

INTEGRATED DEVICE TECHNOLOGY INC
Form 10-Q
February 10, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 1, 2012

OR

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

For the transition period from _____ to _____

Commission File No. 0-12695

INTEGRATED DEVICE TECHNOLOGY, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

94-2669985
(I.R.S. Employer
Identification No.)

6024 SILVER CREEK VALLEY ROAD, SAN
JOSE, CALIFORNIA
(Address of Principal Executive Offices)

95138
(Zip Code)

Registrant's Telephone Number, Including Area Code: (408) 284-8200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common stock, \$.001 par value

Name of each exchange on which registered
The NASDAQ Stock Market LLC

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 of 1934 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

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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 definition 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 12b-2 of the Exchange Act)
Yes No

The number of outstanding shares of the registrant's Common Stock, \$.001 par value, as of January 29, 2012, was approximately 141,392,129.

INTEGRATED DEVICE TECHNOLOGY, INC.
 QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JANUARY 1, 2012
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ITEM 1. FINANCIAL STATEMENTSINTEGRATED DEVICE TECHNOLOGY, INC
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited in thousands)	January 1, 2012	April 3, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$110,414	\$104,680
Short-term investments	204,200	194,512
Accounts receivable, net	58,422	81,798
Inventories	78,649	67,041
Prepayments and other current assets	22,273	23,929
Total current assets	473,958	471,960
Property, plant and equipment, net	69,977	67,754
Goodwill	96,092	104,020
Acquisition-related intangible assets, net	44,908	51,021
Deferred tax assets	2,034	2,034
Other assets	29,825	30,671
Total assets	\$716,794	\$727,460
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$23,351	\$35,419
Accrued compensation and related expenses	33,402	32,784
Deferred income on shipments to distributors	14,087	12,853
Deferred tax liabilities	2,268	2,224
Other accrued liabilities	21,870	30,886
Total current liabilities	94,978	114,166
Deferred tax liabilities	1,519	1,513
Long-term income tax payable	764	712
Other long-term obligations	17,504	15,808
Total liabilities	114,765	132,199
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock: \$.001 par value: 10,000 shares authorized; no shares issued	---	---
Common stock: \$.001 par value: 350,000 shares authorized; 141,725 and 148,352 shares issued and outstanding at January 1, 2012 and April 3, 2011, respectively	142	148
Additional paid-in capital	2,368,058	2,343,726
Treasury stock at cost: 89,607 shares and 80,037 shares at January 1, 2012 and April 3, 2011, respectively	(972,285)	(909,824)
Accumulated deficit	(794,887)	(840,596)

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Accumulated other comprehensive income	1,001	1,807
Total stockholders' equity	602,029	595,261
Total liabilities and stockholders' equity	\$716,794	\$727,460

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTEGRATED DEVICE TECHNOLOGY, INC
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (unaudited in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Revenues	\$ 119,977	\$ 147,524	\$ 407,580	\$ 460,715
Cost of revenues	56,093	67,177	190,627	213,222
Gross profit	63,884	80,347	216,953	247,493
Operating expenses:				
Research and development	38,410	40,674	117,409	116,774
Selling, general and administrative	23,661	26,017	74,478	77,732
Total operating expenses	62,071	66,691	191,887	194,506
Operating income	1,813	13,656	25,066	52,987
Other-than temporary impairment loss on investments	(2,130)	---	(2,130)	---
Interest income and other, net	(10)	1,352	(1,794)	2,793
Income (loss) from continuing operations before income taxes	(327)	15,008	21,142	55,780
Provision for income taxes	576	111	1,176	1,659
Net income (loss) from continuing operations	(903)	14,897	19,966	54,121
Discontinued operations:				
Gain from divestiture	---	---	45,939	---
Loss from discontinued operations before income taxes	(5,290)	(5,124)	(20,286)	(15,404)
Benefit from income taxes	---	(21)	(89)	(64)
Net income (loss) from discontinued operations	(5,290)	(5,103)	25,742	(15,340)
Net income (loss)	\$(6,193)	\$9,794	\$45,708	\$38,781
Basic net income (loss) per share - continuing operations	\$(0.01)	\$0.10	\$0.14	\$0.35
Basic net income (loss) per share - discontinued operations	(0.03)	(0.04)	0.18	(0.10)
Basic net income (loss) per share	\$(0.04)	\$0.06	\$0.32	\$0.25
Diluted net income (loss) per share - continuing operations	\$(0.01)	\$0.10	\$0.14	\$0.35
Diluted net income (loss) per share - discontinued operations	(0.03)	(0.04)	0.17	(0.10)
Diluted net income (loss) per share	\$(0.04)	\$0.06	\$0.31	\$0.25
Weighted average shares:				
Basic	141,839	151,421	144,792	154,487
Diluted	141,839	152,975	146,706	155,525

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTEGRATED DEVICE TECHNOLOGY, INC
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited in thousands)

	Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011
Cash flows provided by operating activities:		
Net income	\$45,708	\$38,781
Adjustments:		
Depreciation	14,191	13,566
Amortization of intangible assets	12,129	14,916
Other-than temporary impairment loss on investments	2,130	---
Gain from divestiture	(45,939)	---
Stock-based compensation expense	12,574	13,207
Tax benefit from share based payment arrangements	(460)	---
Deferred tax provision	49	74
Changes in assets and liabilities (net of effects of acquisitions and divestiture):		
Accounts receivable, net	23,376	713
Inventories	(11,456)	(9,600)
Prepayments and other assets	886	1,445
Accounts payable	(11,727)	(1,900)
Accrued compensation and related expenses	914	7,790
Deferred income on shipments to distributors	1,234	(3,289)
Income taxes payable and receivable	1,265	1,384
Other accrued liabilities and long term liabilities	(8,242)	(5,228)
Net cash provided by operating activities	36,632	71,859
Cash flows provided by (used for) investing activities		
Acquisitions, net of cash acquired	(1,957)	(6,247)
Proceeds from divestitures	51,670	---
Cash in escrow related to acquisition	---	(1,160)
Purchases of intangible assets	(5,000)	---
Purchases of property, plant and equipment	(16,917)	(7,579)
Purchase of non-marketable equity securities	---	(2,500)
Proceeds from sales of non-marketable equity securities	2,619	---
Purchases of short-term investments	(450,156)	(349,701)
Proceeds from sales of short-term investments	294,485	36,765
Proceeds from maturities of short-term investments	145,934	318,318
Net cash provided by (used for) investing activities	20,678	(12,104)
Cash flows provided by (used for) financing activities		
Proceeds from issuance of common stock	11,139	9,775
Repurchases of common stock	(62,461)	(96,920)
Excess tax benefit from share based payment arrangements	460	(228)
Net cash used for financing activities	(50,862)	(87,373)
Effect of exchange rates on cash and cash equivalents	(714)	450
Net increase (decrease) in cash and cash equivalents	5,734	(27,168)

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Cash and cash equivalents at beginning of period	104,680	120,526
Cash and cash equivalents at end of period	\$110,414	\$93,358

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INTEGRATED DEVICE TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Integrated Device Technology, Inc. (“IDT” or the “Company”) contain all adjustments that are, in the opinion of management, necessary to state fairly the interim financial information included therein. Certain prior period balances have been reclassified to conform to the current period presentation. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company’s fiscal year is the 52- or 53-week period ending on the Sunday closest to March 31st. In a 52-week year, each fiscal quarter consists of thirteen weeks. In a 53-week year, the additional week is usually added to the third quarter, making such quarter consist of fourteen weeks. The first, second and third quarters of fiscal 2012 and fiscal 2011 were thirteen week periods.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the Company’s financial statements and the accompanying notes. Actual results could differ from those estimates.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 3, 2011. Operating results for the three and nine months ended January 1, 2012 are not necessarily indicative of operating results for an entire fiscal year.

There have been no significant changes in the Company’s significant accounting policies during the nine months ended January 1, 2012, as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K, as amended, for the fiscal year ended April 3, 2011.

Note 2

Revision of Prior Period Financial Statements

During the third quarter of fiscal 2012, the Company identified errors primarily related to retention bonuses associated with its plan to close its Oregon manufacturing facility (\$6.4 million expense). In addition, the Company had corrected prior period errors in the first and second quarters of 2012 related to retention bonuses (\$0.5 million expense) for certain key employees and accounts payable system related issues (\$1.0 million benefit) respectively. The Company assessed the materiality of these errors individually and in the aggregate on prior periods’ financial statements in accordance with the SEC’s Staff Accounting Bulletin No. 99 (“SAB 99”), and concluded that the errors were not material to any of its prior annual or interim financial statements. The Company also concluded that correcting the errors, on a cumulative basis, would not be material to the expected results of operations for the year ended April 1, 2012. However, as permitted in SEC’s Staff Accounting Bulletin No. 108 (“SAB 108”), the Company elected to revise previously issued consolidated financial statements the next time they are filed. As each subsequent

filing is made in the future, the previous period consolidated financial statements affected by the errors will be revised. The Company has revised the April 3, 2011 consolidated balance sheet and the consolidated statements of operations for the three and nine months ended January 2, 2011 included herein to reflect the correct balances. Of the above mentioned errors, the amount related to the accounts payable system related issue will be corrected in the opening retained earnings and will not impact the earnings of current or subsequent filings. The impact of correcting these errors on net income as reported for the interim three month period ended July 3, 2011 and three and six month periods ended October 2, 2011 was a reduction of \$1.5 million, \$0.8 million and \$2.3 million, respectively.

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Set out below are the line items within the consolidated financial statements as of and for the three and nine months ended January 2, 2011 that have been impacted by the revisions. The revision had no impact on the Company's total cash flows from operating, investing or financing activities.

(in thousands, except per share amounts)	For the Three Months Ended January 2, 2011			For the Nine Months Ended January 2, 2011		
	As Reported (1)	Adjustments	As Revised	As Reported (1)	Adjustments	As Revised
Consolidated Statement of Operations						
Cost of revenues	\$66,507	\$ 670	\$67,177	\$211,212	\$ 2,010	\$213,222
Gross profit	81,017	(670)	80,347	249,503	(2,010)	247,493
Research and development	40,620	54	40,674	116,612	162	116,774
Selling, general and administrative	25,997	20	26,017	77,672	60	77,732
Total operating expenses	66,617	74	66,691	194,284	222	194,506
Operating income	14,400	(744)	13,656	55,219	(2,232)	52,987
Income from continuing operations						
before income taxes	15,752	(744)	15,008	58,012	(2,232)	55,780
Provision for income taxes	52	59	111	1,438	221	1,659
Net income from continuing operations	15,700	(803)	14,897	56,574	(2,453)	54,121
Net income	\$10,597	\$ (803)	\$9,794	\$41,234	\$ (2,453)	\$38,781
Basic income (loss) per share:						
Continuing operations	\$0.10	\$ -	\$0.10	\$0.37	\$ (0.02)	\$0.35
Net income (loss)	\$0.07	\$ (0.01)	\$0.06	\$0.27	\$ (0.02)	\$0.25
Diluted net income (loss) per share:						
Continuing operations	\$0.10	\$ -	\$0.10	\$0.37	\$ (0.02)	\$0.35
Net income (loss)	\$0.07	\$ (0.01)	\$0.06	\$0.27	\$ (0.02)	\$0.25

As of April 3, 2011

(in thousands)	As Reported	Adjustments	As Revised
Consolidated Balance Sheets			
Accounts payable	\$36,470	\$ (1,051)	\$35,419
Accrued compensation and related expenses	28,212	\$ 4,572	32,784
Total current liabilities	110,645	\$ 3,521	114,166
Total liabilities	128,678	\$ 3,521	132,199
Accumulated deficit	(837,075)	(3,521)	(840,596)
Total stockholders' equity	\$598,782	\$ (3,521)	\$595,261

1) Reflect's previously reported amounts as adjusted for discontinued operations (see Note 6).

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Note 3

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued amended guidance regarding the testing of goodwill for impairment. The objective of this amendment is to simplify how entities test goodwill for impairment. Under the updated guidance an entity is to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011. The adoption of this guidance on April 2, 2012 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued amended guidance regarding the presentation of comprehensive income. The amended guidance requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The amended guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance on January 2, 2012 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance on January 2, 2012 is not expected to have a material impact on the Company's consolidated financial statements.

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Note 4

Net Income Per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive potential common shares outstanding during the period. Potential common shares include employee stock options and restricted stock units.

(in thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Numerators (basic and diluted):				
Net income (loss) from continuing operations	\$ (903)	\$ 14,897	\$ 19,966	\$ 54,121
Net income (loss) from discontinued operations (including gain from divestiture)	(5,290)	(5,103)	25,742	(15,340)
Net income (loss)	\$ (6,193)	\$ 9,794	\$ 45,708	\$ 38,781
Denominators:				
Weighted average shares outstanding - basic	141,839	151,421	144,792	154,487
Dilutive effect of employee stock options and restricted stock units	---	1,554	1,914	1,038
Weighted average common shares outstanding, assuming dilution	141,839	152,975	146,706	155,525
Basic net income (loss) per share:				
Net income (loss) from continuing operations	\$ (0.01)	\$ 0.10	\$ 0.14	\$ 0.35
Net income (loss) from discontinued operations	(0.03)	(0.04)	0.18	(0.10)
Net income (loss)	\$ (0.04)	\$ 0.06	\$ 0.32	\$ 0.25
Diluted net income (loss) per share:				
Net income (loss) from continuing operations	\$ (0.01)	\$ 0.10	\$ 0.14	\$ 0.35
Net income (loss) from discontinued operations	(0.03)	(0.04)	0.17	(0.10)
Net income (loss)	\$ (0.04)	\$ 0.06	\$ 0.31	\$ 0.25

Stock options to purchase 18.9 million shares and 11.1 million shares for the three and nine months ended January 1, 2012, respectively, and 12.9 million shares and 16.9 million shares for the three and nine months ended January 2, 2011, respectively, were outstanding, but were excluded from the calculation of diluted earnings per share because the effect would have been anti-dilutive. In addition, unvested restricted stock units of 0.8 million and 0.7 million for the three and nine months ended January 1, 2012, respectively, and less than 0.1 million for the three and nine months ended January 2, 2011, respectively, were excluded from the calculation because they were anti-dilutive.

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Note 5

Business Combinations

Acquisition of Nethra Imaging

On November 2, 2011, the Company completed the acquisition of Nethra Imaging for \$2.0 million in cash consideration, of which \$0.3 million will be kept in escrow account for a period of one year. As a result of this transaction, IDT has obtained a SerDes team of engineers, rights to technology and a number of customer contracts.

The Company allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over those fair values was recorded as goodwill. The fair values assigned to tangible and intangible assets acquired are based on management estimates and assumptions.

The aggregate purchase price has been allocated as follows:

(in thousands)	Fair Value
Property, plant and equipment, net	\$51
Amortizable intangible assets - existing technology	874
Amortizable intangible assets - customer relationships	435
Goodwill and workforce	640
Total purchase price	\$2,000

Existing technology consists of products that have reached technological feasibility. The Company valued the existing technology utilizing a discounted cash flow (“DCF”) model, which uses forecasts of future revenues and expenses related to the intangible assets. The Company utilized a discount factor of 31% for existing technology and is amortizing the intangible asset over 3 years on a straight-line basis.

Customer relationship values have been estimated utilizing a DCF model, which uses forecasts of future revenues and expenses related to the intangible asset. The Company utilized a discount factor of 31% for this intangible asset and is amortizing this intangible asset over 3 years on a straight-line basis.

The Nethra Imaging acquisition related financial results have been included in the Company’s Consolidated Statements of Operations from the closing date of the acquisition on November 2, 2011. Pro forma earnings information has not been presented because the effect of the acquisition is not material to the Company’s historical financial statements.

Acquisition of Certain Assets of IKOR Acquisition Corporation (“IKOR”)

On April 16, 2010, the Company completed its acquisition of certain assets of IKOR, a former subsidiary of iWatt Corporation. IKOR designed and manufactured power voltage regulator module (VRM) solutions for high-performance computing. Pursuant to the agreement, the Company acquired IKOR- patented coupled inductor (“CL”) technology and related assets and hired members of IKOR’ engineering team. The total purchase price was \$7.7 million, including the fair value of contingent consideration of \$1.5 million payable upon the achievement of certain business performance metrics during the twelve months after the closing date. The fair value of the contingent consideration was estimated using probability-based forecasted revenue for the business as of the acquisition date. The maximum payment for this contingent consideration is \$2.8 million. Pursuant to the agreement, \$1.8 million in cash has been held in escrow and will be utilized to fund the contingent consideration payment. During the third quarter of fiscal 2011, the fair value of the contingent consideration was remeasured based on the revised revenue forecast for the business. As a result, the fair value of the contingent consideration increased \$0.3 million to

\$1.8 million. The change in the fair value of the contingent consideration was recorded in selling and administrative expenses in fiscal 2011. There was no change in the fair value of the contingent consideration during the first nine months of fiscal 2012. During the quarter ended January 1, 2012 the Company paid the \$1.8 million in contingent consideration through the release of the funds held in escrow.

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The Company allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over those fair values was recorded as goodwill. The acquired CL technology complements the Company's growing power management initiative, allowing it to achieve higher levels of performance and integration. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management estimates and assumptions.

The Company incurred approximately \$0.3 million of acquisition-related costs, which were included in selling, general and administrative ("SG&A") expenses on the Consolidated Statements of Operations for fiscal 2011.

The aggregate purchase price has been allocated as follows:

(in thousands)	Fair Value
Accounts receivable	\$836
Inventories	1,136
Prepayments and other current assets	63
Property, plant and equipment, net	277
Accounts payable and accrued expenses	(1,226)
Amortizable intangible assets	5,711
Goodwill	946
Total purchase price	\$7,743

A summary of the allocation of amortizable intangible assets is as follows:

(in thousands)	Fair Value
Amortizable intangible assets:	
Existing technologies	\$5,224
Customer relationships	443
Backlog	44
Total	\$5,711

Identifiable Tangible Assets and Liabilities

Assets and liabilities were reviewed and adjusted, if required, to their estimated fair value.

Inventories

The value allocated to inventories reflects the estimated fair value of the acquired inventory based on the expected sales price of the inventory, less reasonable selling margin.

Amortizable Intangible Assets

Existing technologies consist of products that have reached technological feasibility. The Company valued the existing technologies utilizing a discounted cash flow ("DCF") model, which uses forecasts of future revenues and expenses related to the intangible assets. The Company utilized discount factors of 35% - 36% for the existing technologies and is amortizing the intangible assets over 7 years on a straight-line basis.

Customer relationship values have been estimated utilizing a DCF model, which uses forecasts of future revenues and expenses related to the intangible asset. The Company utilized discount factor of 35% for this intangible asset and is

amortizing this intangible asset over 5 years on a straight-line basis.

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Backlog represents the value of the standing orders for IKOR products as of the closing date of the acquisition. Backlog was valued utilizing a DCF model and a discount factor of 15%. The value was amortized over five month period.

The IKOR acquisition related financial results have been included in the Company's Consolidated Statements of Operations from the closing date of the acquisition on April 16, 2010. Pro forma earnings information has not been presented because the effect of the acquisition is not material to the Company's historical financial statements.

Note 6

Discontinued Operations and Assets Held For Sale

On September 26, 2011, the Company completed the transfer of certain assets related to IDT's Hollywood Quality Video ("HQV") and Frame Rate Conversion ("FRC") video processing product lines to Qualcomm pursuant to an Asset Purchase Agreement. The sale of these HQV and FRC video processing assets is intended to allow the Company to intensify focus on its analog-intensive mixed-signal, timing, and interface and solutions. Upon the closing of the transaction, Qualcomm paid the Company \$58.7 million in cash consideration, of which \$6.0 million was withheld in an escrow account and is included in the Company's balance sheet as other assets (non-current). In the second quarter of fiscal 2012, the Company recorded a gain of \$45.9 million related to this divestiture. The following table summarizes the components of the gain (in thousands):

Cash proceeds from sale (including amounts held in escrow)	\$58,744
Less cost basis of assets sold and direct costs related to the sale:	
Fixed assets transferred to Qualcomm	(434)
Goodwill write-off	(8,568)
Intangible assets write-off	(1,818)
License write-off	(525)
Transaction and other costs	(1,460)
Gain on divestiture	\$45,939

The Company's HQV and FRC product lines represented a significant portion of the Company's video processing assets. The Company currently intends to fully divest its remaining video processing product lines within the next twelve months and has classified these assets as held for sale. As of January 1, 2012 the remaining video processing assets classified as held for sale consisted of \$1.0 million in fixed assets and \$0.7 million in intangible assets. The video processing lines were included as are part of the Company's Computing and Consumer reportable segment. For financial statement purposes, the results of operations for these discontinued businesses have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations.

The results of discontinued operations for the three and nine months ended January 1, 2012 and January 2, 2011 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Revenues	\$2,229	\$5,706	\$7,333	\$17,695
Cost of revenue	2,745	4,248	9,309	12,263
Operating expenses	4,774	6,582	18,310	20,836

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Gain on divestiture	---	---	45,939	---
Benefit for income taxes	---	(21)	(89)	(64)
Net income (loss) from discontinued operations	\$(5,290)	\$(5,103)	\$25,742	\$(15,340)

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Note 7

Fair Value Measurement

Fair value measurement is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing assets or liabilities. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact.

Fair Value Hierarchy

The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Quoted market prices for identical assets or liabilities in active markets at the measure date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of January 1, 2012:

(in thousands)	Fair Value at Reporting Date Using:			Total Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents and short-term investments:				
US government treasuries and agencies securities	\$ 157,279	\$ ---	\$ ---	\$ 157,279
Money market funds	61,259	---	---	61,259
Corporate commercial paper	---	8,494	---	8,494
Corporate bonds	---	38,088	---	38,088
Bank deposits	---	22,133	---	22,133
Municipal bonds	---	580	---	580
Total assets measured at fair value	\$ 218,538	\$ 69,295	\$ -	\$ 287,833

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The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of April 3, 2011:

(in thousands)	Fair Value at Reporting Date Using:			Total Balance
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents and short-term investments:				
US government treasuries and agencies securities	\$ 119,926	\$ ---	\$ ---	\$ 119,926
Money market funds	32,203	---	---	32,203
Corporate commercial paper	---	51,785	---	51,785
Corporate bonds	---	57,087	---	57,087
Bank deposits	---	17,764	---	17,764
Municipal bonds	---	369	---	369
Total assets measured at fair value	\$ 152,129	\$ 127,005	\$ ---	\$ 279,134
Liabilities:				
Fair value of contingent consideration	---	---	1,800	1,800
Total liabilities measured at fair value	\$ ---	\$ ---	\$ 1,800	\$ 1,800

U.S. government treasuries and U.S. government agency securities as of January 1, 2012 and April 3, 2011 do not include any U.S. government guaranteed bank issued paper. Corporate bonds include bank-issued securities that are guaranteed by the Federal Deposit Insurance Corporation (FDIC).

The securities in Level 1 are highly liquid and actively traded in exchange markets or over-the-counter markets. Level 2 fixed income securities are priced using quoted market prices for similar instruments, nonbinding market prices that are corroborated by observable market data.

In connection with the acquisition of IKOR (please see "Note 5 – Business Combinations"), a liability was recognized for the Company's estimate of the fair value of contingent consideration on the acquisition date based on probability-based forecasted revenue. This fair value measurement was based on significant inputs not observed in the market and thus represents a Level 3 measurement. This fair value measurement was valued based on unobservable inputs that were supported by little or no market activity and reflect the Company's own assumptions concerning future revenue of the acquired business in measuring fair value. During the quarter ended January 1, 2012 the Company paid the \$1.8 million in contingent consideration through the release of the funds held in escrow.

The following table summarizes the change in the fair value of the contingent consideration measured using significant unobservable inputs (Level 3) during the first nine months of fiscal 2012:

(in thousands)	Fair Value
Balance as of April 3, 2011	\$ 1,800
Additions	---

Settlements	(1,800)
Balance as of January 1, 2012	\$---

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Cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. The Company maintains its cash and cash equivalents with reputable major financial institutions. Deposits with these banks may exceed the FDIC insurance limits or similar limits in foreign jurisdictions. These deposits typically may be redeemed upon demand and, therefore, bear minimal risk. While the Company monitors daily the cash balances in its operating accounts and adjusts the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which the Company deposits fails or is subject to other adverse conditions in the financial markets. As of January 1, 2012, the Company has not experienced any losses in its operating accounts.

All of the Company's available-for-sale investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including a review of the closing price over the length of time, general market conditions and the Company's intent and ability to hold the investment for a period of time sufficient to allow for recovery. Although the Company believes its portfolio continues to be comprised of sound investments due to high credit ratings and government guarantees of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of its investments and their liquidity. The Company continually monitors the credit risk in its portfolio and future developments in the credit markets and makes appropriate changes to its investment policy as deemed necessary. The Company did not record any impairment loss related to its short-term investments in the three and nine months ended January 1, 2012 and January 2, 2011.

Note 8

Investments

Available- for -Sale Securities

All of the Company's cash equivalents and marketable securities are classified as "available-for-sale" securities. These securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income, a component of stockholders' equity, net of tax.

Available-for-sale investments at January 1, 2012 were as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries and agency securities	\$157,256	\$25	\$(2)	\$157,279
Corporate commercial paper	8,494	---	---	8,494
Corporate bonds	38,123	36	(71)	38,088
Money market funds	61,259	---	---	61,259
Bank deposits	22,133	---	---	22,133
Municipal bonds	578	2	---	580
Total available-for-sale investments	287,843	63	(73)	287,833
Less amounts classified as cash equivalents	(83,638)	---	5	(83,633)
Short-term investments	\$204,205	\$63	\$(68)	\$204,200

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Available-for-sale investments at April 3, 2011 were as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries and agency securities	\$ 119,917	\$ 17	\$(8)	\$ 119,926
Corporate commercial paper	51,785	---	---	51,785
Corporate bonds	57,001	104	(18)	57,087
Money market funds	32,203	---	---	32,203
Bank deposits	17,764	---	---	17,764
Municipal bonds	368	1	---	369
Total available-for-sale investments	279,038	122	(26)	279,134
Less amounts classified as cash equivalents	(84,623)	---	1	(84,622)
Short-term investments	\$ 194,415	\$ 122	\$(25)	\$ 194,512

The amortized cost and estimated fair value of available-for-sale securities at January 1, 2012, by contractual maturity, were as follows:

(in thousands)	Amortized Cost	Estimated Fair Value
Due in 1 year or less	\$ 272,059	\$ 272,083
Due in 1-2 years	13,798	13,775
Due in 2-5 years	1,986	1,975
Total investments in available-for-sale debt securities	\$ 287,843	\$ 287,833

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses as of January 1, 2012, aggregated by length of time that individual securities have been in a continuous loss position.

(in thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	\$ 16,146	\$(64)	\$ ---	\$ ---	\$ 16,146	\$(64)
U.S. government treasuries and agency securities	39,663	(10)	---	---	39,663	(10)
Total	\$ 55,809	\$(74)	\$ ---	\$ ---	\$ 55,809	\$(74)

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses as of April 3, 2011, aggregated by length of time that individual securities have been in a continuous loss position.

(in thousands)	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	\$ 24,176	\$(18)	\$ ---	\$ ---	\$ 24,176	\$(18)
U.S. government treasuries	36,531	(8)	---	---	36,531	(8)

and agency securities

Total	\$60,707	\$(26)	\$---	\$---	\$60,707	\$(26)
-------	----------	-------	---	-------	-------	----------	-------	---

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A significant portion of the available-for-sale investments held by the Company are high grade instruments. As of January 1, 2012, the unrealized losses on the Company's available-for-sale investments represented an insignificant amount in relation to its total available-for-sale portfolio. Because the Company has the ability to hold these investments until a recovery of fair value, which may be maturity, the Company did not consider these investments to be other-than-temporarily impaired at January 1, 2012 and April 3, 2011.

Non-Marketable Equity Securities

The Company accounts for its equity investments in privately held companies under the cost method. These investments are subject to periodic impairment review and measured and recorded at fair value when they are deemed to be other-than-temporarily impaired. In determining whether a decline in value of its investment has occurred and is other than temporary, an assessment was made by considering available evidence, including the general market conditions, the investee's financial condition, near-term prospects, market comparables and subsequent rounds of financing. The valuation also takes into account the investee's capital structure, liquidation preferences for its capital and other economic variables. The valuation methodology for determining the decline in value of non-marketable equity securities is based on inputs that require management judgment. The aggregate carrying value of the Company's non-marketable equity securities was approximately \$2.5 million and \$8.5 million as of January 1, 2012 and April 3, 2011, respectively, and was classified within other assets on the Company's Consolidated Balance Sheets. During the quarter ended January 1, 2012, the company reduced the estimated fair value of one of its non-marketable private equity investments and recorded a \$2.8 million other-than temporary impairment loss during the period. Also during the quarter, the Company sold a non-marketable equity security, which had been valued at \$2.0 million, for \$2.6 million and recorded a gain on sale of \$0.6 million in the period.

Note 9

Stock-Based Compensation

Compensation Expense

The following table summarizes stock-based compensation expense by line items appearing in the Company's Condensed Consolidated Statements of Operations:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Cost of revenue	\$535	\$370	\$1,415	\$1,260
Research and development	2,174	2,400	6,493	6,746
Selling, general and administrative	1,603	1,237	4,458	3,765
Discontinued operations	113	506	208	1,436
Total stock-based compensation expense	\$4,425	\$4,513	\$12,574	\$13,207

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations is based on awards ultimately expected to vest. The authoritative guidance for stock-based compensation requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company attributes the value of stock-based compensation to expense on an accelerated method.

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Valuation Assumptions

Assumptions used in the Black-Scholes valuation model and resulting weighted average grant-date fair values were as follows:

	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Stock option plans:				
Expected Term (in years)	4.3	4.6	4.3	4.6
Risk-free interest rate	0.8	% 1.5	% 1.4	% 2.0
Volatility	48.3	% 39.2	% 43.4	% 41.5
Dividend Yield	0.0	% 0.0	% 0.0	% 0.0
Weighted average grant-date fair value	\$2.18	\$2.17	\$2.88	\$2.16
ESPP:				
Expected Term (in years)	0.24	0.25	0.25	0.25
Risk-free interest rate	0.2	% 0.2	% 0.3	% 0.2
Volatility	59.1	% 32.1	% 52.6	% 40.9
Dividend Yield	0.0	% 0.0	% 0.0	% 0.0
Weighted average fair value	\$1.37	\$1.23	\$1.66	\$1.33

Equity Incentive Programs

The Company currently issues awards under two equity based plans in order to provide additional incentive and retention to directors and employees who are considered to be essential to the long-range success of the Company. These plans are further described below.

2004 Equity Plan ("2004 Plan")

In September 2004, the Company's stockholders approved the 2004 Plan. On July 21, 2010, the Board of Directors of the Company approved an amendment to the Company's 2004 Plan to increase the number of shares of common stock reserved for issuance thereunder from 28,500,000 shares to 36,800,000 shares (an increase of 8,300,000 shares), provided, however, that the aggregate number of common shares available for issuance under the 2004 Plan is reduced by 1.74 shares for each common share delivered in settlement of any full value award, which are awards other than stock options and stock appreciation rights, that are granted under the 2004 Plan on or after September 23, 2010. On September 23, 2010, the stockholders of the Company approved the proposed amendment described above, which also includes certain other changes to the 2004 Plan, including an extension of the term of the 2004 Plan. Options granted by the Company under the 2004 Plan generally expire seven years from the date of grant and generally vest over a four-year period from the date of grant, with one-quarter of the shares of common stock vesting on the one-year anniversary of the grant date and the remaining shares vesting monthly for the 36 months thereafter. The exercise price of the options granted by the Company under the 2004 Plan shall not be less than 100% of the fair market value for a common share subject to such option on the date the option is granted. Full value awards made under the 2004 Plan shall become vested over a period of not less than three years (or, if vesting is performance-based, over a period of not less than one year) following the date such award is made; provided, however, that full value awards that result in the issuance of an aggregate of up to 5% of common stock available under the 2004 Plan may be granted to any one or more participants without respect to such minimum vesting provisions. As of January 1, 2012, there were 11.9 million shares available for future grant under the 2004 Plan.

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The following table summarizes the Company's stock option activities for the nine months ended January 1, 2012:

(in thousands, except per share data)	Shares	Weighted Average Exercise Price
Options outstanding as of April 3, 2011	17,814	\$8.49
Granted	3,909	7.93
Exercised	(466)	5.55
Canceled, forfeited or expired	(2,339)	9.75
Options outstanding as of January 1, 2012	18,918	\$8.29
Options exercisable at January 1, 2012	11,508	\$9.16

Restricted stock units available for grant by the Company under the 2004 Plan generally vest over at least a three-year period from the grant date with a proportionate share of the restricted stock units vesting annually over the total vesting period (e.g., for an award with a total three-year vesting period, one-third of the restricted stock units will vest on each one-year anniversary). Prior to vesting, participants holding restricted stock units do not have shareholder rights. Shares are issued on or as soon as administratively practicable following the vesting date of the restricted stock units and upon issuance, recordation and delivery, the participant will have all the rights of a shareholder of the Company with respect to voting such stock and receipt of dividends and distributions on such stock. As of January 1, 2012, 2.4 million restricted stock unit awards were outstanding under the 2004 Plan.

The following table summarizes the Company's restricted stock unit activities for the nine months ended January 1, 2012:

(in thousands, except per share data)	Shares	Weighted Grant Date Fair Value
RSU's outstanding as of April 3, 2011	2,342	\$6.70
Granted	1,125	7.96
Released	(732)	7.72
Forfeited	(319)	6.82
RSU's outstanding as of January 1, 2012	2,416	\$6.97

2009 Employee Stock Purchase Plan ("2009 ESPP")

On June 18, 2009, the Board approved implementation of the 2009 Employee Stock Purchase Plan ("2009 ESPP") and authorized the reservation and issuance of up to 9,000,000 shares of the Company's common stock, subject to stockholder approval. On September 17, 2009, the Company's stockholders approved the plan at the 2009 Annual Meeting of Stockholders. The 2009 ESPP is intended to be implemented in successive quarterly purchase periods commencing on the first day of each fiscal quarter of the Company. In order to maintain its qualified status under Section 423 of the Internal Revenue Code, the 2009 ESPP imposes certain restrictions, including the limitation that no employee is permitted to participate in the 2009 ESPP if the rights of such employee to purchase common stock of the Company under the 2009 ESPP and all similar purchase plans of the Company or its subsidiaries would accrue at a rate which exceeds \$25,000 of the fair market value of such stock (determined at the time the right is granted) for each calendar year. During the nine months ended January 1, 2012, the Company issued 1.7 million shares of common stock with a weighted-average purchase price of \$4.90 per share.

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Balance Sheet Detail

(in thousands)	January 1, 2012	April 3, 2011
Inventories:		
Raw materials	\$7,601	\$4,709
Work-in-process	45,502	41,517
Finished goods	25,546	20,815
Total inventories	\$78,649	\$67,041

Note 11
Deferred Income on Shipments to Distributors

Included in the caption “Deferred income on shipments to distributors” on the Condensed Consolidated Balance Sheets are amounts related to shipments to certain distributors for which revenue is not recognized until the Company’s product has been sold by the distributor to an end customer. The components at January 1, 2012 and April 3, 2011 were as follows:

(in thousands)	January 1, 2012	April 3, 2011
Gross deferred revenue	\$17,853	\$15,463
Gross deferred costs	(3,766)	(2,610)
Deferred income on shipments to distributors	\$14,087	\$12,853

The gross deferred revenue represents the gross value of shipments to distributors at the list price billed to the distributor less any price protection credits provided to them in connection with reductions in list price while the products remain in their inventory. The amount ultimately recognized as revenue will be lower than this amount as a result of future price protection and ship from stock pricing credits which are issued in connection with the sell through of the Company’s products to end customers. Historically this amount has represented an average of approximately 28% of the list price billed to the customer. The gross deferred costs represent the standard costs, which approximate actual costs of products, the Company sells to the distributors. Although the Company monitors the levels and quality of inventory in the distribution channel, its experience is that product returned from these distributors are able to be sold to a different distributor or in a different region of the world. As such, inventory write-downs for products in the distribution channel have not been significant.

Note 12
Goodwill and Other Intangible Assets

Goodwill

The changes in the carrying amounts of goodwill by segment for nine months ended January 1, 2012 were as follows:

(in thousands)	Communications	Computing and Consumer	Totals
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Balance as of April 3, 2011	\$ 74,673	\$29,347	\$104,020
Additions	640	---	640
Disposal related to divestiture (see <u>Note 6</u>)	---	(8,568)	(8,568)
Balance as of January 1, 2012	\$ 75,313	\$20,779	\$96,092

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Purchase of Intangible Assets from Samplify Systems, Inc. (“Samplify”)

During the quarter ended January 1, 2012, the Company acquired from Samplify developed wireless technology including license and patent rights. In exchange for these technology rights, the Company paid Samplify \$5.0 million in cash consideration, and returned a portion of IDT’s previous equity investment in Samplify. The total fair value of the consideration paid for the purchased existing technology from Samplify was recorded at \$6.5 million. This intangible asset will be amortized over its estimated useful life of 3 years.

Intangible Assets

Intangible asset balances as of January 1, 2012 are summarized as follows:

(in thousands)	Gross Assets	Accumulated Amortization	Net Assets
Purchased intangible assets:			
Existing technology	\$223,455	\$ (188,719)	\$34,736
Trademarks	2,911	(1,039)	1,872
Customer relationships	127,231	(121,642)	5,589
Total amortizable purchased intangible assets	353,597	(311,400)	42,197
IPR&D*	2,711	---	2,711
Total purchased intangible assets	\$356,308	\$ (311,400)	\$44,908

Intangible asset balances as of April 3, 2011 are summarized as follows:

(in thousands)	Gross Assets	Accumulated Amortization	Net Assets
Purchased intangible assets:			
Existing technology	\$219,700	\$ (181,722)	\$37,978
Trademarks	3,421	(904)	2,517
Customer relationships	127,379	(119,564)	7,815
Total amortizable purchased intangible assets	350,500	(302,190)	48,310
IPR&D*	2,711	---	2,711
Total purchased intangible assets	\$353,211	\$ (302,190)	\$51,021

* IPR&D is initially capitalized at fair value as an intangible asset with an indefinite life and assessed for impairment thereafter. When the IPR&D project is complete, it is reclassified as an amortizable purchased intangible asset and is amortized over its estimated useful life. If an IPR&D project is abandoned, the Company will record a charge for the value of the related intangible asset to its Consolidated Statements of Operations in the period it is abandoned.

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Amortization expense for purchased intangible assets is summarized below:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Existing technology	\$3,038	\$3,548	\$9,142	\$10,555
Trademarks	104	122	349	366
Customer relationships	864	1,319	2,641	3,951
Other	---	---	---	44
Total	\$4,006	\$4,989	\$12,132	\$14,916

Based on the purchased intangible assets recorded at January 1, 2012, and assuming no subsequent additions to or impairment of the underlying assets, the remaining estimated amortization expense is expected to be as follows:

(in thousands)	Amount
Fiscal Year	
Remainder of FY 2012	\$4,293
2013	12,949
2014	10,571
2015	6,926
2016	4,249
Thereafter	3,209
Total	\$42,197

Note 13

Comprehensive Income (Loss)

The components of comprehensive income were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Net income	\$(6,193)	\$9,794	\$45,708	\$38,781
Currency translation adjustments	(190)	113	(701)	435
Change in net unrealized gain (loss) on investment	(28)	(177)	(106)	(194)
Comprehensive income (loss)	\$(6,411)	\$9,730	\$44,901	\$39,022

The components of accumulated other comprehensive income, net of tax, were as follows:

(in thousands)	January 1, 2012	April 3, 2011
Cumulative translation adjustments	\$1,010	\$1,711
Unrealized gain (loss) on available-for-sale investments	(10)	96
Total accumulated other comprehensive income	\$1,000	\$1,807

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Note 14

Industry Segments

The Company's reportable segments include the following:

- Communications segment: includes high-performance timing products, Rapid I/O switching solutions, flow-control management devices, FIFOs, integrated communications processors, high-speed SRAM, digital logic, telecommunications.
- Computing and Consumer segment: includes timing products, PCI Express switching and bridging solutions, high-performance server memory interfaces, multi-port products, touch controller, signal integrity products and PC audio products.

The tables below provide information about these segments:

Revenues by segment

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Communications	\$55,513	\$72,775	\$192,048	\$220,159
Computing and Consumer	64,464	74,749	215,532	240,556
Total	\$119,977	\$147,524	\$407,580	\$460,715

Income (loss) by segment from continuing operations:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Communications	\$16,923	\$32,868	\$69,374	\$96,511
Computing and Consumer	(6,836)	(5,038)	(16,536)	(5,180)
Unallocated expenses:				
Amortization of intangible assets	(4,006)	(4,739)	(11,628)	(14,165)
Acquisition related costs and other	(109)	(694)	(109)	(1,833)
Fair market value adjustment to acquired inventory sold	---	---	---	(379)
Restructuring and related costs	1,962	(2,387)	(665)	(5,424)
Fabrication product transfer costs	(1,233)	(1,639)	(3,893)	(3,851)
Compensation expense - deferred compensation plan	(649)	(815)	633	(1,303)
Impairment of assets	73	107	255	383
Stock-based compensation expense	(4,312)	(4,007)	(12,365)	(11,772)
Interest income (expense) and other, net	(2,140)	1,352	(3,924)	2,793
Income (loss) from continuing operations, before income taxes	\$(327)	\$15,008	\$21,142	\$55,780

The Company does not allocate amortization of intangible assets, severance and retention costs, acquisition-related costs, stock-based compensation, interest income and other (expense), net, and interest expense to its segments. The Company excludes these items consistent with the manner in which it internally evaluates its results of operations. In addition, the Company does not allocate assets to its segments.

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The Company's significant operations outside of the United States include a manufacturing facility in Malaysia, design centers in the U.S., Canada and China, and sales subsidiaries in Japan, Asia Pacific and Europe. Revenues from unaffiliated customers by geographic area, based on the customers' shipment locations, were as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Asia Pacific	\$78,444	\$91,664	\$272,210	\$302,416
Americas	20,020	25,418	57,785	73,088
Japan	10,417	16,621	33,463	42,667
Europe	11,096	13,821	44,122	42,544
Total consolidated revenues	\$119,977	\$147,524	\$407,580	\$460,715

The Company sells integrated circuits primarily in the U.S., Europe, and Asia. The Company monitors the financial condition of its major customers, including performing credit evaluations of those accounts which management considers high risk, and generally does not require collateral from its customers. When deemed necessary, the Company may limit the credit extended to certain customers. The Company's relationship with the customer, and the customer's past and current payment experience, are also factored into the evaluation in instances where limited financial information is available. The Company maintains and reviews its allowance for doubtful accounts by considering factors such as historical bad debts, age of the account receivable balances, customer credit-worthiness and current economic conditions that may affect customer's ability to pay.

The Company utilizes global and regional distributors around the world, who buy product directly from the Company on behalf of their customers. For the nine months ended January 1, 2012, three distributors represented 16%, 11%, and 10% of the Company's net revenues, respectively. For the nine months ended January 2, 2011, two distributors represented 19%, and 11% of the Company's net revenues, respectively. At January 2, 2012, four distributors represented 20%, 12%, 10%, and 10% of the Company's gross accounts receivable. At April 3, 2011, three distributors represented 19%, 14%, and 11% of the Company's gross accounts receivable.

The Company's property, plant and equipment are summarized below by geographic area:

(in thousands)	January 1, 2012	April 3, 2011
United States	\$52,221	\$51,642
Canada	4,642	5,613
Malaysia	12,312	8,599
All other countries	802	1,900
Total property, plant and equipment, net	\$69,977	\$67,754

Note 15

Commitments and Contingencies

Guarantees

As of January 1, 2012, the Company's financial guarantees consisted of guarantees and standby letters of credit, which are primarily related to the Company's electrical utilities in Malaysia, utilization of non-country nationals in Malaysia and Singapore, consumption tax in Japan and value-added tax obligations in Singapore and Holland, and a workers' compensation plan in the United States. The maximum amount of potential future payments under these arrangements

is approximately \$2.5 million.

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Indemnification

During the normal course of business, the Company makes certain indemnifications and commitments under which it may be required to make payments in relation to certain transactions. In addition to indemnifications related to non-infringement of patents and intellectual property, other indemnifications include indemnification of the Company's directors and officers in connection with legal proceedings, indemnification of various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnification of other parties to certain acquisition agreements. The duration of these indemnifications and commitments varies, and in certain cases, is indefinite. The Company believes that substantially all of its indemnities and commitments provide for limitations on the maximum potential future payments the Company could be obligated to make. However, the Company is unable to estimate the maximum amount of liability related to its indemnities and commitments because such liabilities are contingent upon the occurrence of events which are not reasonably determinable. The Company believes that any liability for these indemnities and commitments would not be material to its accompanying consolidated financial statements.

The Company maintains an accrual for obligations it incurs under its standard product warranty program and customer, part, or process specific matters. The Company's standard warranty period is one year, however in certain instances the warranty period may be extended to as long as two years. Management estimates the fair value of the Company's warranty liability based on actual past warranty claims experience, its policies regarding customer warranty returns and other estimates about the timing and disposition of product returned under the standard program. Customer, part, or process specific accruals are estimated using a specific identification method. Historical profit and loss impact related to warranty returns activity has been minimal. The total warranty accrual was \$0.2 million and \$0.4 million as of January 1, 2012 and April 3, 2011, respectively.

Litigation

In November 2010, the Company filed a complaint in the Northern District of California against Phison Electronics Corp. ("Phison") for infringement of the Company's four patents directed to oscillator and clock signal technology. The lawsuit sought a preliminary and permanent injunction against Phison products as well as damages, attorney's fees and cost of the lawsuit. Phison filed an answer to the complaint on January 31, 2011, denying infringement of the patents in suit. The companies subsequently entered into a confidential settlement agreement, under which IDT licensed certain patents to Phison and the companies agreed to dismiss all claims and counterclaims in the litigation. The court issued an order dismissing the lawsuit on August 10, 2011.

Note 16

Restructuring

The following table shows the provision of the restructuring charges and the liability remaining as of January 1, 2012:

(in thousands)	Cost of Goods Sold	Operating Expenses	Totals
Balance as of April 3, 2011	\$9,187	\$815	\$10,002
Provision	(1,425)	2,991	1,566
Cash payments	(166)	(241)	(407)
Balance as of January 1, 2012	\$7,596	\$3,565	\$11,161

As part of an effort to streamline operations with changing market conditions and to create a more efficient

organization, the Company has undertaken restructuring actions, to reduce its workforce and consolidate facilities. The Company's restructuring expenses have been comprised primarily of: (i) severance and termination benefit costs related to the reduction of its workforce; and (ii) lease termination costs and costs associated with permanently vacating certain facilities.

Associated with the Company's plans to fully divest its remaining video processing product lines, during the nine months ended January 1, 2012, the Company recorded \$1.9 million in restructuring expenses for employee retention costs. These costs have been recorded to discontinued operations. As of January 1, 2012, the total accrued balance for employee retention costs related to this restructuring action was \$1.9 million.

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In connection with the Company's plan to transition the manufacture of products to Taiwan Semiconductor Manufacturing Limited ("TSMC"), management approved a plan to exit wafer production operations at its Oregon fabrication facility. As a result, the Company accrued estimated restructuring expenses of \$4.8 million for severance payments and other benefits associated with this restructuring action in fiscal 2010. During the nine months ended January 1, 2012, the Company decreased this accrual by \$2.9 million based on the actual number of employee that have been offered employment with the prospective acquirer of the wafer fabrication facility. As of January 1, 2012, the total accrued balance for severance costs related to this restructuring was \$1.9 million. Also associated with this restructuring action, during the nine months ended January 1, 2012, the Company recorded \$2.6 million for employee retention costs. As of January 1, 2012, the total accrued balance for employee retention costs related to this restructuring action was \$6.7 million. The Company expects to complete this restructuring action in the fourth quarter of fiscal 2012.

In connection with the discontinuing of manufacturing operations at its Singapore facility in the fourth quarter of fiscal 2010, the Company exited its leased facility in Singapore in the first quarter of fiscal 2011. As a result, the Company recorded lease impairment charges of approximately \$0.5 million in fiscal 2011, which represented the future rental payments under the agreements, reduced by an estimate of sublease incomes, and discounted to present value using an interest rate applicable to the Company. These charges were recorded as cost of goods sold. Since the initial restructuring, the Company has made lease payments of \$0.4 million. As of January 1, 2012, the remaining accrued lease liabilities were \$0.1 million. The Company expects to continue paying the facility lease charges through, and concluding in, the third quarter of fiscal 2013.

In connection with the divestiture of Silicon Logic Engineering business in the third quarter of fiscal 2010, the Company exited a leased facility. As a result, the Company recorded lease impairment charges of approximately \$0.5 million, which represented the future rental payments under the agreements, reduced by an estimate of sublease incomes, and discounted to present value using an interest rate applicable to the Company. These charges were recorded as SG&A expense. Since the initial restructuring, the Company has made lease payments of \$0.4 million related to the vacated facilities. As of January 1, 2012, the remaining accrued lease liabilities were \$0.1 million. The Company expects to continue paying the facility lease charges through, and concluding in, the first quarter of fiscal 2013.

During the second quarter of fiscal 2006, the Company completed the consolidation of its Northern California workforce into its San Jose headquarters and exited a leased facility in Salinas, California. The Company recorded lease impairment charges of approximately \$2.1 million, of which \$0.6 million was recorded as cost of revenues, \$0.9 million was recorded as R&D expense and \$0.6 million was recorded as SG&A expense. Since the initial restructuring, the Company has made lease payments of \$1.6 million related to the vacated facility in Salinas. As of January 1, 2012, the remaining accrued lease liabilities were \$0.5 million. The Company expects to continue paying the facility lease charges through, and concluding in, the fourth quarter of fiscal 2014.

Note 17

Income Taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. For the nine months ended January 1, 2012 and January 2, 2011, the Company had effective tax rates of 2.3% and 3.2%, respectively. The Company's effective tax rate is lower than statutory rates in the U.S. due primarily to its mix of earnings in foreign jurisdictions with lower tax rates.

As of January 1, 2012, the Company continued to maintain a valuation allowance against its net U.S. deferred tax assets, as it is currently unable to conclude that it is more likely than not that the Company will be able to realize these U.S. deferred tax assets in the foreseeable future.

As of January 1, 2012, the Company was subject to examination in the U.S. federal tax jurisdiction for the fiscal years 2009 and 2010. To date, the Company has not been notified by the IRS that a field audit will be conducted. The statute of limitations to assess tax for fiscal 2009 expires in December 2012. The general practice of the IRS is to notify taxpayers of a field audit months before the statute of limitations expire. If the Company is audited by the IRS based on currently available information, the Company believes that the ultimate outcome will not have a material adverse effect on its financial position, cash flows or results of operations.

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Note 18

Share Repurchase Program

On July 21, 2010, the Company's Board of Directors approved a plan to repurchase up to \$225 million of its common stock. In fiscal 2011, the Company repurchased 12.8 million shares at an average price of \$6.06 per share for a total purchase price of \$77.7 million under this plan. During the first nine months of fiscal 2012, the Company repurchased 9.6 million shares at an average price of \$6.53 per share for a total purchase price of \$62.5 million. As of January 1, 2012, approximately \$84.9 million was available for future purchase under this share repurchase program. Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders' equity.

Note 19

Credit Facility

On June 13, 2011, the Company entered into a Master Repurchase Agreement (the "Repurchase Agreement") with Bank of America, N.A. ("Bank of America"), pursuant to which the Company has the right, subject to the terms and conditions of the Repurchase Agreement, to sell to Bank of America up to 1,431 shares of Class A preferred shares of one of its wholly owned subsidiaries (the "Subsidiary"), in one or more transactions prior to June 13, 2012, for an aggregate purchase price of \$135 million in cash. Pursuant to the Repurchase Agreement, to the extent it sells any such shares to Bank of America, the Company will be obligated to repurchase from Bank of America and Bank of America will be obligated to resell to the Company, those preferred shares for the aggregate purchase price paid by Bank of America. In such case, and while such shares are outstanding, the Company will also be obligated to make monthly payments to Bank of America at a floating interest rate of LIBOR plus 2.125% and will have the right to accelerate the repurchase of all or any portion of the shares prior to June 13, 2016. In addition, the Company is obligated to pay retention fees associated with amounts available under the Repurchase Agreement. These retention fees have been recorded as interest expense in the Company's Statement of Operations. The Repurchase Agreement also contains certain customary events of default. As of January 1, 2012, the Company has not sold any preferred stock to Bank of America.

In connection with the Repurchase Agreement, the Company has entered into an agreement dated June 13, 2011 in favor of Bank of America and certain additional parties (the "IDTI Agreement"), which contains certain representations and various affirmative and negative covenants of the Company, including an obligation that the Company and its Subsidiary each maintain adequate capital in light of contemplated business operations. This agreement contains certain agreements by the Company intended to maintain the status of its Subsidiary as an entity distinct from the Company and its other subsidiaries, with separate assets and liabilities, as well as an indemnity by the Company.

Note 20

Subsequent Event

On January 31, 2012, the Company completed the sale of its wafer fabrication facility located in Oregon and related assets to Alpha and Omega Semiconductor Limited ("AOS") for approximately \$26.5 million in cash. This transaction will be recorded in the fourth quarter of fiscal 2012, and the Company expects to realize a gain on the sale of this facility.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking. Forward-looking statements, which are generally identified by words such as “anticipates,” “expects,” “plans,” “intends,” “seeks,” “targets,” “believes,” “can,” “may,” “could,” “should,” “would,” “will” and similar terms, include statements related to, among others, revenues and gross profit, research and development activities, selling, general and administrative expenses, restructuring costs, intangible expenses, interest income and other, taxes, capital spending and financing transactions, as well as statements regarding successful development and market acceptance of new products, industry and overall economic conditions and demand, and capacity utilization. Forward-looking statements are based upon current expectations, estimates, forecasts and projections that involve a number of risks and uncertainties. These risks and uncertainties include, but are not limited to: global business and economic conditions; operating results; new product introductions and sales; competitive conditions; capital expenditures and resources; manufacturing capacity utilization; customer demand and inventory levels; ; product performance; intellectual property matters; mergers and acquisitions and integration activities; and the risk factors set forth in Part II, Item 1A “Risk Factors” to this Report on Form 10-Q. As a result of these risks and uncertainties, actual results could differ significantly from those expressed or implied in the forward-looking statements. Unless otherwise required by law, we undertake no obligation to publicly revise these statements for future events or new information after the date of this Report on Form 10-Q.

This discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and accompanying Notes included in this report and the Audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended April 3, 2011 filed with the SEC. Operating results for the three and nine months ended January 1, 2012 are not necessarily indicative of operating results for an entire fiscal year.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. 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 and assumptions are based on historical experience and other factors that we consider to be appropriate in the circumstances. However, actual future results may vary from our estimates and assumptions.

For a discussion of our critical accounting policies, see Part II, Item 7 “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended April 3, 2011. We believe that these accounting policies are "critical," as defined by the SEC, in that they are both highly important to the portrayal of our financial condition and results, and they require difficult management judgments, estimates and assumptions about matters that are inherently uncertain. We believe that there have been no significant changes during the nine months ended January 1, 2012 to the items that we disclosed as our critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended April 3, 2011.

Our fiscal year is the 52- or 53-week period ending on the Sunday closest to March 31. In a 52-week year, each fiscal quarter consists of thirteen weeks. In a 53-week year, the additional week is usually added to the third quarter, making such quarter consist of fourteen weeks. The first, second and third quarters of fiscal 2012 and fiscal 2011

were thirteen week periods.

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Revision of Prior Period Financial Statements

During the third quarter of fiscal 2012, the Company identified errors primarily related to retention bonuses associated with its plan to close its Oregon manufacturing facility (\$6.4 million expense). In addition, the Company had corrected prior period errors in the first and second quarters of 2012 related to retention bonuses (\$0.5 million expense) for certain key employees and accounts payable system related issues (\$1.0 million benefit) respectively. The Company assessed the materiality of these errors individually and in the aggregate on prior periods' financial statements in accordance with the SEC's Staff Accounting Bulletin No. 99, and concluded that the errors were not material to any of its prior annual or interim financial statements. The Company also concluded that correcting the errors, on a cumulative basis, would not be material to the expected results of operations for the year ended April 1, 2012. However, as permitted in SEC's Staff Accounting Bulletin No. 108, the Company elected to revise previously issued consolidated financial statements the next time they are filed. As each subsequent filing is made in the future, the previous period consolidated financial statements affected by the errors will be revised. The Company has revised the April 3, 2011 consolidated balance sheet and the consolidated statements of operations for the three and nine months ended January 2, 2011 included herein to reflect the correct balances. Of the above mentioned errors, the amount related to the accounts payable system related issue will be corrected in the opening retained earnings and will not impact the earnings of current or subsequent filings. The impact of correcting these errors on net income as reported for the interim three month period ended July 3, 2011 and three and six month periods ended October 2, 2011 was a reduction of \$1.5 million, \$0.8 million and \$2.3 million, respectively (see Note 2 of Notes to Condensed Consolidated Financial Statements).

Divestiture

In the second quarter of fiscal 2012, we completed the transfer certain assets related to IDT's Hollywood Quality Video ("HQV") and Frame Rate Conversion ("FRC") video processing product lines to Qualcomm pursuant to an Asset Purchase Agreement. The sale of these HQV and FRC video processing assets is intended to allow us to intensify focus on our analog-intensive mixed-signal, timing, and interface solutions. Upon closing of the transaction, Qualcomm paid \$58.7 million in cash consideration, of which \$6.0 million was withheld in an escrow account. In the second quarter of fiscal 2012, we recorded a gain of \$45.9 million related to this divestiture. The HQV and FRC product lines represented a significant portion of our video processing assets. We currently intend to fully divest our remaining video processing product lines and have classified these assets as available for sale. The video processing lines were previously included as part of our Computing and Consumer reportable segment. For financial statement purposes, the results of operations for these discontinued businesses have been segregated from those of the continuing operations and are presented in the consolidated financial statements as discontinued operations. Unless otherwise indicated, the following discussion pertains only to our continuing operations.

Strategy and Business

We design, develop, manufacture, and market a broad range of low-power, high-performance mixed signal semiconductor solutions for the advanced communications, computing and consumer industries. Currently, we offer communications solutions for customers within the enterprise, data center, and wireless markets. Our computing products are designed specifically for desktop, notebook, sub-notebook, storage and server applications, optimized gaming consoles, set-top boxes, digital TV and smart phones for consumer-based clients. Ultimately, we envision equipping every digital system with an interface based on our silicon.

We are focused on the following:

-

aggressively managing, maintaining and refining our product portfolio including focus on the development and growth of new applications;

- maintaining existing customers, pursuing and winning new customers;
- developing and marketing new products in a timely and efficient manner;
 - differentiating and enhancing our products;
- deploying research and development investment in the areas of displays, silicon timing, power management, signal integrity and radio frequency; and
- rationalizing our manufacturing operations including the transition to wholly outsourced wafer fabrication operations.

For more information on our business, please see Part I, Item 1, “Business,” in our Annual Report on Form 10-K for the fiscal year ended April 3, 2011.

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Results of Operations from Continuing Operations

Our reportable segments include the following:

- **Communications segment:** includes clock and timing solutions, Serial Rapid IO switching solutions, crystal oscillator replacements, radio frequency (RF), signal path products, flow-control management devices, first in and first out (FIFOs), integrated communications processors, high-speed static random access memory (SRAM), digital logic and telecommunications products.
- **Computing and Consumer segment:** includes clock generation and distribution products, PCI Express switching and bridging solutions, high-performance server memory interfaces, multi-port products, touch controller, signal integrity products, PC audio and power management.

Revenues

Total revenues, for the third quarter of fiscal 2012 decreased by \$27.5 million, or 19%, as compared to the same period in the prior fiscal year. Total revenues, for the first nine months of fiscal 2012 decreased by \$53.1 million, or 12%, as compared to the same period in fiscal 2011. During the third quarter and for the first nine months of fiscal 2012, we experienced reduced overall demand for our products in the communications market segment and the computing and consumer market segment.

Revenues by Segment: (in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Communications	\$55,513	\$72,775	\$192,048	\$220,159
Computing and Consumer	64,464	74,749	215,532	240,556
Total	\$119,977	\$147,524	\$407,580	\$460,715

Communications Segment

Revenues in our Communications segment decreased \$17.3 million, or 24% in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011, as a result of reduced unit shipments. Within this market segment, revenues from SRAM and digital logic products decreased 36% and revenues from communications timing and telecommunications products decreased 20%.

For the nine months ended January 1, 2012, revenues in our Communications segment decreased \$28.1 million, or 13% as compared to the same period of fiscal 2011, as a result of reduced unit shipments. Within this market segment, revenues from SRAM and digital logic products decreased 23% and revenues from communications timing and telecommunications products decreased 10%. These decreases were offset in part by a 23% increase in revenues from our flow control management products.

Computing and Consumer Segment

Revenues in our Computing and Consumer segment decreased \$10.3 million, or 14% in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011. Within this market segment, revenues from our analog and power products decreased 20% primarily due to lower demand for our personal computer and consumer timing products and our Application Specific Standard Products (ASSP) which were offset by increased demand for our audio computing products. In addition, revenues from our enterprise computing products decreased 8%, due to lower demand for our

Advanced Memory Buffer (AMB) products and serial switching products which was partially offset by increased demand for our Data Double Rate 3 (DDR3) products.

For the nine months ended January 1, 2012, revenues in our Computing and Consumer segment decreased \$25.0 million, or 10% as compared to the same period of fiscal 2011. Within this market segment, revenues from our analog and power products decreased 17% primarily due to lower demand for our personal computer and consumer timing products and our ASSP products which was offset by increased demand for our audio computing products. In addition, revenues from our enterprise computing products decreased 1%, due to lower demand for our AMB products and serial switching products which was partially offset by increased demand for our DDR3 products.

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Revenues by Region

Revenues in Asia Pacific region (“APAC”), Americas, Japan and Europe accounted for 65%, 17%, 9% and 9%, respectively, of consolidated revenues in the third quarter of fiscal 2012 compared to 62%, 17%, 12% and 9%, respectively, for the same period in the prior fiscal year. For the nine months ended January 1, 2012, revenues in APAC, Americas, Japan and Europe accounted for 67%, 14%, 8% and 11%, respectively, of consolidated revenues as compared to 66%, 16%, 9% and 9%, respectively, for the same period of fiscal 2011. The Asia Pacific region continues to be our strongest region, as many of our largest customers utilize manufacturers in that region.

Deferred Income on Shipments to Distributions

Included in the Balance Sheet caption “Deferred income on shipments to distributors” are amounts related to shipments to certain distributors for which revenue is not recognized until our product has been sold by the distributor to an end customer. The components as of January 1, 2012 and April 3, 2011 are as follows:

(in thousands)	January 1, 2012	April 3, 2011
Gross deferred revenue	\$17,853	\$15,463
Gross deferred costs	(3,766)	(2,610)
Deferred income on shipments to distributors	\$14,087	\$12,853

The gross deferred revenue represents the gross value of shipments to distributors at the list price billed to the distributor less any price protection credits provided to them in connection with reductions in list price while the products remain in their inventory. Based on our history, the amount ultimately recognized as revenue is generally less than the gross deferred revenue as a result of ship from stock pricing credits, which are issued in connection with the sell through of the product to an end customer. As the amount of price adjustments subsequent to shipment is dependent on the overall market conditions, the levels of these adjustments can fluctuate significantly from period to period. Historically, the price adjustments have represented an average of approximately 28% of the list price billed to the customer. As these credits are issued, there is no impact to working capital as this reduces both accounts receivable and deferred revenue. The gross deferred costs represent the standard costs (which approximate actual costs) of products we sell to the distributors.

Gross Profit

Gross profit is affected by a variety of factors including the volume of product sales, product mix, manufacturing capacity utilization, product yields and average selling prices. The following table summarizes gross profit for the periods presented:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Gross profit	\$63,884	\$80,347	\$216,953	\$247,493
Gross profit percentage	53	% 54	% 53	% 54

Gross profit (the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011). Gross profit for the third quarter of fiscal 2012 was \$63.9 million, a decrease of \$16.5 million, or 20% compared to the third quarter of fiscal 2011. The decrease in gross profit was primarily driven by lower revenue levels. Gross profit percentage decreased to 53% of net revenues in the third quarter of fiscal 2012 as compared to 54% for the same period in the prior fiscal

year. Our gross profit percentage for the third quarter of fiscal 2012 was negatively impacted by \$2.9 million due to decreased manufacturing facility utilization combined with a \$2.7 million increase in charges for excess inventory reserves. These negative impacts were partially offset by a \$3.4 million decrease in accrued severance and other expenses associated with the transition of wafer fabrication activities. Manufacturing capacity in our Oregon wafer fabrication facility was 65% utilized during the third quarter of fiscal 2012 as we near completion of the transition of wafer fab activities to third party foundries. This compares to full utilization levels during the third quarter of fiscal 2011. In addition, as of January 1, 2012, the balance of inventory buffer stock which has been built in anticipation of the transition of wafer fabrication activities totaled approximately \$13 million.

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Gross profit (the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011). Gross profit for the first nine months of fiscal 2012 was \$217.0 million, a decrease of \$30.5 million, or 12% as compared to the first nine months of fiscal 2011. The decrease in gross profit was primarily driven by lower revenue levels. Gross profit percentage was 53% of net revenues for the first nine months of fiscal 2012 as compared to 54% for the same period in the prior fiscal year. Our gross profit percentage for the first nine months fiscal 2012 was negatively impacted by \$2.9 million due to decreased manufacturing facility utilization (primarily in the third quarter of fiscal 2012) combined with a \$5.9 million increase in charges for excess inventory reserves, which was offset in part by a \$3.4 million decreased severance and expenses associated with the transition of wafer fabrication activities. The negative impacts were offset in part by manufacturing cost savings associated with the closure of our test facility in Singapore and consolidation of our test operations in Malaysia which was completed in the second quarter of fiscal 2011.

Operating Expenses

The following table presents our operating expenses:

(in thousands)	Three Months Ended		Nine Months Ended		
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011	
Research and development	\$38,410	\$40,674	\$117,409	\$116,774	
Selling, general and administrative	23,661	26,017	74,478	77,732	
Total operating expenses	\$62,071	\$66,691	\$191,887	\$194,506	
As a percent of net revenues:					
Research and development	32	% 28	% 29	% 25	%
Selling, general and administrative	20	% 18	% 18	% 17	%
Total operating expenses	52	% 45	% 47	% 42	%

Research and Development (“R&D”)

R&D (the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011). R&D expense decreased \$2.3 million, or 6%, to \$38.4 million in the third quarter of fiscal 2012 as compared to \$40.7 million for the same period in the prior year. The decrease was primarily due to payroll expense savings as a result of a holiday shutdown during the third quarter of fiscal 2012 combined with decreased accrued bonus expense and decreased spending for R&D materials. These expense decreases were offset in part by expenses related to increased R&D headcount for the third quarter of fiscal 2012 as compared to the same period in the prior year.

R&D (the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011). R&D expense increased \$0.6 million, or 1%, to \$117.4 million for the nine months of fiscal 2012 as compared to \$116.8 million for the same period in the prior year. The increase was primarily due to costs associated with increased R&D headcount combined with increased outside consulting expenses and increased R&D material expenses. These increases were offset in part by a decrease in accrued bonus expenses.

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

SG&A (the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011). SG&A expense decreased \$2.4 million, or 9%, to \$23.7 million in the third quarter of fiscal 2012 as compared to \$26.0 million for the same period in the prior year. The decrease was primarily due to payroll expense savings as a result of a holiday shutdown during the third quarter of fiscal 2012 combined with decreased outside service expenses, decreased sales representative

commissions and decreased accrued bonus expenses which were offset in part by increased stock compensation expense.

SG&A (the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011). SG&A expense decreased \$3.3 million, or 4%, to \$74.5 million for the nine months of fiscal 2012 as compared to \$77.7 million for the same period in the prior year. The decrease was primarily the result of decreased outside service expenses, decreased intangible amortization expenses, decreased sales representative commissions and decreased accrued bonus expenses which were offset in part by increased stock compensation expense.

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Interest Income and Other, Net

The components of interest income and other, net are summarized as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	Jan. 1, 2012	Jan. 2, 2011	Jan. 1, 2012	Jan. 2, 2011
Interest income	\$ 132	\$ 272	\$ 248	\$ 833
Interest expense	\$(639)	\$(11)	\$(1,176)	\$(28)
Other income (expense), net	497	1,091	(866)	1,988
Total interest income and other, net	\$(10)	\$ 1,352	\$(1,794)	\$ 2,793

Interest income decreased in the third quarter and first nine months of fiscal 2012 as compared to the same periods in the prior year primarily due to lower average earnings on cash and investment balances.

Interest expense increased in the third quarter and first nine months of fiscal 2012 as compared to the same periods in the prior year as a result of interest charges associated with the credit facility with Bank of America which was established in the first quarter of fiscal 2012.

Other income (expense), net for the three months ended January 1, 2012 was primarily comprised of a net gain in value of our deferred compensation plan assets. Other income (expense), net for the nine months ended January 1, 2012 was primarily comprised of a net loss in value of our deferred compensation plan assets. Other income (expense), net for the three and nine months ended January 2, 2011 was primarily comprised of net gains in value of our deferred compensation plan assets.

Provision (benefit) for income taxes

The provision for income taxes reflects tax on foreign earnings and federal and state tax on U.S. earnings. For the nine months ended January 1, 2012 and January 2, 2011, the Company had effective tax rates of 2.3% and 3.2%, respectively. The Company's effective tax rate is lower than statutory rates in the U.S. due primarily to its mix of earnings in foreign jurisdictions with lower tax rates.

As of January 1, 2012, the Company continued to maintain a valuation allowance against its net U.S. deferred tax assets, as it is currently unable to conclude that it is more likely than not that the Company will be able to realize these U.S. deferred tax assets in the foreseeable future.

As of January 1, 2012, the Company was subject to examination in the U.S. federal tax jurisdiction for the fiscal years 2009 and 2010. To date, the Company has not been notified by the IRS that a field audit will be conducted. The statute of limitations to assess tax for fiscal 2009 expires in December 2012. The general practice of the IRS is to notify taxpayers of a field audit months before the statute of limitations expire. If the Company is audited by the IRS based on currently available information, the Company believes that the ultimate outcome will not have a material adverse effect on its financial position, cash flows or results of operations.

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Liquidity and Capital Resources

Our cash and cash equivalents and short-term investments were \$314.6 million at January 1, 2012, an increase of \$15.4 million as compared to April 3, 2011. This increase was primarily attributable to the receipt of \$52.7 million in proceeds from the sale of assets related to IDT's HQV and FRC video processing product lines to Qualcomm pursuant to an Asset Purchase Agreement, combined with \$36.6 million of cash from operations and \$11.1 million from the proceeds of employee stock transactions, which was partially offset by payments of \$62.5 million to repurchase our common stock, \$16.9 million to purchase capital equipment, \$5.0 million to purchase intangible assets .

Cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. We maintain our cash and cash equivalents with reputable major financial institutions. Deposits with these banks may exceed the FDIC insurance limits or similar limits in foreign jurisdictions. These deposits typically may be redeemed upon demand and, therefore, bear minimal risk. While we monitor cash balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we have deposits fails or is subject to other adverse conditions in the financial markets. As of January 1, 2012, we had not experienced any loss or lack of access to our invested cash or cash equivalents in our operating accounts. However, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets. See Part II, Item 1A "Risk Factors: Global market and economic conditions, including those related to the credit markets, may adversely affect our business and results of operations."

In addition, as much of our revenues are generated outside the U.S., a significant portion of our cash and investment portfolio accumulates in the foreign countries in which we operate. At January 1, 2012, we had cash, cash equivalents and investments of approximately \$240.3 million invested overseas in accounts belonging to various IDT foreign operating entities. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies, and all offshore balances are exposed to local political, banking, currency control and other risks. In addition, these amounts may be subject to tax and other transfer restrictions.

All of our available-for-sale investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including a review of the closing price over the length of time, general market conditions and our intent and ability to hold the investment for a period of time sufficient to allow for recovery. Although we believe our portfolio continues to be comprised of sound investments due to high credit ratings and government guarantees of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of its investments and their liquidity. We continually monitor the credit risk in our portfolio and future developments in the credit markets and make appropriate changes to our investment policy as deemed necessary. We did not record any impairment loss related to our short-term investments in the three and nine months ended January 1, 2012.

Net cash provided by operating activities for the first nine months of fiscal 2012 was \$36.6 million as compared to \$71.9 million for the same period in fiscal 2011. This decrease was primarily due to a decrease in net income, adjusted for non-cash and non-operating items offset in part by a decrease in cash used for working capital related items.

Net income, adjusted for non-cash and non-operating items for the first nine months of fiscal 2012 was \$40.4 million, which was comprised of net income of \$45.7 million, reduced by \$45.9 million for a non-operating gain on divestiture and increased by \$40.6 million in non-cash adjustments to net income. Significant non-cash items included in net income for the first nine months of fiscal 2012 were depreciation expense of \$14.2 million, stock-based compensation

expense of \$12.6 million, intangible assets amortization expense of \$12.1 million and a \$2.1 million other-than temporary impairment loss on investments.

For the first nine months of fiscal 2011, net income adjusted for non-cash items was \$80.5 million and was comprised of net income of \$38.8 million, which was increased by \$41.8 million in non-cash adjustments to net income. Significant non-cash items included in net income for the first nine months of fiscal 2011 were depreciation expense of \$13.6 million, amortization of intangible assets of \$14.9 million and stock-based compensation expense of \$13.2 million.

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Net cash used by working capital related items was \$3.8 million in the first nine months of fiscal 2012. Significant changes in working capital items for the first nine months of fiscal 2012 are listed below.

Cash used for working capital items for the first nine months of fiscal 2012:

- An increase in inventory of \$11.5 million, primarily due to a build-ahead of inventory in anticipation of our wafer fabrication transition to a third party foundry.
- A decrease in accounts payable of \$11.7 million which was primarily attributable to reduced inventory subcontract activities in the third quarter of fiscal 2012 combined with the timing of payments.
- A decrease in other accrued liabilities and long term liabilities of \$8.2 million which was primarily due to decreases in accrued severance costs, supplier obligations and miscellaneous payables.

Cash provided by working capital items for the first nine months of fiscal 2012:

- A decrease in accounts receivable of \$23.4 million in the first nine months of fiscal 2012. This decrease was primarily the result of decreased product shipment levels during the third quarter of fiscal 2012 as compared to the fourth quarter of fiscal 2011.
- Cash provided by changes in income tax receivable/payable of \$1.3 million, due to the timing of payments and accrued tax provisions.
- An increase in deferred income on shipments to distributors of \$1.2 million, as a result of increased distributor inventories.
- An increase in accrued compensation and related expenses of \$0.9 million which was primarily due to increased retention bonus accruals related to restructuring activities combined with increased payroll accruals due to the timing of payroll dates and period end dates which were offset in part by reduced incentive bonus accruals which was due to mid-year payouts made in the third quarter of fiscal 2012.
- A decrease in prepayments and other assets of \$0.9 million. This decrease was primarily attributable to timing differences between prepayments and normal recurring prepaid amortization.

For the first nine months of fiscal 2011, net changes in working capital related items used \$8.7 million. Significant changes in working capital items for the first nine months of fiscal 2011 are listed below.

Cash used for working capital items for the first nine months of fiscal 2011:

- An increase in inventory of \$9.6 million, which was due to increased work in process to support increased higher shipment levels combined with the buildup of buffer stock in anticipation of the transition of wafer fabrication activities to a third party foundry.
- A decrease in other accrued liabilities and long-term liabilities of \$5.2 million which was primarily attributable to a decrease in accruals related to our restructuring actions and decreases in supplier obligations, both due to payments made in the first nine months of fiscal 2011
 - A decrease in deferred income on shipments to distributors of \$3.3 million which was attributable to a decrease in distributor inventory.
- A decrease in accounts payable of \$1.9 million which was primarily attributable to a decrease in the volume of foundry and subcontractor activity combined with the timing of payments.

Cash provided by working capital items for the first nine months of fiscal 2011:

- An increase in accrued compensation of \$7.8 million which was primarily attributable to increased incentive compensation accruals combined with increased retention bonus accruals.
- A decrease in prepayments and other assets of \$1.4 million which was primarily attributable to timing differences between prepayments and normal recurring prepaid amortization.
- Cash provided by changes in income tax receivable/payable of \$1.4 million, due to the timing of payments and accrued tax provisions.

- A decrease in accounts receivable of \$0.7 million due to timing of collections versus new shipments.

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Net cash provided by investing activities was \$20.7 million in the first nine months of fiscal 2012 and was comprised of \$51.7 million proceeds from divestiture and \$2.6 million in proceeds from the sale of a non-marketable equity security which were offset in part by \$16.9 million used for purchases of property plant and equipment, \$5.0 million used for the purchase of intangible assets, \$2.0 million used for the acquisition of Nethra Imaging and a \$9.7 million net increase in short-term investments.

For the first nine months of fiscal 2011, net cash used by investing activities was \$12.1 million and was comprised of \$7.6 million used for purchases of property plant and equipment, \$6.2 million for the acquisition of IKOR, \$1.2 million held in escrow related to divestitures, and \$2.5 million for the purchase of a non-marketable equity security which was offset in part by a \$5.4 million net decrease in short-term investments.

Net cash used in financing activities was \$50.9 million in the first nine months of fiscal 2012 and consisted of \$62.5 million in repurchases of our common stock, which was partially offset by \$11.6 million in proceeds from the employee stock transactions and related tax effects.

For the first nine months of fiscal 2011, net cash used by financing activities was \$87.4 million and consisted of \$96.9 million in repurchases of common stock which was partially offset by \$9.5 million in proceeds from the employee stock transactions and related tax effects.

We anticipate capital expenditures of approximately \$20 million to \$25 million during the next 12 months to be financed through cash generated from operations and existing cash and investments.

On July 21, 2010, the Company's Board of Directors approved a plan to repurchase up to \$225 million of its common stock. In fiscal 2011, the Company repurchased 12.8 million shares at an average price of \$6.06 per share for a total purchase price of \$77.7 million under this plan. During the first nine months of fiscal 2012, the Company repurchased 9.6 million shares at an average price of \$6.53 per share for a total purchase price of \$62.5 million. As of January 1, 2012, approximately \$84.9 million was available for future purchase under this share repurchase program. Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders' equity.

On June 13, 2011, we entered into a Master Repurchase Agreement (the "Repurchase Agreement") with Bank of America, N.A. ("Bank of America"), pursuant to which we have the right, subject to the terms and conditions of the Repurchase Agreement, to sell to Bank of America up to 1,431 shares of Class A preferred shares of one of our wholly owned subsidiaries (the "Subsidiary"), in one or more transactions prior to June 13, 2012 for an aggregate purchase price of \$135 million in cash. Pursuant to the Repurchase Agreement, to the extent we sell any such shares to Bank of America, we will be obligated to repurchase from Bank of America and Bank of America will be obligated to resell us, those preferred shares for the aggregate purchase price paid by Bank of America. In such case, and while such shares are outstanding, we will also be obligated to make monthly payments to Bank of America at a floating interest rate of LIBOR plus 2.125% and will have the right to accelerate the repurchase of all or any portion of the shares prior to June 13, 2016. The Repurchase Agreement also contains certain customary events of default. As of January 1, 2012, we have not sold any preferred stock to Bank of America.

In connection with the Repurchase Agreement, we have entered into an agreement dated June 13, 2011 in favor of Bank of America and certain additional parties (the "IDTI Agreement"), which contains certain representations and various affirmative and negative covenants of us, including an obligation that we and our Subsidiary each maintain adequate capital in light of our contemplated business operations. This agreement contains certain agreements by us intended to maintain the status of our Subsidiary as an entity distinct from us and our other subsidiaries, with separate assets and liabilities, as well as an indemnity by us.

We had no outstanding debt at January 1, 2012 and April 3, 2011.

We believe that existing cash and investment balances, combined with cash flows from operations and financing available to us under the Repurchase Agreement with Bank of America, will be sufficient to meet our working capital and capital expenditure needs through at least next twelve months. We may choose to investigate other financing alternatives; however, we cannot be certain that additional financing will be available on satisfactory terms.

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Off-balance Sheet Arrangements

As of January 1, 2012, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated condensed financial statements, see “Note 3 Recent Accounting Pronouncements” in the Notes to Consolidated Condensed Financial Statements of this Form 10-Q

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our interest rate risk relates primarily to our short-term investments of \$204.2 million as of January 1, 2012. By policy, we limit our exposure to long-term investments and mitigate the credit risk through diversification and adherence to a policy requiring the purchase of highly rated securities. As of January 1, 2012, our cash, cash equivalents and investment portfolio was concentrated in securities with same day liquidity and at the end of fiscal 2011, a substantial majority of securities in our investment portfolio had maturities of less than two years. Although a hypothetical 10% change in interest rates could have a material effect on the fair value of our investment portfolio at a given time, we normally hold these investments until maturity, which results in no realized impact on results of operations or cash flows. We do not currently use derivative financial instruments in our investment portfolio.

At January 1, 2012, we had no outstanding debt.

We are exposed to foreign currency exchange rate risk as a result of international sales, assets and liabilities of foreign subsidiaries, local operating expenses of our foreign entities and capital purchases denominated in foreign currencies. We may use derivative financial instruments to help manage our foreign currency exchange exposures. We do not enter into derivatives for speculative or trading purposes. We performed a sensitivity analysis as of January 1, 2012 and determined that, without hedging the exposure, a 10% change in the value of the U.S. dollar would result in an approximate 0.5% impact on gross profit margin percentage, as we operate manufacturing facility in Malaysia, and an approximate 1.0% impact to operating expenses (as a percentage of revenue) as we operate sales offices in Japan and throughout Europe and design centers in the U.S., China and Canada.

We did not have any currency exposure related to any outstanding capital purchases as of January 1, 2012.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that 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 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. In designing and evaluating our disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

At January 1, 2012, the end of the quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure control and procedures were effective at a reasonable assurance level. There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Litigation

In November 2010, the Company filed a complaint in the Northern District of California against Phison Electronics Corp. (“Phison”) for infringement of the Company’s four patents directed to oscillator and clock signal technology. The lawsuit sought a preliminary and permanent injunction against Phison products as well as damages, attorney's fees and cost of the lawsuit. Phison filed an answer to the complaint on January 31, 2011, denying infringement of the patents in suit. The companies subsequently entered into a confidential settlement agreement, under which IDT licensed certain patents to Phison and the companies agreed to dismiss all claims and counterclaims in the litigation. The court issued an order dismissing the lawsuit on August 10, 2011.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and all information contained in this report before you decide to purchase our common stock. If any of the possible adverse events described below actually occurs, we may be unable to conduct our business as currently planned and our financial condition and operating results could be harmed. In addition, the trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment. The risks described below are not the only risks facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business operations, results, and financial condition.

Our operating results can fluctuate dramatically. Our operating results have fluctuated in the past and are likely to vary in the future. Fluctuations in operating results can result from a wide variety of factors, including:

- global economic conditions, including those related to the credit markets, may adversely affect our business and results of operations;
 - changes in the demand for and mix of products sold and in the markets we and our customers serve;
 - the cyclical nature of the semiconductor industry;
 - the availability of industry-wide wafer processing capacity;
- the availability of industry-wide and package specific assembly subcontract capacity and related raw materials;
 - competitive pricing pressures;
- the success and timing of new product and process technology announcements and introductions from us or our competitors;
 - potential loss of market share among a concentrated group of customers;
 - difficulty in attracting and retaining key personnel;
 - difficulty in predicting customer product requirements;
 - production difficulties and interruptions caused by our complex manufacturing and logistics operations;
 - difficulty in managing fixed costs of our manufacturing capability in the face of changes in demand;
- reduced control over our manufacturing and product delivery as a result of our increasing reliance on subcontractors, foundry and other manufacturing services;
 - unrealized potential of acquired businesses and resulting assets impairment;
 - availability and costs of raw materials from a limited number of suppliers;
 - political and economic conditions in various geographic areas;
-

reduced customer demand as a result of the impact from natural and/or man-made disasters which may adversely impact our customer's manufacturing capability or reduce our customer's ability to acquire critical materials or components to manufacture their end products;

- costs associated with other events, such as intellectual property disputes or other litigation; and
 - legislative, tax, accounting, or regulatory changes or changes in their interpretation.

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Global economic conditions, including those related to the credit markets, may adversely affect our business and results of operations.

Adverse changes in global financial markets and rapidly deteriorating business conditions in the world's developed economies in late 2008 and the first half of calendar year 2009 resulted in a significant global economic recession. Continuing concerns about the impact of high energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, a declining real estate market in the U.S. and sovereign debt crises in Europe and the U.S. have contributed to instability in both U.S. and international capital and credit markets, weakened demand and diminished expectations for the U.S. and global economy. These conditions, and the resulting low business and consumer confidence, and high unemployment have contributed to substantial volatility in global capital markets and uncertain demand for our products throughout fiscal 2010, fiscal 2011, and to-date in fiscal 2012. It is difficult for our customers, our vendors, and us to accurately forecast and plan future business activities in this economic environment.

The economic slowdown resulted in reduced customer spending for semiconductors and weakened demand for our products which had a negative impact on our revenue, gross profit, results of operations and cash flows during fiscal 2010. Although business conditions improved during the second half of fiscal 2010 and throughout fiscal 2011, global credit markets continue to be volatile driven by the ongoing sovereign debt crises in Europe and sustainable improvement in global economic activity is uncertain. Although the rate of economic growth in the United States as measured by gross domestic product (GDP) was positive throughout fiscal 2011, order rates from our customers have been volatile and unpredictable declining in both the second and third quarters of fiscal 2011. After rebounding in the fourth quarter of fiscal 2011, customer order rates weakened in the first, second and third quarters of fiscal 2012. Should the rate of global economic growth falter, customer demand for our products may continue to decline which is likely to have a negative impact on our revenue, gross profit, results of operations and cash flows. Reduced customer spending and weakened demand may drive the semiconductor industry to reduce product pricing, which would also have a negative impact on our revenue, gross profit and results of operations and cash flows. In addition, the semiconductor industry has traditionally been highly cyclical and has often experienced significant downturns in connection with, or in anticipation of, deterioration in general economic conditions and we cannot accurately predict how severe and prolonged any downturn might be.

The cyclical nature of the semiconductor industry exacerbates the volatility of our operating results.

The semiconductor industry is highly cyclical. The semiconductor industry has experienced significant downturns, often in connection with product cycles of both semiconductor companies and their customers, but also related to declines in general economic conditions. These downturns have been characterized by volatile customer demand, high inventory levels and accelerated erosion of average selling prices. Any future economic downturns could significantly impact our business from one period to the next relative to demand and product pricing. In addition, the semiconductor industry has experienced periods of increased demand, during which we may experience internal and external manufacturing constraints. We may experience substantial changes in future operating results due to the cyclical nature of the semiconductor industry.

Demand for our products depends primarily on demand in the communications, enterprise computing, personal computer (PC), and consumer markets which can be significantly impacted by concerns over macroeconomic issues.

Our product portfolio consists predominantly of semiconductor solutions for the communications, computing, and consumer markets. Our strategy and resources are directed at the development, production and marketing of products for these markets. The markets for our products will depend on continued and growing demand for communications equipment, servers, PCs and consumer electronics. These end-user markets may experience changes in demand that could adversely affect our business and could be greater in periods of economic uncertainty and contraction. To the

extent demand or markets for our products or markets for our products do not grow, our business could be adversely affected.

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We build most of our products based on estimated demand forecasts.

Demand for our products can change rapidly and without advance notice. Demand can also be affected by changes in our customers' levels of inventory and differences in the timing and pattern of orders from their end customers. A large percentage of our revenue in the APAC region is recognized upon shipment to our distributors. Consequently, we have less visibility over both inventory levels at our distributors and end customer demand for our products. Further, the distributors have assumed more risk associated with changes in end demand for our products. Accordingly, significant changes in end demand in the semiconductor business in general, or for our products in particular, may be difficult for us to detect or otherwise measure, which could cause us to incorrectly forecast end-market demand for our products. If we are not able to accurately forecast end demand for our products, we may be left with large amounts of unsold products, may not be able to fill all actual orders, and may not be able to efficiently utilize our existing manufacturing capacity or make optimal investment and other business decisions. As a result, we may end up with excess and obsolete inventory or we may be unable to meet customer short-term demands, either of which could have an adverse impact on our operating results.

On August 6, 2009, we announced a plan to transition the manufacture of products currently produced at our Oregon fabrication facility to TSMC. In connection with the plan, our management approved a plan to exit wafer production operations at our Oregon fabrication facility. As a result, starting third quarter of fiscal 2011, we began to build inventory in anticipation of the transition. Inventory levels have increased through the third quarter of fiscal 2012, to support the wafer fabrication transition and customer qualification of new foundry manufactured products. However, if customer demand does not develop as we anticipate, it may become necessary for us to write-off or scrap a portion of the transition inventory which could adversely affect our gross margins and operating results.

If we are unable to execute our business strategy, our revenues and profitability may be adversely affected.

Our future financial performance and success are largely dependent on our ability to execute our business strategy successfully. Our present business strategy to be a leading provider of essential mixed signal semiconductor solutions will be impacted, without limitation, by: (1) our ability to continue to aggressively manage, maintain and refine our product portfolio including focus on the development and growth of new applications; (2) our ability to continue to maintain existing customers, aggressively pursue and win new customers; (3) our ability to successfully develop, manufacture and market new products in a timely manner; (4) our ability to develop new products in a more efficient manner; (5) our ability to sufficiently differentiate and enhance of our products; (6) our ability to successfully deploy R&D investment in the areas of displays, silicon timing, power management, signal integrity and radio frequency and (7) our ability to rationalize our manufacturing operations including the transition to wholly outsourced wafer fabrication operations.

We cannot assure you that we will successfully implement our business strategy or that implementing our strategy will sustain or improve our results of operations. In particular, we cannot assure you that we will be able to build our position in markets with high growth potential, increase our volume or revenue, rationalize our manufacturing operations or reduce our costs and expenses.

Our business strategy is based on our assumptions about the future demand for our current products and the new products and applications that we are developing and on our ability to produce our products profitably. Each of these factors is subject to one or more of the risk factors set forth in this report. Several risks that could affect our ability to implement our business strategy are beyond our control. In addition, circumstances beyond our control and changes in our business or industry may require us to change our business strategy.

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Our results are dependent on the success of new products.

The markets we serve are characterized by competition, rapid technological change, evolving standards, short product life cycles and continuous erosion of average selling prices. Consequently, our future success will be highly dependent upon our ability to continually develop new products using the latest and most cost-effective technologies, introduce our products in commercial quantities to the marketplace ahead of the competition and have our products selected for inclusion in leading system manufacturers' products. In addition, the development of new products will continue to require significant R&D expenditures. If we are unable to successfully develop, produce and market new products in a timely manner, have our products available in commercial quantities ahead of competitive products or have our products selected for inclusion in products of systems manufacturers and sell them at gross margins comparable to or better than our current products, our future results of operations could be adversely impacted. In addition, our future revenue growth is also partially dependent on our ability to penetrate new markets in which we have limited experience and where competitors are already entrenched. Even if we are able to develop, produce and successfully market new products in a timely manner, such new products may not achieve market acceptance. The above described events could have a variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and ultimately lead to impairment of assets.

We are reliant upon subcontractors and third-party foundries.

Beginning in fiscal 2008, we stopped performing assembly services in-house and are totally dependent on subcontractors for assembly operations. We are also dependent on third-party outside foundries for the manufacture of an increasing portion of our silicon wafers. Our increased reliance on subcontractors and third-party foundries for our current products increases certain risks because we will have less control over manufacturing quality and delivery schedules, maintenance of sufficient capacity to meet our orders and generally, maintaining the manufacturing processes we require. As a result of our decision to transfer our internal wafer fabrication production to outside foundries, our use of subcontractors and third-party foundries will continue to increase. Due to production lead times and potential capacity constraints, any failure on our part to adequately forecast the mix of product demand and resulting foundry and subcontractor requirements could adversely affect our operating results. In addition, we cannot be certain that these foundries and subcontractors will continue to manufacture, assemble, package and test products for us on acceptable economic and quality terms, or at all, and it may be difficult for us to find alternatives in a timely and cost-effective manner if they do not do so.

We have made and may continue to make acquisitions and divestitures which could divert management's attention, cause ownership dilution to our stockholders, be difficult to integrate, and/or adversely affect our financial results.

Acquisitions and divestitures are commonplace in the semiconductor industry and we have acquired and divested, and may continue to acquire or divest, businesses and technologies. Integrating newly acquired businesses or technologies could put a strain on our resources, could be costly and time consuming, and might not be successful. Acquisitions or divestitures could divert our management's attention and other resources from other business concerns. In addition, we might lose key employees while integrating new organizations. Acquisitions and divestitures could also result in customer dissatisfaction, performance problems with an acquired company or technology, dilutive or potentially dilutive issuances of equity securities, the incurrence of debt, the assumption or incurrence of contingent liabilities, or other unanticipated events or circumstances, any of which could harm our business. Consequently, we might not be successful in acquiring or integrating any new businesses, products, or technologies, and might not achieve anticipated revenues and cost benefits. In addition, we might be unsuccessful in finding or completing acquisition or divestiture opportunities on acceptable terms in a timely manner.

We are dependent on a concentrated group of customers for a significant part of our revenues.

A large portion of our revenues depends on sales to a limited number of customers. If these relationships were to diminish, or if these customers were to develop their own solutions or adopt a competitor's solution instead of buying our products, our results could be adversely affected.

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Many of our end-customer original equipment manufacturers (“OEMs”) have outsourced their manufacturing to a concentrated group of global electronics manufacturing service (“EMSs”) providers and original design manufacturers (“ODMs”) who then buy products directly from us or from our distributors on behalf of the OEM. These EMSs and ODMs have achieved greater autonomy in the design win, product qualification and product purchasing decisions, especially for commodity products. Competition for the business from EMSs and ODMs is intense and there is no assurance we can remain competitive and retain our existing market share with these customers. If these companies were to allocate a higher share of commodity or second-source business to our competitors instead of buying our products, our results would be adversely affected. Furthermore, as EMSs and ODMs have represented a growing percentage of our overall business, our concentration of credit and other business risks with these customers has increased. Competition among global EMSs and ODMs is intense as they operate on very low margins. If any one or more of our global EMSs or ODMs customers were to file for bankruptcy or otherwise experience significantly adverse financial conditions, our business would be adversely impacted as well.

In addition, we utilize a relatively small number of global and regional distributors around the world, who buy product directly from us on behalf of their customers. For example, three distributors represented 16%, 11%, and 10% of the Company’s net revenues, respectively, for the nine months ended January 1, 2012. In addition, at January 2, 2012, four distributors represented 20%, 12%, 10%, and 10% of the Company’s gross accounts receivable. If our business relationships with any of these distributors were to diminish or any of these distributors were to file for bankruptcy or otherwise experience significantly adverse financial conditions, our business could be adversely impacted. Because we continue to be dependent on product demand from a small group of OEM end customers and global and regional distributors, any material delay, cancellation or reduction of orders from or loss of these or other major customers could cause our revenue to decline significantly, and we may not be able to reduce the corresponding expenses at the same rate.

We are dependent on a limited number of suppliers.

Our manufacturing operations depend upon obtaining adequate raw materials on a timely basis. The number of suppliers of certain raw materials, such as silicon wafers, ultra-pure metals and certain chemicals and gases needed for our products, is very limited. In addition, certain packages for our products require long lead times and are available from only a few suppliers. From time to time, suppliers have extended lead times or limited supply to us due to capacity constraints. Our results of operations would be materially and adversely affected if we were unable to obtain adequate supplies of raw materials in a timely manner or if there were significant increases in the costs of raw materials, or if foundry or assembly subcontractor capacity was not available, or was only available at uncompetitive prices.

Our operations and business could be significantly harmed by natural disasters.

A majority of the third-party foundries and subcontractors we currently use are located in Malaysia, South Korea, Philippines, Singapore, Taiwan, Thailand, and China. In addition, we own a test facility in Malaysia. The risk of an earthquake or tsunami in these Pacific Rim locations is significant, as highlighted by the severe earthquakes and tsunami that struck the northeast coast of Japan in March 2011 and the massive flooding in Thailand in October 2011. While we did not experience a significant impact on our operation from these disasters, the occurrence of an earthquake, drought, floods, fires, or other natural disaster near any of these locations could cause a significant reduction of end-customer demand, and/or availability of materials, a disruption of the global supply chain, an increase in the cost of products that we purchase, and otherwise interfere with our ability to conduct business. In addition, public health issues, acts of terrorism or other catastrophic events could significantly delay the production or shipment of our products. Although we maintain insurance for some of the damage that may be caused by natural disasters, our insurance coverage may not be sufficient to cover all of our potential losses and would not cover us for

lost business. As a result, a natural disaster in one or more of these regions could have a material adverse effect on our financial condition and results of operations.

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Costs related to product defects and errata may harm our results of operations and business.

Costs associated with unexpected product defects and errata, or deviations from published specifications, due to, for example, unanticipated problems in our design and manufacturing processes, could include:

- writing off the value of inventory of such products;
 - disposing of products that cannot be fixed;
- recalling such products that have been shipped to customers;
- providing product replacements for, or modifications to, such products; and
 - defending against litigation related to such products.

These costs could be substantial and may therefore increase our expenses and lower our gross margin. In addition, our reputation with our customers or users of our products could be damaged as a result of such product defects and errata, and the demand for our products could be reduced. The announcement of product defects and/or errata could cause customers to purchase products from our competitors as a result of anticipated shortages of our components or for other reasons. These factors could harm our financial results and the prospects for our business.

If the credit market conditions deteriorate, it could have a material adverse impact on our investment portfolio.

Although we manage our investment portfolio by purchasing only highly rated securities and diversifying our investments across various sectors, investment types, and underlying issuers, recent volatility in the short-term financial markets has been high. We have no securities in asset backed commercial paper and hold no auction rated or mortgage backed securities. However it is uncertain as to the full extent of the current credit and liquidity crisis and with possible further deterioration, particularly within one or several of the large financial institutions, the value of our investments could be negatively impacted.

Intellectual property claims against and/or on behalf of the Company could adversely affect our business and operations.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in significant and often protracted and expensive litigation. We have been involved with patent litigation and asserted intellectual property claims in the past, both as a plaintiff and a defendant, some of which have adversely affected our operating results. Although we have obtained patent licenses from certain semiconductor manufacturers, we do not have licenses from a number of semiconductor manufacturers that have broad patent portfolios. Claims alleging infringement of intellectual property rights have been asserted against us in the past and could be asserted against us in the future.

These claims could result in our having to discontinue the use of certain processes; license certain technologies; cease the manufacture, use, and sale of infringing products; incur significant litigation costs and damages; and develop non-infringing technology. We might not be able to obtain such licenses on acceptable terms or develop non-infringing technology. Further, the failure to renew or renegotiate existing licenses on favorable terms, or the inability to obtain a key license, could materially and adversely affect our business. Future litigation, either as a plaintiff or a defendant, could adversely affect our operating results, as a result of increased expenses, the cost of settled claims, and/or payment of damages.

Our product manufacturing operations are complex and subject to interruption.

From time to time, we have experienced production difficulties, including lower manufacturing yields or products that do not meet our or our customers' specifications, which has resulted in delivery delays, quality problems and lost revenue opportunities. While delivery delays have been infrequent and generally short in duration, we could experience manufacturing problems, capacity constraints and/or product delivery delays in the future as a result of, among other things, the complexity of our manufacturing processes, changes to our process technologies (including transfers to other facilities and die size reduction efforts), and difficulties in ramping production and installing new equipment at our facilities. In addition, any significant quality problems could damage our reputation with our customers and could take focus away from the development of new and enhanced products. These could have a significant negative impact on our financial results.

We are dependent upon electric power and water provided by public utilities where we operate our manufacturing facilities. We maintain limited backup generating capability, but the amount of electric power that we can generate on our own is insufficient to fully operate these facilities, and prolonged power interruptions and restrictions on our access to water could have a significant adverse impact on our business.

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Our financial results may be adversely impacted by higher than expected tax rates or exposure to additional tax liabilities. Tax audits may have a material effect on our profitability.

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region in which we operate. We are subject to income taxes in the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate could be adversely affected by changes in the mix of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws or by material audit assessments, which could affect our profitability. In particular, the carrying value of deferred tax assets, which are predominantly in the United States (U.S.), is dependent upon our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority such as the United States Internal Revenue Service could have a material effect on our profitability.

The costs associated with legal proceedings can be substantial, specific costs are unpredictable and not completely within our control, and unexpected increases in litigation costs could adversely affect our operating results.

We have been involved in legal proceedings, an example of which is described above in Part I, Item 3 "Legal Proceedings." The costs associated with legal proceedings are typically high, relatively unpredictable, and are not completely within our control. While we do our best to forecast and control such costs, the costs may be materially more than expected, which could adversely affect our operating results. Moreover, we may become involved in unexpected litigation with additional litigants at any time, which would increase our aggregate litigation costs, and could adversely affect our operating results. We are not able to predict the outcome of any of any legal action, and an adverse decision in any legal action could significantly harm our business and financial performance.

We are dependent on key personnel.

Our performance is substantially dependent on the performance of our executive officers and key employees. The loss of the services of any of our executive officers, technical personnel or other key employees could adversely affect our business. In addition, our future success depends on our ability to successfully compete with other technology firms in attracting and retaining specialized technical and management personnel. If we are unable to identify, hire, and retain highly qualified technical and managerial personnel, our business could be harmed.

Our results of operations could vary as a result of the methods, estimates, and judgments we use in applying our accounting policies.

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on our results of operations. Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that leads us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations. In particular, the calculation of stock-based compensation expense under the authoritative guidance requires us to use valuation methodologies that were not developed for use in valuing employee stock options and make a number of assumptions, estimates, and conclusions regarding matters such as expected forfeitures, expected volatility of our share price and the exercise behavior of our employees. Changes in these variables could impact our stock-based compensation expense and have a significant impact on our gross margins, research and development and selling, general and administrative expenses.

Our reported financial results may be adversely affected by new accounting pronouncements or changes in existing accounting standards and practices.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board (FASB), SEC and various organizations formed to interpret and create appropriate accounting standards and practices. New accounting pronouncements and varying interpretations of accounting standards and practices have occurred and may occur in the future. New accounting pronouncements or a change in the interpretation of existing accounting standards or practices may have a significant effect on our reported financial results and may even affect our reporting of transactions completed before the change is announced or effective.

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Tax benefits we receive may be terminated or reduced in the future, which would increase our costs.

As a result of our international manufacturing operations, a significant portion of our worldwide profits are in jurisdictions outside the United States, including Bermuda and Malaysia which offer significant reductions in tax rates. These lower tax rates allow us to record a relatively low tax expense on a worldwide basis. Under current Bermuda law, we are not subject to tax on our income and capital gains. If U.S. corporate income tax laws were to change regarding deferral of manufacturing profits or other matters impacting our operating structure, this would have a significant impact to our financial results. President Obama's Administration budget proposals have U.S. tax legislative proposals that, if enacted, may adversely impact our effective tax rate and overall tax paying position in the U.S.

In addition, we were granted a tax holiday in Malaysia during fiscal 2009. The tax holiday was contingent upon us continuing to meet specified investment criteria in fixed assets, and to operate as an APAC regional headquarters center. In the fourth quarter of fiscal 2011, we agreed with the Malaysia Industrial Development Board (MIDA) to cancel this tax holiday and entered into a new tax holiday which is a full tax exemption on statutory income for a period of 10 years commencing April 4, 2011. We are required to meet several requirements as to financial targets, investment, headcount and activities in Malaysia to retain this status. Our inability to renew this tax holiday when it expires or meet certain conditions of the agreement with MIDA may adversely impact our effective tax rate.

International operations add increased volatility to our operating results.

A substantial percentage of our total revenues are derived from international sales, as summarized below:

As a percentage of net revenues	First Nine Months of 2012		Fiscal 2011	
Asia Pacific	67	%	65	%
Americas	14	%	16	%
Europe	11	%	10	%
Japan	8	%	9	%
Total	100	%	100	%

In addition, our test facility in Malaysia, our design centers in Canada and China, and our foreign sales offices incur payroll, facility, and other expenses in local currencies. Accordingly, movements in foreign currency exchange rates can impact our revenues and costs of goods sold, as well as both pricing and demand for our products.

Our non-U.S. offshore sites, manufacturing subcontractors and export sales are also subject to risks associated with foreign operations, including:

- political instability and acts of war or terrorism, which could disrupt our manufacturing and logistical activities;
 - regulations regarding use of local employees and suppliers;
- currency controls and fluctuations, devaluation of foreign currencies, hard currency shortages and exchange rate fluctuations;
 - changes in local economic conditions;
 - governmental regulation of taxation of our earnings and those of our personnel; and
 - changes in tax laws, import and export controls, tariffs and freight rates.

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Contract pricing for raw materials and equipment used in the fabrication and assembly processes, as well as for foundry and subcontract assembly services, may also be impacted by currency controls, exchange rate fluctuations and currency devaluations. We sometimes hedge currency risk for currencies that are highly liquid and freely quoted, but may not enter into hedge contracts for currencies with limited trading volume. In addition, as much of our revenues are generated outside the United States, a significant portion of our cash and investment portfolio accumulates in the foreign countries in which we operate. On January 1, 2012, we had cash, cash equivalents and investments of approximately \$240.3 million invested overseas in accounts belonging to our foreign subsidiaries. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies, and all offshore balances are exposed to local political, banking, currency control and other risks. In addition, these amounts may be subject to tax and other transfer restrictions.

We invest in companies for strategic reasons and may not realize a return on our investments.

We make investments in companies around the world to further our strategic objectives and support our key business initiatives. Such investments include equity instruments of private companies, and many of these instruments are non-marketable at the time of our initial investment. These companies range from early-stage companies that are often still defining their strategic direction to more mature companies with established revenue streams and business models. The success of these companies is dependent on product development, market acceptance, operational efficiency, and other key business factors as well as their ability to secure additional funding, obtain favorable investment terms for future financings, or participate in liquidity events such as public offerings, mergers, and private sales. If any of these private companies fail, we could lose all or part of our investment in that company. If we determine that other-than-temporary decline in the fair value exists for an equity investment in a private company in which we have invested, we write down the investment to its fair value and recognize the related write-down as an investment loss.

When the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment. We may incur losses on the disposal of our non-marketable investments. Additionally, for cases in which we are required under equity method accounting to recognize a proportionate share of another company's income or loss, such income or loss may impact our earnings. Gains or losses from equity securities could vary from expectations depending on gains or losses realized on the sale or exchange of securities, gains or losses from equity method investments, and impairment charges for equity and other investments.

We rely upon certain critical information systems for the operation of our business.

We maintain and rely upon certain critical information systems for the effective operation of our business. These information systems include telecommunications, the Internet, our corporate intranet, various computer hardware and software applications, network communications, and e-mail. These information systems are subject to attacks, failures, and access denials from a number of potential sources including viruses, destructive or inadequate code, power failures, and physical damage to computers, communication lines and networking equipment. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes, to address the outlined risks. While we believe that our information systems are appropriately controlled and that we have processes in place to adequately manage these risks, security procedures for information systems cannot be guaranteed to be failsafe and our inability to use or access these information systems at critical points in time could unfavorably impact the timely and efficient operation of our business.

We are exposed to potential impairment charges on certain assets.

Over the past several years, we have made several acquisitions. As a result of these acquisitions, we had over \$1 billion of goodwill and over \$204 million of intangible assets on our balance sheet at the beginning of fiscal 2009. As a result of our impairment analysis in fiscal 2009, we recorded a goodwill impairment charge of \$946.3 million and an acquisition-related intangible asset impairment charge of \$79.4 million. In determining fair value, we consider various factors including our market capitalization, forecasted revenue and costs, risk-adjusted discount rates, future economic and market conditions, determination of appropriate market comparables and expected periods over which our assets will be utilized and other variables.

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If our assumptions regarding forecasted cash flow, revenue and margin growth rates of certain long-lived asset groups and reporting units are not achieved, it is reasonably possible that an impairment review may be triggered for the remaining balance of goodwill and long-lived assets prior to the next annual review in the fourth quarter of fiscal 2012, which could result in material charges that could impact our operating results and financial position.

We have limited experience with government contracting, which entails differentiated business risks.

We may from time-to-time derive revenue from contracts and subcontracts with agencies of, or prime or secondary contractors to, the U.S. government, including U.S. military agencies. Consequently, we are subject to certain business risks that are particular to companies that contract with U.S. government agencies. These risks include the ability of the U.S. government or related contractors to unilaterally:

- terminate contracts at its convenience;
- terminate, modify or reduce the value of existing contracts, if budgetary constraints or needs change;
 - cancel multi-year contracts and related orders, if funds become unavailable;
 - adjust contract costs and fees on the basis of audits performed by U.S. government agencies;
 - control and potentially prohibit the export of our products;
- require that we continue to supply products despite the expiration of a contract under certain circumstances;
- require that we fill certain types of rated orders for the U.S. government prior to filling any orders for other customers; and
- suspend us from receiving new contracts pending resolution of any alleged violations of procurement laws or regulations.

In addition, because we may enter into defense industry contracts with respect to products that are sold both within and outside of the United States, we are subject to the following additional risks in connection with government contracts:

- the need to bid on programs prior to completing the necessary design, which may result in unforeseen technological difficulties, delays and/or cost overruns;
- the difficulty in forecasting long-term costs and schedules and the potential obsolescence of products related to long-term fixed price contracts; and
 - the need to transfer and obtain security clearances and export licenses, as appropriate.

The revenue from, and activity with, contracts and subcontracts with agencies of, or prime contractors to, the U.S. government, has declined subsequent to the disposition of our military business in November 2009.

Our common stock has experienced substantial price volatility.

Volatility in the price of our common stock may occur in the future, particularly as a result of fluctuations in global economic conditions and quarter-to-quarter variations in our actual or anticipated financial results, or the financial results of other semiconductor companies or our customers. Stock price volatility may also result from product announcements by us or our competitors, or from changes in perceptions about the various types of products we manufacture and sell. In addition, our stock price may fluctuate due to price and volume fluctuations in the stock market, especially in the technology sector, and as a result of other considerations or events described in this section.

We depend on the ability of our personnel, raw materials, equipment and products to move reasonably unimpeded around the world.

Any political, military, world health or other issue which hinders the worldwide movement of our personnel, raw materials, equipment or products or restricts the import or export of materials could lead to significant business disruptions. Furthermore, any strike, economic failure, or other material disruption on the part of major airlines or other transportation companies could also adversely affect our ability to conduct business. If such disruptions result in cancellations of customer orders or contribute to a general decrease in economic activity or corporate spending on information technology, or directly impact our marketing, manufacturing, financial and logistics functions, our results of operations and financial condition could be materially and adversely affected.

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We are subject to a variety of environmental and other regulations related to hazardous materials used in our manufacturing processes.

The manufacturing and testing of our products require the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Any failure by us to adequately control the use or discharge of hazardous materials under present or future regulations could subject us to substantial costs or liabilities or cause our manufacturing operations to be suspended.

Existing and future environmental, health and safety laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs, or incur other expenses associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of one or more of such materials in our manufacturing, and test processes, or products. Any of these restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter our manufacturing and test processes.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information with respect to repurchases of our common stock during the first nine months of fiscal 2012:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 4, 2011 - May 2, 2011	278,927	\$7.35	278,927	\$145,270,760
May 3, 2011 - May 29, 2011	854,860	\$8.36	854,860	\$138,125,156
May 30, 2011 - July 3, 2011	1,885,900	\$7.75	1,885,900	\$123,509,444
July 4, 2011 - July 13, 2011	645,300	\$7.38	645,300	\$118,651,917
August 1, 2011 - August 28, 2011	2,855,200	\$5.83	2,855,200	\$102,006,361
August 29, 2011 - October 2, 2011	374,621	\$5.74	374,621	\$99,856,236
October 3, 2011 - October 30, 2011	1,612,300	\$5.43	1,612,300	\$91,099,108
October 31, 2011 - November 27, 2011	593,900	\$6.06	593,900	\$87,500,544
November 28, 2011 - January 1, 2012	469,189	\$5.63	469,189	\$84,860,878
	9,570,197	\$5.74	9,570,197	

On July 21, 2010, the Company's Board of Directors approved a plan to repurchase up to \$225 million of its common stock. In fiscal 2011, the Company repurchased 12.8 million shares at an average price of \$6.06 per share for a total purchase price of \$77.7 million under this plan. During the first nine months of fiscal 2012, the Company repurchased 9.6 million shares at an average price of \$6.53 per share for a total purchase price of \$62.5 million. As of January 1, 2012, approximately \$84.9 million was available for future purchase under this share repurchase program. Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders' equity.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED and RESERVED

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

(a) The following exhibits are filed herewith:

Exhibit number	Description
31.1	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, dated February 10, 2012.
31.2	Certification of Chief Financial Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, dated February 10, 2012.
32.1*	Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350 dated February 10, 2012.
32.2*	Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended and 18 U.S.C. Section 1350 dated February 10, 2012.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

*This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

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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.

Date: February 10, 2012

INTEGRATED DEVICE
TECHNOLOGY, INC.

/S/ THEODORE L. TEWKSBURY III
Theodore L. Tewksbury III
President and Chief Executive Officer

Date: February 10, 2012

/S/ RICHARD D. CROWLEY, JR.
Richard D. Crowley, Jr.
Vice President, Chief Financial Officer
(Principal Financial and Accounting
Officer)

