investors may lose confidence in the accuracy or completeness of our financial reports, which could have an adverse impact on our stock price.

Customer demands for the Company's products are 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, may affect 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. Redesigning our products to comply with new regulations may result in increased research and development and manufacturing and quality control costs. In addition, the products we manufacture that comply with 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 new 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 GlobalFoundries, Inc. and MagnaChip Semiconductor, Inc. in particular, to meet our manufacturing requirements would delay our production and product shipments and harm our business.

In recent years, we purchased over 70% of our wafers from MagnaChip and GlobalFoundries, with the balance coming from three to five other suppliers. 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 GlobalFoundries 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, GlobalFoundries shut down one of their production facilities that was used to manufacture our products. We transitioned the production of these products to different facilities. 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 any change.

At present, we purchase wafers from our suppliers through the issuance of purchase orders based on our rolling nine-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 nine 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. 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 currently hold 109 patents covering certain aspects of our product designs and have 6 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 are subject to risks related to taxes.

A number of factors, including unanticipated changes in the mix of earnings in countries with differing statutory tax rates or by unexpected changes in existing tax laws or our interpretation of them, could unfavorably affect our future effective tax rate. In the event our management determines it is no longer more likely than not that we will realize a portion of our deferred tax assets we will be required to increase our valuation allowance which will result in an increase in our effective tax rate. Furthermore, our tax returns are subject to examination in all the jurisdictions in which we operate which subjects us to potential increases in our tax liabilities. All of these factors could have an adverse effect on our financial condition and results of operations.

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 is 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 rely on independent manufacturers who may not be able to meet our manufacturing requirements.

We do not manufacture any of our IC products. Therefore, we are referred to in the semiconductor industry as a "fabless" producer. We depend upon third party foundries to produce wafers and subcontractors to manufacture IC products that meet our specifications. We currently have third party manufacturers located in China, Taiwan, Singapore, Malaysia, India, Korea and Japan that can produce products which 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. We are directly involved in the manufacture of our FCP products. As technologies continue to evolve there may be manufacturing related problems that affect our FCP products. In addition, we have opened up a new FCP facility located in the Jinan Development Zone in Shandong Province, China, which adds the uncertainties involved with staffing and operating a new facility in a country where we have no previous operating experience.

In March 2011 an earthquake and tsunami occurred off the northeast coast of Japan which has disrupted the global supply chain for core materials manufactured in Japan that are incorporated in our products and manufacturing equipment. While we believe our supply requirements are relatively secure, we are closely monitoring the effect of the events in Japan on end demand patterns and inventory levels throughout the supply chain. Such supply chain disruptions stemming from the occurrences in Japan could negatively impact our ability to procure an adequate supply to fulfill our customers' demand for our products.

Only a small number of our semiconductor products are currently manufactured by more than one supplier. We place our orders on a purchase order basis and do not have a long term purchase agreement with any of our existing suppliers. In the event that a supplier was unable or unwilling to continue to manufacture our products in the required volumes, we would have to identify and qualify a substitute supplier. Introducing new products or transferring existing products to a new third party manufacturer or process may result in unforeseen product specification and operating problems. These problems may affect our shipments and may be costly to correct. Silicon fabrication capacity may also change, or the costs per silicon wafer may increase. Manufacturing-related problems may have a material adverse effect on our business.

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

A relatively small number of customers have accounted for a significant portion of our net revenues in each of the past several fiscal years. In general we expect this to continue for the foreseeable future. We had two direct customers that each accounted for more than 10% of net revenues during the nine months ended April 2, 2011. As a percentage of net revenues, sales to our top five direct customers during the nine months ended April 2, 2011 totaled 52%.

We do not have long-term sales agreements with any of our customers. Our customers are not subject to minimum purchase requirements, may reduce or delay orders periodically due to excess inventory and may discontinue purchasing our products at any time. Our distributors typically offer competing products in addition to ours. For the nine months ended April 2, 2011 and the fiscal year ended July 3, 2010, sales to our distributors were approximately 68% and 62% of net revenues, respectively, as compared to approximately 56% of net revenues in the fiscal year ended June 27, 2009 and approximately 49% of net revenues in the fiscal year ended June 28, 2008. The increase in the percentage of sales to our distributors as compared with the prior periods was due to growth in sales to Asian distributor customers. The loss of one or more significant customers, or the decision by a significant distributor to carry additional product lines of our competitors could decrease our revenues.

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

Risks associated with international business operations include 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.

Although most of our products are sold in U.S. dollars, we incur a significant amount of certain types of expenses, such as payroll, utilities, capital equipment purchases and taxes in local currencies. The impact of currency exchange rate movements could harm our results and financial condition. In addition, changes in tariff and import regulations and in U.S. and non-U.S. monetary policies could harm our results and financial condition by increasing our expenses and reducing our revenue. Varying tax rates in different jurisdictions could harm our results of operations and financial condition by increasing our overall tax rate.

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

We are expanding our presence in China with manufacturing and research and development activities. We will be subject to increased risks relating to foreign currency exchange rate fluctuations that could have a material adverse affect on our business, financial condition and operating results. The value of the Chinese

renminbi against the United States dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. Significant future appreciation of the renminbi could increase our component and other raw material costs as well as our labor costs, and could adversely affect our financial results. To the extent that we need to convert United States dollars into renminbi for our operations, appreciation of renminbi against the United States dollar could have a material adverse effect on our business, financial condition and results of operations. Conversely, if we decide to convert our renminbi into United States dollars for other business purposes and the United States dollar appreciates against the renminbi, the United States dollar equivalent of the renminbi we convert would be reduced. The Chinese government recently announced that it is pegging the exchange rate of the renminbi against a number of currencies, rather than just the United States dollar. Fluctuations in the renminbi exchange rate could increase and could adversely affect our ability to operate our business.

Because we sell products in foreign markets and have operations outside of the United States, we face foreign business, political and economic risks that could seriously harm us.

In the nine months ended April 2, 2011, we generated approximately 89% of our net revenues from sales in Asia and approximately 4% from sales outside of Asia and the United States. In fiscal year 2010, we generated approximately 87% of our net revenues from sales in Asia and approximately 4% from sales outside of Asia and the United States. In fiscal 2009, we derived approximately 88% of our net revenues from sales in Asia and approximately 4% from sales outside of Asia and the United States. We expect that export sales will continue to represent the majority of net revenues. We intend to continue the expansion of 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 have subsidiaries located in Asia. We manufacture certain of our frequency control products in Taiwan as well as a recently completed factory in the Jinan Development Zone in the Shandong Province of the People's Republic of China. We are also in the process of developing a research and development and manufacturing center in Yangzhou, People's Republic of China. The development of these facilities depends upon various tax concessions, tax rebates and other support from the local governmental bodies in the areas where the facilities are located. There can be no assurance that these local governmental bodies will not change their position regarding such tax and other support and such a change might adversely affect the successful completion and profitability of these projects.

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 often 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 Series D Junior Participating Preferred Stock.

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 for 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. Taiwan is also exposed to typhoons and tsunamis, which can affect not only foundries we rely upon but also our subsidiary, PSE Technology Corporation. If a major earthquake, typhoon, tsunami or other natural disaster were to affect our operations or those of our suppliers, our product supply could be interrupted, which would seriously harm our business.

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

On April 29, 2008, the Board authorized the repurchase of \$30 million worth of common stock. The Company was authorized to repurchase the shares from time to time in the open market or private transactions, at the discretion of the Company's management. The following table summarizes the stock repurchase activity during the three months ended April 2, 2011.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum \$ Value That May Yet be Purchased Under the Plans or Programs</u>
January 2 -- January 31, 2011	-	\$ -	-	\$ 16,366,561
February 1 -- February 28, 2011	15,695	9.73	15,695	16,213,915
March 1 -- April 2, 2011	100,023	9.20	100,023	15,293,522
Total	<u>115,718</u>	<u>\$ 9.27</u>	<u>115,718</u>	<u>\$ 15,293,522</u>

Current cash balances and the proceeds from stock option exercises and purchases in the stock purchase plan have funded stock repurchases in the past, and the Company expects to fund future stock repurchases from these same sources.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Exhibit 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 Aaron Tachibana, 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 Aaron Tachibana, 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 6, 2011

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

By: /s/ Aaron Tachibana
Aaron Tachibana
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 6, 2011

/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, Aaron Tachibana, 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 6, 2011

/s/ Aaron Tachibana

Aaron Tachibana

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 2, 2011 (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 6, 2011

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 2, 2011 (the “Report”), I, Aaron Tachibana, 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 6, 2011

By: /s/ Aaron Tachibana
Aaron Tachibana
Chief Financial Officer
Pericom Semiconductor Corporation