INTEGRATED DEVICE TECHNOLOGY INC
Form 10-Q
February 06, 2008

# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 30, 2007

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** | **94-2669985** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **6024 SILVER CREEK VALLEY ROAD, SAN JOSE, CALIFORNIA** | **95138** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

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

**NONE**

**Former name, former address and former fiscal year (if changed since last report)**

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 x No ¨

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No x

The number of outstanding shares of the registrant s Common Stock, $.001 par value, as of January 27, 2007, was approximately 182,566,196.

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**
**INTEGRATED DEVICE TECHNOLOGY, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(UNAUDITED; IN THOUSANDS, EXCEPT PER SHARE DATA)**

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | Dec. 30, 2007 | Dec. 31, 2006 | Dec. 30, 2007 | Dec. 31, 2006 |
| Revenues | $ 201,228 | $ 206,196 | $ 604,371 | $ 596,908 |
| Cost of revenues | 112,904 | 120,406 | 342,969 | 340,213 |
| Gross profit | 88,324 | 85,790 | 261,402 | 256,695 |
| Operating expenses: | | | | |
| Research and development | 40,616 | 43,474 | 127,191 | 123,941 |
| Selling, general and administrative | 38,929 | 46,791 | 127,658 | 143,771 |
| Acquired in-process research and development | | | | 500 |
| Total operating expenses | 79,545 | 90,265 | 254,849 | 268,212 |
| Operating income (loss) | 8,779 | (4,475) | 6,553 | (11,517) |
| Interest expense | (20) | (59) | (89) | (210) |
| Interest income and other, net | 3,443 | 4,027 | 13,741 | 11,268 |
| Income (loss) before income taxes | 12,202 | (507) | 20,205 | (459) |
| Provision (benefit) for income taxes | (1,216) | 1,433 | 3,124 | 3,708 |
| Net income (loss) | $ 13,418 | $ (1,940) | $ 17,081 | $ (4,167) |
| Basic net income (loss) per share | $ 0.07 | $ (0.01) | $ 0.09 | $ (0.02) |
| Diluted net income (loss) per share | $ 0.07 | $ (0.01) | $ 0.09 | $ (0.02) |
| Weighted average shares: | | | | |
| Basic | 186,720 | 197,332 | 190,240 | 198,633 |
| Diluted | 188,545 | 197,332 | 194,130 | 198,633 |

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

**INTEGRATED DEVICE TECHNOLOGY, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(UNAUDITED; IN THOUSANDS)**

| | December 30, 2007 | April 1, 2007 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 170,035 | $ 246,589 |
| Short-term investments | 114,695 | 113,344 |
| Accounts receivable, net | 92,278 | 89,986 |
| Inventories | 79,403 | 85,076 |
| Deferred taxes | 7,910 | 7,308 |
| Prepayments and other current assets | 29,301 | 29,437 |
| Total current assets | 493,622 | 571,740 |
| Property, plant and equipment, net | 83,176 | 93,058 |
| Goodwill | 1,034,118 | 1,038,064 |
| Acquisition-related intangibles, net | 228,974 | 314,484 |
| Other assets | 29,652 | 24,386 |
| Total assets | $ 1,869,542 | $ 2,041,732 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable | $ 45,082 | $ 47,854 |
| Accrued compensation and related expenses | 23,802 | 30,882 |
| Deferred income on shipments to distributors | 28,806 | 34,343 |
| Income taxes payable | 8,807 | 30,514 |
| Other accrued liabilities | 17,069 | 22,445 |
| Total current liabilities | 123,566 | 166,038 |
| Deferred tax liabilities | 20,521 | 20,603 |
| Long-term income taxes payable | 21,400 | |
| Other long-term obligations | 17,277 | 16,001 |
| Total liabilities | 182,764 | 202,642 |
| Stockholders equity: | | |
| Preferred stock; $0.001 par value: 10,000 shares authorized; no shares issued | | |
| Common stock; $0.001 par value: 350,000 shares authorized; 182,566 and 196,263 shares outstanding | 183 | 196 |
| Additional paid-in capital | 2,226,796 | 2,154,817 |
| Treasury stock | (621,155) | (380,678) |
| Retained earnings | 78,348 | 61,206 |
| Accumulated other comprehensive income | 2,606 | 3,549 |
| Total stockholders equity | 1,686,778 | 1,839,090 |
| Total liabilities and stockholders equity | $ 1,869,542 | $ 2,041,732 |

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

**INTEGRATED DEVICE TECHNOLOGY, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED; IN THOUSANDS)**

| | Nine months ended | |
|---|---|---|
| | **Dec. 30, 2007** | **Dec. 31, 2006** |
| **Operating activities** | | |
| Net income (loss) | $ 17,081 | $ (4,167) |
| Adjustments: | | |
| Depreciation | 23,207 | 24,908 |
| Amortization of intangible assets | 85,510 | 116,125 |
| Acquired in-process research and development | | 500 |
| Restructuring and impairment | | 2,715 |
| Gain on sale of investment in equity securities | (1,687) | |
| Stock-based compensation expense | 33,021 | 35,419 |
| Changes in assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable, net | (2,292) | (6,869) |
| Inventories | 5,470 | (24,622) |
| Other assets | (5,446) | (10,356) |
| Accounts payable | (2,772) | 7,285 |
| Accrued compensation and related expenses | (7,080) | 666 |
| Deferred income on shipments to distributors | (5,537) | 4,175 |
| Income taxes payable | 4,550 | (12,244) |
| Deferred income taxes | 214 | 775 |
| Other accrued and long-term liabilities | (6,110) | (18) |
| Net cash provided by operating activities | 138,129 | 134,292 |
| **Investing activities** | | |
| Acquisitions, net of cash acquired | | (73,212) |
| Purchases of property, plant and equipment | (13,593) | (13,631) |
| Purchases of short-term investments | (113,234) | (105,156) |
| Proceeds from sales and maturities of short-term investments | 112,770 | 20,688 |
| Net cash used in investing activities | (14,057) | (171,311 ) |
| **Financing activities** | | |
| Issuance of common stock | 39,147 | 44,543 |
| Repurchases of common stock | (240,477) | (99,993) |
| Net cash used in financing activities | (201,330) | (55,450) |
| Effect of exchange rates on cash and cash equivalents | 704 | 840 |
| Net decrease in cash and cash equivalents | (76,554) | (91,629) |
| Cash and cash equivalents at beginning of period | 246,589 | 266,173 |
| Cash and cash equivalents at end of period | $ 170,035 | $ 174,544 |

The accompanying notes are an integral part of these 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 (which include only normal, recurring 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.

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. All references are to the Company s fiscal quarters ended December 30, 2007 (Q3 2008), September 30, 2007 (Q2 2008), July 1, 2007 (Q1 2008) and December 31, 2006 (Q3 2007) unless otherwise indicated.

These 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 1, 2007. Operating results for the nine months ended December 30, 2007 are not necessarily indicative of operating results for an entire fiscal year.

**Note 2**

**Significant Accounting Policies**

*Revenue Recognition.* The Company s revenue results from semiconductors sold through three channels: direct sales to original equipment manufacturers ( OEMs ) and electronic manufacturing service providers ( EMSs ), consignment sales to OEMs and EMSs, and sales through distributors. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and its ability to collect is reasonably assured. For direct sales, we recognize revenue in accordance with the applicable shipping terms. Revenue related to the sale of consignment inventory is not recognized until the product is pulled from inventory stock by the customer. For distributors who have stock rotation, price protection and ship from stock pricing adjustment rights, the Company defers revenue and related cost of revenues on sales to these distributors until the product is sold through by the distributor to an end-customer. For distributors who only have limited stock rotation rights, revenue is recognized upon shipment, with reserves recorded for the estimated return exposure in accordance with Statement of Financial Accounting Standards (SFAS) No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48). In addition, the Company is required to estimate pricing adjustments to distributors for product purchased in a given quarter that remains in their inventory at the end of a given quarter. The application of this policy results in the Company recognizing revenue on a sell-through basis for North American and European distributors and recognizing revenue on a sell-in basis for Japanese distributors and substantially all Asian distributors. Revenues related to licensing agreements are recognized on a straight-line basis over the period from when the licensee is first contractually permitted to use the related patents or other technology until earlier of either the expiration of the contract or the underlying patents.

*Stock-based Compensation:* The fair value of employee restricted stock units is equal to the market value of the Company s common stock on the date the award is granted. The Company estimates the fair value of employee stock options, restricted stock units and the right to purchase shares under the employee stock purchase plan using the Black-Scholes valuation model, consistent with the provisions of the Financial Accounting Standards Board s (FASB) SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). Option-pricing models require the input of highly subjective assumptions, including the expected term of options, the determination of risk-free interest rates, and the expected price volatility of the stock underlying such options. In addition, the Company is required to estimate the number of stock-based awards that will be forfeited due to employee turnover based on historical trends. Finally, the Company capitalizes into inventory a portion of the periodic stock-based compensation expense that relates to employees working in manufacturing activities.

The interest rate is based on the average U.S. Treasury interest rate in effect during the applicable quarter. The Company believes that the implied volatility of its common stock is an important consideration of current market conditions and a good indicator of the expected volatility of its common stock. However, due to the short duration and volume of options freely traded over the counter, the Company believes that implied volatility, by itself, is not representative of the expected volatility of its common stock. Therefore, upon adoption of SFAS 123(R), the Company revised the volatility factor used to estimate the fair value of its stock-based awards which now reflects a blend of historical volatility of its common stock and implied volatility of call options and dealer quotes on call options, generally having a term of less than twelve months. The Company has not paid, nor does it have current plans to pay dividends on its common stock in the foreseeable future.

**Note 3**

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS 141 (R), *Business Combinations* (SFAS 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of SFAS 141(R) on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *the Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides companies the option (fair value option) to measure certain financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, although earlier adoption is permitted. The Company is currently evaluating whether the adoption of SFAS 159 will have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which enhances existing guidance for measuring assets and liabilities using fair value. SFAS 157 defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating whether the adoption of SFAS 157 will have a material effect on our consolidated financial position, results of operations or cash flows.

**Note 4**

**Net Income (Loss) Per Share**

Net income (loss) per share has been computed using weighted-average common shares outstanding in accordance with SFAS 128, *Earnings per Share*.

| | **Three months ended** | | **Nine months ended** | |
|---|---|---|---|---|
| ***(in thousands)*** | **Dec. 30, 2007** | **Dec. 31, 2006** | **Dec. 30, 2007** | **Dec. 31, 2006** |
| Weighted average common shares outstanding | 186,720 | 197,332 | 190,240 | 198,633 |
| Dilutive effect of employee stock options | 1,825 | | 3,890 | |
| Weighted average common shares outstanding, assuming dilution | 188,545 | 197,332 | 194,130 | 198,633 |

Stock options to purchase 12.3 million and 11.1 million shares for the three and nine month periods ended December 30, 2007, respectively, and 8.8 million and 7.8 million shares for the three and nine month periods ended December 31, 2006 respectively, were outstanding, but were excluded from the calculation of diluted earnings per share because the exercise price of these options exceeded the average share price of the common shares and therefore, the effect would have been antidilutive. Net loss per share for the three and nine month periods ended December 31, 2006 is based only on weighted average common shares outstanding. Stock options based equivalent shares of 5.6 million and 4.7 million for the three and nine month periods ended December 31, 2006, respectively, were excluded from the calculation of diluted earnings per share as their effect would be antidilutive in a net loss period.

**Note 5**

**Stock-Based Employee Compensation**

***Compensation Expense***

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

| *(in thousands)* | Three months ended Dec. 30, 2007 | Three months ended Dec. 31, 2006 | Nine months ended Dec. 30, 2007 | Nine months ended Dec. 31, 2006 |
|---|---|---|---|---|
| Cost of revenue | $ 947 | $ 1,107 | $ 3,189 | $ 2,490 |
| Research and development | 4,782 | 6,325 | 18,128 | 19,136 |
| Selling, general and administrative | 3,662 | 3,746 | 11,704 | 13,793 |
| Total stock-based compensation expense | 9,391 | 11,178 | 33,021 | 35,419 |
| Tax effect on stock-based compensation expense (1) | | | | |
| Total stock-based compensation expense, net of related tax effects | $ 9,391 | $ 11,178 | $ 33,021 | $ 35,419 |

(1) Assumes a zero tax rate for each period presented as the Company has a full valuation allowance.

As stock-based compensation expense recognized in the Condensed Consolidated Statement of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures in accordance with the provisions of SFAS 123(R). SFAS 123(R) 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 amortizes the value of stock-based compensation on an accelerated method.

The following table summarizes stock-based compensation expense associated with each type of award:

| *(in thousands)* | Three months ended Dec. 30, 2007 | Three months ended Dec. 31, 2006 | Nine months ended Dec. 30, 2007 | Nine months ended Dec. 31, 2006 |
|---|---|---|---|---|
| Employee stock options | $ 7,907 | $ 10,206 | $ 28,456 | $ 34,009 |
| Employee stock purchase plan ( ESPP ) | 440 | 739 | 1,961 | 2,076 |
| Restricted stock units ( RSUs ) | 907 | 195 | 2,401 | 315 |
| Change in amounts capitalized in inventory | 137 | 38 | 203 | (981) |
| Total stock-based compensation expense | $ 9,391 | $ 11,178 | $ 33,021 | $ 35,419 |

***Valuation Assumptions***

Assumptions used in the Black-Scholes valuation model were as follows:

| | Three months ended Dec. 30, 2007 | Three months ended Dec. 31, 2006 | Nine months ended Dec. 30, 2007 | Nine months ended Dec. 31, 2006 |
|---|---|---|---|---|
| Stock option plans: | | | | |
| Expected Term | 4.66 years | 5.05 years | 4.66 years | 4.86 years |

| | | | | |
|---|---|---|---|---|
| Risk-free interest rate | 3.83% | 4.71% | 4.71% | 5.02% |
| Volatility | 38.5% | 48.9% | 43.2% | 51.6% |
| Dividend Yield | 0.0% | 0.0% | 0.0% | 0.0% |
| Weighted average grant-date fair value | $ 4.74 | $ 7.92 | $ 6.33 | $ 7.51 |
| ESPP: | | | | |
| Expected Term | 0.25 years | 0.25 years | 0.25 years | 0.25 years |
| Risk-free interest rate | 3.92% | 4.88% | 4.67% | 4.86% |
| Volatility | 25.9% | 36.1% | 29.6% | 34.9% |
| Dividend Yield | 0.0% | 0.0% | 0.0% | 0.0% |
| Weighted average fair value | $ 2.16 | $ 3.63 | $ 2.96 | $ 3.37 |
| RSUs: | | | | |
| Weighted average fair value | $ 12.49 | | $ 14.80 | $ 14.97 |
| Dividend Yield | 0.0% | | 0.0% | 0.0% |

***Equity Incentive Programs***

The Company currently issues awards under three 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.

1994 Stock Option Plan (1994 Plan)

In May 1994, the Company s shareholders approved the 1994 Plan. Under the 1994 Plan, 13,500,000 shares of common stock have been made available for issuance as stock options to employees, officers, directors, consultants, independent contractors and advisors of the Company and its affiliates. Shares issuable upon exercise of stock options granted pursuant to the Company s 1985 Incentive and Nonqualified Stock Option Plan that expire or become unexercisable for any reason without having been exercised in full are also available for distribution under the 1994 Plan (not to exceed 10,000,000 shares). Options granted by the Company under the 1994 Plan generally expire seven years from the date of grant and generally vest over a four-year period from the date of grant. The exercise price of the options granted by the Company under the 1994 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. As of December 30, 2007, 75,208 shares remain available for future grant under the 1994 Plan.

2004 Equity Plan (2004 Plan)

In September 2004, the Company s shareholders approved the 2004 Plan. Under the 2004 Plan, 24,500,000 shares of common stock have been made available for issuance as stock options, restricted stock awards, stock appreciation rights, performance awards, restricted stock unit awards, and stock-based awards to employees, directors and consultants, of which a maximum of 2,000,000 shares are eligible for non-option full value awards. The 2004 Plan allows for time-based and performance-based vesting for the awards. 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 December 30, 2007, 6,928,926 shares remain available for future grant under the 2004 Plan.

Restricted stock units available for grant by the Company under the 2004 Plan generally vest over at least a 36-month period from the grant date. 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 December 30, 2007, 630,960 restricted stock unit awards were outstanding under the 2004 Plan.

The following table summarizes the Company s stock option activities for the nine months ended December 30, 2007:

| *(in thousands)* | **Shares** | **Weighted Average Exercise Price** |
|---|---|---|
| Options outstanding as of April 1, 2007 | 33,105 | $ 12.99 |
| Granted | 3,093 | 14.87 |
| Exercised (1) | (2,736) | 11.14 |
| Canceled, Forfeited or Expired | (1,837) | 17.71 |
| Options outstanding at December 30, 2007 | 31,625 | 13.06 |
| Options exercisable at December 30, 2007 | 20,388 | $ 12.75 |

(1) Upon exercise, the Company issues new shares of common stock.

As of December 30, 2007, the weighted average remaining contractual life of options outstanding was 4.2 years and the aggregate intrinsic value was $3.7 million. The weighted average remaining contractual life of options exercisable was 3.6 years and the aggregate intrinsic value was

$3.4 million. Unrecognized compensation cost related to nonvested stock-based awards, net of estimated forfeitures was $25.1 million and will be recognized over a weighted average period of 1.2 years.

As of December 30, 2007, stock options vested and expected to vest totaled approximately 29.7 million shares, with a weighted-average exercise price of $13.00 per share and a weighted average remaining contractual life of 4.1 years. The aggregate intrinsic value was approximately $3.7 million.

| | Three months ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Dec. 30, 2007 | Dec. 31, 2006 | Dec. 30, 2007 | Dec. 31, 2006 |
| Net cash proceeds from options exercised | $ 4.6 million | $ 10.8 million | $ 30.5 million | $ 36.6 million |
| Total intrinsic value of options exercised | $ 1.0 million | $ 5.5 million | $ 11.8 million | $ 17.9 million |
| Realized excess tax benefits from options exercised (1) | $ 0 | $ 0 | $ 0 | $ 0 |

(1) Excess tax benefits from the exercise of stock options, if any, are presented in the Company s Condensed Consolidated Statement of Cash Flows as financing activities rather than operating activities.

On October 24, 2007, the Company announced that its Chief Executive Officer (CEO) will be resigning as the President and CEO upon satisfactory completion of a search for his successor. The Company has entered into an executive transition agreement with the CEO as of November 13, 2007. In connection with the agreement, the Company agreed to extend the exercisablity of his outstanding options to the earlier of 12 months after the date of termination or the expiration of their original term. As a result, we recorded a modification charge of approximately $1.0 million representing the difference in fair value of the original and modified option in Q3 2008.

The following table summarizes the Company s restricted stock unit activities for the nine months ended December 30, 2007:

| | Shares (in thousands) | Weighted Average Grant Date Fair Value |
|---|---|---|
| RSU s outstanding as of April 1, 2007 | 75 | $ 15.07 |
| Granted | 645 | 14.80 |
| Released | (47) | 15.52 |
| Forfeited | (42) | 14.80 |
| Outstanding at December 30, 2007 | 631 | $ 14.78 |

As of December 30, 2007, there was approximately $4.3 million of unrecognized compensation cost related to restricted stock units granted under the Company s equity incentive plans. The unrecognized compensation cost is expected to be recognized over a weighted average period of 1.9 years.

As of December 30, 2007, restricted stock units vested and expected to vest totaled approximately 0.5 million shares, with a weighted average remaining contractual life of 1.7 years. The aggregate intrinsic value was approximately $5.2 million.

1984 ESPP

In July 1984, the Company s shareholders approved the 1984 ESPP under which eligible employees may purchase shares of the Company s common stock through payroll deductions (not to exceed 15% of such employee s compensation) at no lower than 85% of the fair market value of the common stock on the first day or the last day of each fiscal quarter, whichever is lower. Under the 1984 ESPP, 15,100,000 shares of common stock have been made available for issuance. The 1984 ESPP is implemented by 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 1984 ESPP imposes certain restrictions, including the limitation that no employee is permitted to participate in the 1984 ESPP if the rights of such employee to purchase common stock of the Company under the 1984 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 December 30, 2007, the Company issued 740,825 shares of common stock with a weighted-average price of $11.68 per share.

**Note 6**

**Balance Sheet Detail**

| *(in thousands)* | Dec. 30, 2007 | April 1, 2007 |
|---|---|---|
| *Inventories* | | |
| Raw materials | $ 6,473 | $ 8,294 |
| Work-in-process | 43,483 | 49,122 |
| Finished goods | 29,447 | 27,660 |
| Total inventories | $ 79,403 | $ 85,076 |

| | | |
|---|---|---|
| *Other long-term obligations* | | |
| Deferred compensation related liabilities | $ 14,650 | $ 11,899 |
| Long-term portion of deferred gain on equipment sales | 1,040 | 1,451 |
| Long-term portion of lease impairment obligations | 1,155 | 2,206 |
| Other | 432 | 445 |
| Total Other long-term obligations | $ 17,277 | $ 16,001 |

**Note 7**

**Cash Equivalents and Investments**

Cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. All of the Company s investments were classified as available-for-sale at December 30, 2007 and April 1, 2007. Available-for-sale investments are classified as short-term, as these investments generally consist of highly marketable securities that are intended to be available to meet near-term cash requirements. Investment securities classified as available-for-sale are reported at market value and net unrealized gains or losses are recorded in accumulated other comprehensive income, a separate component of stockholders equity, until realized. Realized gains and losses on investments are computed based upon specific identification and are included in interest income and other, net. Management evaluates investments on a regular basis to determine if an other-than-temporary impairment has occurred.

In conjunction with the merger with Integrated Circuit System, Inc. (ICS) in 2005, the Company acquired an investment in Maxtek Technology Co. Ltd ( Maxtek ), an international stocking representative in Taiwan and an IDT customer. In accordance with SFAS 115, *Accounting for Certain Debt and Equity Securities*, the Company accounts for this investment at market value, with unrealized gains or losses recorded in accumulated other comprehensive income, a separate component of stockholder equity, until realized. In April 2007, the Company sold approximately 1.1 million shares, or 78% of its equity investment in Maxtek for proceeds, net of commissions, totaling approximately $2.2 million and recognized a gain of $1.4 million, which was classified within interest income and other, net. In August 2007, the Company sold a portion of its remaining equity investment in Maxtek for proceeds, net of commissions, totaling approximately $0.4 million and recognized a gain of $0.3 million, which was classified within interest income and other, net. As of December 30, 2007, the aggregate market value of the Company s remaining investment in Maxtek was approximately $0.2 million, of which the unrealized gains were approximately $0.1 million.

The Company maintains a portfolio of marketable equity securities held to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. The securities within this portfolio are classified as trading and are stated at fair value. Portfolio assets and deferred compensation liabilities are included in other assets and long-term obligations, respectively, on the Condensed Consolidated Balance Sheets. Increases or decreases related to the Company s participant obligations are recorded in cost of revenues and operating expenses, while gains or losses on the Company s portfolio are recorded in interest income and other, net.

**Note 8**

**Investment in Non-Marketable Equity Securities**

In conjunction with the merger with ICS, the Company acquired an investment in Best Elite International Limited ( Best Elite ), which owns a wafer fabrication facility in Suzhou, China. The Company purchases wafers from Best Elite s wafer fabrication facility for certain legacy ICS products. As of December 30, 2007, the aggregate carrying amount of the Company s investment in Best Elite was approximately $5.0 million, which is classified within other assets on the Company s consolidated balance sheet.

**Note 9**

**Business Combinations**

**Acquisition of SigmaTel  s PC Audio business**

On July 31, 2006, the Company completed its acquisition of the PC audio business of SigmaTel. The total purchase price was approximately $73.2 million, including approximately $1.2 million of merger-related transaction costs. A summary of the total purchase price is as follows:

| ***(in millions)*** | |
|---|---|
| Cash paid | $ 72.0 |
| Merger-related transaction costs | 1.2 |
| Total purchase price | $ 73.2 |

In accordance with SFAS 141, *Business Combinations*, the Company has allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed, including in-process research and development, based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The acquisition provided the Company with a team of engineers, certain assets and a product portfolio involving PC audio technologies. The Company believes these technologies will allow it to pursue expanded opportunities, particularly in the emerging high-definition PC audio market. These opportunities, along with the ability to sell PC audio products to the existing base of IDT customers, were significant contributing factors to the establishment of the purchase price. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management estimates and assumptions, including third-party valuations that utilize established valuation techniques appropriate for the high-technology industry. Goodwill is not expected to be deductible for tax purposes. In accordance with SFAS 142, *Goodwill and Intangible Assets*, goodwill is not amortized but will be reviewed at least annually for impairment. Purchased intangibles with finite lives are being amortized over their respective estimated useful lives on a straight line basis. The purchase price has been allocated as follows:

| ***(in millions)*** | **Fair Value** |
|---|---|
| Net tangible assets acquired | $ 3.7 |
| Amortizable intangible assets | 42.1 |
| In-process research and development | 0.5 |
| Goodwill | 26.9 |
| Total purchase price | $ 73.2 |

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

| | **Fair Value (*in millions*)** | **Method** | **Useful Lives from date of acquisition (*years*)** |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Existing Technology | $ 36.4 | Straight-Line | 4 |
| Customer Relationships | 3.0 | Straight-Line | 7 |
| Non-Compete Agreements | 0.8 | Straight-Line | 2 |
| Tradename | 0.7 | Straight-Line | 3 |
| Backlog | 1.2 | Straight-Line | 0.25 |
| Total | $ 42.1 | | |

Useful lives are primarily based on the underlying assumptions used in the discounted cash flow (DCF) models.

*Net Tangible Assets*

Assets and liabilities were reviewed and adjusted, if required, to their estimated fair value. The Company adjusted the value of acquired inventories by approximately $1.6 million to write up the inventory to estimated fair value, less an estimated selling cost. Fixed assets were not adjusted as the carrying value of the equipment was deemed to approximate fair value.

*Amortizable Intangible Assets*

Existing technology consists of products that have reached technological feasibility. The Company valued the existing technology utilizing a DCF model, which used forecasts of future revenues and expenses related to the intangible asset. The Company utilized a discount factor of 16% for existing technology and is amortizing the intangible asset on a straight-line basis over 4 years.

The value of the customer relationships intangible asset was estimated using a DCF model, which estimates the effect on cash flows if such relationships were not in place at the close of the merger. The Company utilized a discount factor of 17% and is amortizing this intangible asset on a straight-line basis over 7 years.

The non-compete agreements were valued from the Company s perspective by estimating the effect on future revenues and cash flows if a given non-compete agreement was not in place, thereby allowing former employees to re-enter the market. The Company utilized a discount factor of 18% and is amortizing this intangible asset on a straight-line basis over 2 years.

The SigmaTel trade name was valued using the relief from royalty method, which represents the benefit of owning this intangible asset rather than paying royalties for its use. The Company utilized a discount factor of 17% and is amortizing this intangible asset on a straight-line basis over 3 years.

Backlog represents the value of standing orders for SigmaTel s PC audio products as of the close of the acquisition. Backlog was valued using a DCF model. The Company utilized a discount factor of 12% and amortized this intangible asset on a straight-line basis over 0.25 years.

**Note 10**

**Goodwill and Other Intangible Assets**

Goodwill is reviewed annually for impairment in our fourth fiscal quarter (or more frequently if indicators of impairment arise). In conjunction with the merger with ICS, the Company reorganized its operating segments and developed a new reporting structure comprised of three reportable segments: (i) Networking; (ii) Timing and Memory Interface; and (iii) Standard Products and Other. Goodwill resulting from the Company s merger with ICS was assigned to the Timing and Memory Interface segment. Goodwill associated with the Company s acquisitions of Solidum and Zettacom was assigned to the Networking segment. Goodwill associated with the Company s acquisitions of Newave and SigmaTel s PC audio business was assigned to the Standard Products and Other segment.

Goodwill and identified intangible asset balances are summarized as follows:

| | December 30, 2007 | | |
|---|---|---|---|
| ***(in thousands)*** | **Gross assets** | **Accumulated amortization** | **Net assets** |
| Goodwill | $ 1,034,118 | $ | $ 1,034,118 |
| | | | |
| Identified intangible assets: | | | |
| Existing technology | 288,558 | (130,434) | 158,124 |
| Trademarks | 10,534 | (7,415) | 3,119 |
| Customer relationships | 158,396 | (95,078) | 63,318 |
| Foundry & assembler relationships | 65,256 | (62,158) | 3,098 |
| Non-compete agreements | 53,165 | (52,553) | 612 |
| Other | 31,174 | (30,471) | 703 |
| | | | |
| Subtotal, identified intangible assets | 607,083 | (378,109) | 228,974 |
| | | | |
| Total goodwill and identified intangible assets | $ 1,641,201 | $ (378,109) | $ 1,263,092 |

| | April 1, 2007 | | |
|---|---|---|---|
| *(in thousands)* | Gross assets | Accumulated amortization | Net assets |
| Goodwill | $ 1,038,064 | $ | $ 1,038,064 |
| Identified intangible assets: | | | |
| Existing technology | 288,558 | (87,814) | 200,744 |
| Trademarks | 10,534 | (5,799) | 4,735 |
| Customer relationships | 158,396 | (69,802) | 88,594 |
| Foundry & assembler relationships | 65,256 | (58,978) | 6,278 |
| Non-compete agreements | 53,165 | (41,020) | 12,145 |
| Other | 31,174 | (29,186) | 1,988 |
| Subtotal, identified intangible assets | 607,083 | (292,599) | 314,484 |
| Total goodwill and identified intangible assets | $ 1,645,147 | $ (292,599) | $ 1,352,548 |

For the nine months ended December 30, 2007, goodwill decreased by $3.9 million as a result of certain tax adjustments. Approximately $2.1 million of the adjustments related to the adoption of FIN 48. As a result of the implementation of FIN 48, the Company adjusted the tax reserves associated with ICS pre-acquisition contingencies. In addition, the Company utilized $1.8 million of net operating loss carryforwards acquired in conjunction with the ZettaCom merger. At the time the Company finalized its purchase price allocation for the acquisition, the Company had determined that a valuation allowance needed to be provided against the acquired deferred tax assets. To the extent that an acquired tax benefit is not recognized at the acquisition date, it will, when subsequently recognized, first reduce goodwill. Therefore, as the Company was able to utilize certain of these net operating loss carryforwards, goodwill was reduced by a corresponding amount.

Amortization expense for identified intangibles is summarized below:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| *(in thousands)* | Dec. 30, 2007 | Dec. 31, 2006 | Dec. 30, 2007 | Dec. 31, 2006 |
| Existing technology | $ 14,145 | $ 14,240 | $ 42,620 | $ 39,689 |
| Trademarks | 301 | 722 | 1,616 | 2,087 |
| Customer relationships | 8,425 | 10,573 | 25,276 | 31,576 |
| Foundry & assembler relationships | 1,060 | 5,912 | 3,180 | 17,736 |
| Non-compete agreements | 134 | 6,281 | 11,533 | 18,989 |
| Other | 427 | 1,936 | 1,285 | 6,048 |
| Total | $ 24,492 | $ 39,664 | $ 85,510 | $ 116,125 |

Based on the identified intangible assets recorded at December 30, 2007, the future amortization expense of identified intangibles for the next five fiscal years is as follows (*in thousands*):

| Fiscal year | Amount |
|---|---|
| Remainder of FY 2008 | $ 24,492 |
| 2009 | 81,687 |
| 2010 | 54,526 |
| 2011 | 28,304 |
| 2012 | 18,423 |
| Thereafter | 21,542 |
| Total | $ 228,974 |

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**Note 11**

**Comprehensive Income (Loss)**

The components of comprehensive income (loss) were as follows:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| *(in thousands)* | Dec. 30, 2007 | Dec. 31, 2006 | Dec. 30, 2007 | Dec. 31, 2006 |
| Net income (loss) | $ 13,418 | $ (1,940) | $ 17,081 | $ (4,167) |
| Currency translation adjustments | 161 | 330 | 503 | 781 |
| Change in net unrealized gain on investments, net of taxes | 32 | 1,755 | (1,446) | 1,891 |
| Comprehensive income (loss) | $ 13,611 | $ 145 | $ 16,138 | $ (1,495) |

The components of accumulated other comprehensive income were as follows:

| *(in thousands)* | Dec. 30, 2007 | April 1, 2007 |
|---|---|---|
| Cumulative translation adjustments | $ 2,006 | $ 1,503 |
| Unrealized gain on available-for-sale investments | 600 | 2,046 |
| Total accumulated other comprehensive income | $ 2,606 | $ 3,549 |

**Note 12**

**Derivative Financial Instruments**

As a result of its international operations, sales and purchase transactions, the Company is subject to risks associated with fluctuating currency exchange rates. The Company may use derivative financial instruments to hedge these risks when instruments are available and cost effective in an attempt to minimize the impact of currency exchange rate movements on its operating results and on the cost of capital equipment purchases. The Company may enter into hedges of forecasted transactions when the underlying transaction is highly probable and reasonably certain to occur within the subsequent twelve months. Examples of these exposures would include forecasted expenses of a foreign manufacturing plant, design center or sales office. The Company may additionally enter into a derivative to hedge the foreign currency risk of a capital equipment purchase if the capital equipment purchase order is executed and designated as a firm commitment. During Q3 2008, the Company utilized forward currency contracts to settle short term foreign currency denominated payables and such gains and losses were recorded in the statement of operations. As of the end of Q3 2008, the Company did not have any outstanding foreign currency contracts that were designated as hedges of forecasted cash flows or capital equipment purchases. The Company does not enter into derivative financial instruments for speculative or trading purposes.

The Company may also utilize currency forward contracts to hedge currency exchange rate fluctuations related to certain short term foreign currency assets and liabilities. Gains and losses on these undesignated derivatives offset gains and losses on the assets and liabilities being hedged and the net amount is included in earnings. An immaterial amount of net gains and losses were included in net income or loss during the first nine months of fiscal 2008 and 2007.

Besides foreign exchange rate exposure, the Company s cash and investment portfolios are subject to risks associated with fluctuations in interest rates. While the Company s policies allow for the use of derivative financial instruments to hedge the fair values of such investments, the Company has yet to enter into this type of hedging arrangement.

**Note 13**

**Industry Segments**

The Company evaluates its reportable business segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The three reportable business segments are as follows:

Networking segment: includes network search engines, switching solutions, flow-control management devices, FIFOs, multi-port products, and integrated communications processors

Timing and Memory Interface segment: includes clock generation, distribution, high-performance server memory interfaces and other timing solution products

Standard Products and Other segment: includes high-speed SRAM, military applications, digital logic, telecommunications, PC audio and video products

The tables below provide information about these segments:

*Revenues by segment*

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| *(in thousands)* | Dec. 30, 2007 | Dec. 31, 2006 | Dec. 30, 2007 | Dec. 31, 2006 |
| Networking | $ 47,066 | $ 58,580 | $ 152,709 | $ 190,535 |
| Timing | 119,619 | 105,512 | 348,918 | 291,482 |
| Standard Products and Other | 34,543 | 42,104 | 102,744 | 114,891 |
| Total consolidated revenues | $ 201,228 | $ 206,196 | $ 604,371 | $ 596,908 |

*Income (loss) by segment*

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| *(in thousands)* | Dec. 30, 2007 | Dec. 31, 2006 | Dec. 30, 2007 | Dec. 31, 2006 |
| Networking | $ 8,550 | $ 12,653 | $ 24,526 | $ 51,387 |
| Timing | 37,950 | 30,009 | 107,483 | 81,815 |
| Standard Products and Other | (1,975) | 6,112 | (2,622) | 20,589 |
| Amortization of intangible assets | (24,492) | (39,664) | (85,510) | (116,125) |
| Acquired IPR&D | | | | (500) |
| Inventory FMV adjustment | | (207) | | (3,722) |
| Acquisition related costs and other | (398) | (727) | (2,045) | (3,719) |
| Severance and retention costs | (1,503) | (1,241) | (1,962) | (2,580) |
| Facility closure costs | 38 | (232) | (296) | (761) |
| Stock-based compensation expense | (9,391) | (11,178) | (33,021) | (35,419) |
| Asset impairment | | | | (2,482) |
| Interest income and other | 3,443 | 4,027 | 13,741 | 11,268 |
| Interest expense | (20) | (59) | (89) | (210) |
| Income (loss) before income taxes | $ 12,202 | $ (507) | $ 20,205 | $ (459) |

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

**Note 14**

**Guarantees**

The Company indemnifies certain customers, distributors, and subcontractors for attorney fees and damages awarded against these parties in certain circumstances in which the Company s products are alleged to infringe third party intellectual property rights, including patents, registered trademarks, or copyrights. The terms of the Company s indemnification obligations are generally perpetual from the effective date of the agreement. In certain cases, there are limits on and exceptions to the Company s potential liability for indemnification relating to intellectual property infringement claims. The Company cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. The Company has not paid any claim or been required to defend any claim related to our indemnification obligations, and accordingly, the Company has not accrued any amounts for our indemnification obligations. However, there can be no assurances that the Company will not have any future financial exposure under these indemnification obligations.

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 reserves are estimated using a specific identification method. Historical profit and loss impact related to warranty returns activity has been minimal. The total accrual was $0.3 million and $0.5 million as of December 30, 2007 and April 1, 2007, respectively.

**Note 15**

**Restructuring and Asset Impairment**

The following table shows the breakdown of the restructuring and asset impairment charges and the liability remaining as of December 30, 2007:

| *(In thousands)* | Cost of goods sold | Operating Expenses |
|---|---|---|
| Balance as of April 1, 2007 | $ 1,272 | $ 2,468 |
| Cash payments | (330) | (593) |
| Balance as of July 1, 2007 | $ 942 | $ 1,875 |
| Cash payments | (147) | (245) |
| Balance as of Sept. 30, 2007 | 795 | 1,630 |
| Non-cash charges (credits) | (54) | 159 |
| Cash payments | (171) | (367) |
| Balance as of Dec. 30, 2007 | $ 570 | $ 1,422 |

*Restructuring Actions*

During Q3 2008, the Company initiated a reduction-in force, which primarily affected its San Diego design center. This restructuring action was taken to streamline our operations within one of our business units. This action resulted in the reduction of approximately 7 employees. The Company recorded a one-time restructuring expense of $0.3 million for severance and retention benefits in Q3 2008 associated with this action. During Q3 2008, the Company also entered into a new sublease agreement for our Salinas facility, resulting in a reduction to our accrued lease liabilities by $0.2 million. In addition, from Q2 2006 through Q3 2008, the Company made lease payments of $5.6 million related to vacated facilities in Santa Clara and Salinas.

Excluded from the above disclosure was an early termination agreement signed in Q3 2008 for our vacated facility in San Jose which was obtained in connection with our merger with ICS. Upon signing the termination agreement, the Company paid $1.4 million which resulted in a release of $0.2 million of restructuring expense as our original estimate for our remaining lease commitment was $1.6 million. We recorded the initial lease impairment charge in connection with the ICS merger against goodwill.

**Note 16**

**Income Taxes**

The Company recorded an income tax benefit of approximately $1.2 million in Q3 2008 compared to a provision of approximately $1.4 million in Q3 2007. The tax benefit in Q3 2008 is primarily attributable to the reversal of $1.2 million of deferred tax liability established in connection with the ICS merger, as a result of a lower enacted tax rate in one of our foreign jurisdictions during Q3 2008, offset by estimated foreign income, withholding taxes and estimated U.S. and state taxes related to the utilization of acquisition related net operating losses. The provision for income taxes in Q3 2007 primarily reflects estimated foreign income and withholding taxes and estimated U.S. state taxes.

The Company adopted the provisions of FIN 48 effective April 2, 2007. As a result of the implementation of FIN 48, the Company reclassified certain tax liabilities from current to non-current and recognized a $1.3 million decrease in liability for unrecognized tax benefits, which was accounted for as an increase to the April 2, 2007 opening balance of retained earnings of $61,000 and a reduction to goodwill of $1.3 million. In Q3 2008, our FIN 48 related liabilities decreased $1.3 million as a result of a change in the measurement of uncertain tax benefits recognized by the Company. For the nine months ended December 30, 2007, our FIN 48 related liabilities decreased $0.1 million.

As of December 30, 2007 and April 1, 2007, the Company has unrecognized tax benefits of approximately $46.5 million and $46.6 million, including interest and penalties. Included in the balance of unrecognized tax benefits as of December 30, 2007, is approximately $18.7 million of tax benefits that, if recognized, would affect the effective tax rate; approximately $6.8 million of tax benefits that, if recognized would affect goodwill; and approximately $18.5 million of tax benefits that, if recognized, would result in an adjustment to deferred tax assets that currently are offset by a full valuation allowance

In accordance with FIN 48, consistent with prior periods, the Company has decided to classify interest and penalties as a component of tax expense. Accrued interest and penalties relating to the income tax on the unrecognized tax benefit as of December 30, 2007 and April 1, 2007 and, were approximately $2.4 million and $2.1 million, respectively, with approximately $0.8 million being included as a component of provision for income taxes for the nine months ended December 30, 2007.

Our Pioneer tax certificate in Singapore, which exempts certain income from taxation, was set to expire on December 31, 2007.

On December 26, 2007, we applied for an extension of the Pioneer tax certificate. The Singapore EDB approved our application to extend the Pioneer tax certificate in January 2008 and offered to extend the Pioneer status of our Singapore subsidiary, until December 31, 2009. Currently we are evaluating whether to accept the offer from the Singapore EDB which is set to expire on March 11, 2008. If we had entered into an agreement with the EDB to extend the tax holiday during Q3 2008, the tax effect to the Q3 2008 tax provision would have been an additional tax benefit of $1.6 million.

As of December 30, 2007 and April 1, 2007, we were subject to examination in the U.S. federal tax jurisdiction for the fiscal years beginning with 2002. The IRS has conducted an audit of the ICS pre-acquisition income tax returns for fiscal year 2001 through 2003. The IRS proposed adjustments to increase income primarily related to transfer pricing issues that ICS had with its wholly owned foreign subsidiary. On January 17, 2006, the Company appealed the proposed adjustments with the IRS Appeals Office. Subsequently, several meetings have been held with the IRS to resolve the matter. The Company believes it is highly likely that a settlement will be agreed upon with the IRS within the next 12 months. If settled, the effect on the total unrecognized tax benefits will most likely be a decrease of $6.3 million, all of which will be a reduction in goodwill.

As of December 30, 2007 and April 1, 2007, we were also subject to examination in various state and foreign jurisdictions for tax years 2002 forward, none of which were individually material.

**Note 17**

**Litigation**

On October 24, 2006, the Company was served with a civil antitrust complaint filed by Reclaim Center, Inc., et. al. as plaintiffs in the US District Court for the Northern District of California against the Company and 37 other entities on behalf of a purported class of indirect purchasers of Static Random Access Memory (SRAM) products. The Complaint alleges that the Company and other defendants conspired to raise the prices of SRAM, in violation of Section 1 of the Sherman Act, the California Cartwright Act, and several other states antitrust, unfair competition, and consumer protection statutes. Shortly thereafter, a number of other plaintiffs filed similar complaints on behalf of direct and indirect purchasers of SRAM. Given the similarity of the complaints, the Judicial Panel on Multidistrict Litigation transferred the cases to a single judge in the Northern District of California and consolidated the cases for pretrial proceedings in February 2007. The consolidated cases are captioned In re Static Random Access Memory (SRAM) Antitrust Litigation. In August 2007, direct purchasers of SRAM and indirect purchasers of SRAM filed separate Consolidated Amended Complaints. IDT was not named as a defendant in either complaint. Pursuant to tolling agreements with the indirect and direct purchaser plaintiffs, IDT has agreed that the statute of limitations will be tolled until January 10, 2009 as to potential claims against the Company.

In addition, on May 14, 2007, the Company was served with a Civil Investigative Demand from the State of Florida concerning SRAM products. IDT and the State of Florida have reached an agreement that suspends IDT s obligation to respond to the CID. The agreement also tolls the statute of limitations until July 15, 2008 as to potential claims against the Company.

Complaints concerning SRAM products have also been filed against the Company in Ontario, British Columbia and Quebec, Canada. The allegations in these Complaints are parallel to the allegations in the Complaints pending in the United States. No response from the Company will be required until a Motion for Class Certification, if any, is filed.

Given the early stage of these matters, the Company cannot predict their outcome or provide an estimate of any possible losses. Any litigation could be costly, divert our management s attention and could have a material and adverse effect on the Company s business, results of operations, financial condition or cash flows. The Company intends to vigorously defend these actions.

**Note 18**

**Share Repurchase Program**

On January 18, 2007, the Company s Board of Directors initiated a $200 million share repurchase program. In Q1 2008, the Company repurchased approximately 6.6 million shares at an average price of $15.07 per share for a total purchase price of $99.8 million. During Q2 2008, the Company repurchased approximately 2.5 million shares at an average price of $15.27 per share for a total purchase price of $38.9 million. On October 19, 2007, the Company s Board of Directors approved a $200 million expansion of the share repurchase program to a total of $400 million. During Q3 2008, the Company repurchased approximately 8.1 million shares at average price of $12.64 per share for a total purchase price of $101.8 million. Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders equity. As of December 30, 2007, approximately $135 million was available for future purchase under the share repurchase program.

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

All references are to our fiscal quarters ended December 30, 2007 (Q3 2008), September 30, 2007 (Q2 2008), July 1, 2007 (Q1 2008) and December 31, 2006 (Q3 2007), unless otherwise indicated. Quarterly financial results may not be indicative of the financial results of future periods.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements involve a number of risks and uncertainties. These include, but are not limited to: operating results; new product introductions and sales; competitive conditions; capital expenditures and resources; manufacturing capacity utilization; customer demand and inventory levels; 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 from those anticipated 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.

Forward-looking statements, which are generally identified by words such as anticipates, expects, plans, and similar terms, include statements related to revenues and gross profit, research and development activities, selling, general, and administrative expenses, 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.

**Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such statements requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities as of the date of the financial statements. Our estimates 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.

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

*Revenue Recognition.* The Company s revenue results from semiconductors sold through three channels: direct sales to original equipment manufacturers ( OEMs ) and electronic manufacturing service providers ( EMSs ), consignment sales to OEMs and EMSs, and sales through distributors. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and our ability to collect is reasonably assured. For direct sales, we recognize revenue in accordance with the applicable shipping terms. Revenue related to the sale of consignment inventory is not recognized until the product is pulled from inventory stock by the customer. For distributors who have stock rotation, price protection and ship from stock pricing adjustment rights, the Company defers revenue and related cost of revenues on sales to these distributors until the product is sold through by the distributor to an end-customer.

In the APAC region, we have distributors for which revenue is recognized upon shipment, with reserves recorded for the estimated return and pricing adjustment exposure. The determination of the amount of reserves to be recorded for stock rotation rights requires the Company to make estimates as to the amount of product which will be returned by customers within their limited rights. The Company utilizes historical return rates to estimate the exposure in accordance with Statement of Financial Accounting Standards (SFAS) No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48). In addition, from time-to-time, the Company is required to give pricing adjustments to distributors for product purchased in a given quarter that remains in their inventory. These amounts are estimated by management based on discussions with customers, assessment of market trends, as well as historical practice. Although actual rates of return and pricing exposures have been within the Company s estimates in the past, if our estimates are inaccurate, it could have a material impact on the Company s revenues.

*Income Taxes*. We account for income taxes under an asset and liability approach that requires the expected future tax consequences of temporary differences between book and tax bases of assets and liabilities be recognized as deferred tax assets and liabilities. Generally accepted accounting principles require us to evaluate our ability to realize the value of our net deferred tax assets on an ongoing basis. A valuation allowance is recorded to reduce the net deferred tax assets to an amount that will more likely than not be realized. Accordingly, we consider various tax planning strategies, forecasts of future taxable income and our most recent operating results in assessing the need for a valuation allowance. In the consideration of the ability to realize the value of net deferred tax assets, recent results must be given substantially more weight than any projections of future profitability. In the fourth quarter of fiscal 2003, we determined that, under applicable accounting principles, it was more likely than not that we would not realize any value for any of our net deferred tax assets. Accordingly, we established a valuation allowance equal to 100% of the amount of these net assets. Our assumptions regarding the ultimate realization of these assets remained unchanged in Q3 2008 and accordingly, we continue to maintain a valuation allowance equal to 100% of the amount of these net deferred assets.

On April 2, 2007, we adopted the Financial Accounting Standards Board s (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretations of FASB Statement No, 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of FIN 48, we recognize the tax liability for uncertain income tax positions on the income tax return based on the two-step process prescribed in the interpretation. The first step is to determine whether it is more likely than not that each income tax position would be sustained upon audit. The second step is to estimate and measure the tax benefit as the amount that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. Estimating these amounts requires us to determine the probability of various possible outcomes. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on the consideration of several factors including changes in facts or circumstances, changes in applicable tax law, settlement of issues under audit, and new exposures. If we later determine that our exposure is lower or that the liability is not sufficient to cover our revised expectations, we adjust the liability and effect a related change in our tax provision during the period in which we make such determination.

*Inventories.* Except for inventories acquired in connection with business combinations or asset purchases, which are recorded at estimated fair market value (FMV), less estimated selling cost, inventories are recorded at the lower of standard cost on a first-in, first-out basis or market value. We record provisions for obsolete and excess inventory based on our forecasts of demand over specific future time horizons. We also record provisions to value our inventory at the lower of cost or market value, which rely on forecasts of average selling prices (ASPs) in future periods. Actual market conditions, demand, and pricing levels in the volatile semiconductor markets that we serve may vary from our forecasts, potentially impacting our inventory reserves and resulting in material impacts to our gross margin.

*Valuation of Long-Lived Assets and Goodwill*. We own and operate our own manufacturing facilities, as further described in Part I of our Annual Report on Form 10-K for the fiscal year ended April 1, 2007, and have also acquired certain businesses and product portfolios in recent years. As a result, we have significant property, plant and equipment, goodwill and other intangible assets. We evaluate these items for impairment on an annual basis, or sooner, if events or changes in circumstances indicate that carrying values may not be recoverable. Triggering events for impairment reviews may include adverse industry or economic trends, significant restructuring actions, significantly lowered projections of profitability, or a sustained decline in our market capitalization. Evaluations of possible impairment and if applicable, adjustments to carrying values, require us to estimate among other factors future cash flows, useful lives and fair market values of our reporting units and assets. Actual results may vary from our expectations.

*Stock-based Compensation.* In accordance with FASB Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), we measure and recognize compensation expense for all stock-based payments awards, including employee stock options, restricted stock units and rights to purchase shares under employee stock purchase plans, based on their estimated fair value and recognize the costs in the financial statements over the employees requisite service period.

Calculating the fair value of share-based awards at the date of grant requires us to make estimates that involve significant judgment. We use the Black-Scholes valuation model to estimate the fair value of employee stock options, restricted stock units and the rights to purchase shares under employee stock purchase plan, consistent with the provisions of SFAS 123(R). Option-pricing models require the input of highly subjective assumptions, including the expected term of options and the expected price volatility of the stock underlying such options. Our stock price volatility assumption is based on a blend of historical volatility of the Company s common stock and implied volatility of call options and dealer quotes on call options, generally having a term of less than twelve months. Changes in the subjective assumptions required in the valuation models may significantly affect the estimated value of the stock-based awards, the related stock-based compensation expense and, consequently, our results of operations.

In addition, SFAS 123(R) requires that we estimate the number of stock-based awards that will be forfeited due to employee turnover. Changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to the expense recognized in the financial statements. The expense we recognize in future periods will be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognized in the current period and/or our forecasts.

**Results of Operations**

We design, manufacture and market a broad range of high performance, mixed-signal semiconductor solutions designed to accelerate innovation so customers can create and capitalize on higher-value networks that enrich the digital media experience. This is achieved by developing detailed systems-level knowledge, and applying the company s expertise in timing, logic, memory and switching to create solutions to compelling technology problems faced by customers.

Our reportable segments include the following:

Networking segment (which includes network search engines, switching solutions, flow-control management devices, FIFOs, multi-port products, and integrated communications processors)

Timing and Memory Interface segment (which includes clock generation, distribution, high-performance server memory interfaces and other timing solution products)

Standard Products and Other segment (which includes high-speed SRAM, military applications, digital logic, telecommunications, PC audio and video products)

*Revenues (Q3 2008 compared to Q3 2007).* Our revenues for Q3 2008 were $201.2 million, a decrease of $5.0 million, or 2% compared to the same period one year ago.

*Networking Segment*

Revenues in our Networking segment decreased $11.5 million or 20% year over year, from $58.6 million in Q3 2007 to $47.1 million in Q3 2008. Revenues within our IP-Co Processors division decreased approximately 25%, driven by lower orders from our largest customer as they worked through their excess inventory. Revenues within our Switching Solutions division decreased approximately 24% as the ramp down of our legacy integrated communications products outpaced the growth in our new PCI Express products. Revenues within our Flow Control Management division decreased approximately 12% due to continued weakness in our wireless base-station end markets.

*Timing and Memory Interface Segment*

Revenues in our Timing and Memory Interface segment increased $14.1 million, or 13% year-over-year, from $105.5 million in Q3 2007 to $119.6 million in Q3 2008. The increase was primarily driven by revenues from our PC Clock (up 28%), and Microclock (up 27%) divisions, as a result of increased seasonal demand in the PC and consumer clocks including the gaming markets. Overall PC Clock division revenues also benefited by lower stock rotation returns from our APAC POP distributors than previously reserved. Revenues within our Netcom division also increased significantly year over year as we continue to gain traction with our timing products in these markets. Revenues within our Memory Interface division decreased 10% year-over-year, primarily from a decrease in our Advanced Memory Buffer (AMB) product, as a customer developed their own device and shifted their demand in house.

*Standard Products and Other Segment*

Revenues in our Standard Products and Other segment decreased 18%, from $42.1 million in Q3 2007 to $34.5 million in Q3 2008. Revenues from our SRAM and digital logic products decreased significantly year over year as a result of decreased demand in the communication IC market. PC Audio revenues also decreased year over year as Q3 2007 included revenues related to the initial ramp of the PC Audio product subsequent to our acquisition. Partially offsetting this decrease is an increase in our military business when compared to the same period one year ago.

*Across Geographies*

Revenues in Asia Pacific, North America, Japan and Europe accounted for 58%, 27%, 9% and 6%, respectively, of consolidated revenues in Q3 2008 compared to 48%, 30%, 12%, and 10%, respectively, in Q3 2007. The Asia Pacific region continues to be our strongest region, as many of our largest customers utilize manufacturers in this low cost region. We attribute the year-over-year shift in revenues to Asia Pacific from the other regions to be the result of the addition of the PC Audio business and the emergence of AMB, both of which were strongest in the APAC region, along with sales of product for the gaming market, which is also manufactured primarily in the APAC region.

*Revenues (first nine months of fiscal 2008 compared to first nine months of fiscal 2007).* Our year-to-date revenues through Q3 2008 were $604.4 million, an increase of $7.5 million, or 1% when compared to the same period one year ago. Revenues in our Timing and Memory segment increased $57.5 million, or 20%, driven by increased demand for our PC and consumer clocks including the gaming markets along with the ramp up and market acceptance of our AMB technology. In addition, year-to-date 2008 revenues also benefited from lower stock rotation returns than previously reserved. Offsetting this increase, the revenues in our Networking segment decreased $37.8 million, or 20%, due to slowing demand in communication end markets. Finally, revenues in our Standard Products and Other segment decreased $12.2 million, or 11%, primarily from the ramp down in our legacy SRAM and digital logic products, partially offset by contribution from the acquisition of the PC audio business during Q2 2007.

*Revenues (recent trends and outlook).* We currently project our revenue in Q4 2008 will decrease significantly when compared to Q3 2008, as we anticipate weaker demand in our game console and PC market due to seasonality as well as continued weakness in the communications end markets.

The following table shows gross profit and gross margin (*in thousands*):

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **Dec. 30, 2007** | **Dec. 31, 2006** | **Dec. 30, 2007** | **Dec. 31, 2006** |
| Gross Profit | $ 88,324 | $ 85,790 | $ 261,402 | $ 256,695 |
| Gross Margin | 44% | 42% | 43% | 43% |

*Gross profit (Q3 2008 compared to Q3 2007).* Gross profit was $88.3 million in Q3 2008, an increase of $2.5 million compared to $85.8 million in Q3 2007. Gross margin in Q3 2008 was 44%, an increase of 2% compared to $42% in Q3 2007. The increase in gross margin was primarily driven by a $5.3 million year-over-year decrease in intangible asset amortization as a portion is being amortized on an accelerated method, resulting in decreased amortization over time and a reduction of $1.2 million in equipment and depreciation expenses. In addition, Q3 2007 included $0.6 million of severance and retention costs and $0.4 million assembly transition costs associated with the transition of our assembly operations in Penang to a third party. Offsetting these increases, our gross margin was negatively impacted by declines in the average selling prices of our products. In addition, the utilization of our manufacturing capacity in Oregon decreased from approximately 84% of equipped capacity in Q3 2007 to 65% of equipped capacity in Q3 2008. The fab utilization was significantly higher in Q3 2007 due to build ahead in connection with the transition of our remaining assembly operations to a third-party. Finally, the gross profit in Q3 2008 and Q3 2007 benefited by approximately $0.6 million and $1.2 million, respectively, from the sale of product previously reserved. The benefit in Q3 2008 and Q3 2007 were more than offset by incremental inventory reserves.

*Gross Profit (first nine months of fiscal 2008 compared to the first nine months of fiscal 2007).* Our year-to-date gross profit through Q3 2008 was $261.4 million, an increase of $4.7 million, or 2% compared to the same period one year ago. Our gross margin for nine months of fiscal 2008 was flat compared with the same period a year ago. Our YTD gross profit included a $13.1 million year-over-year decrease in intangible asset amortization, a significant decrease in equipment and depreciation expenses and the absence of the asset impairment charge of the Philippines facility for $2.5 in Q2 2007. Gross profit in first nine months of fiscal 2008 and fiscal 2007 benefited by $2.1 million and $1.2 million from the sale of inventory previously reserved. Offsetting the above effects was lower utilization of our Oregon manufacturing facility, lower average selling prices for our products, higher inventory reserves, and a shift in product mix, from higher margin to lower margin products.

*Operating Expenses*

The following table shows operating expenses *(in thousands*):

| | Three months ended | | | | Nine months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **Dec 30, 2007** | **% of Net Revenues** | **Dec. 31, 2006** | **% of Net Revenues** | **Dec 30, 2007** | **% of Net Revenues** | **Dec. 31, 2006** | **% of Net Revenues** |
| Research and Development | $ 40,616 | 20% | $ 43,474 | 21% | $ 127,191 | 21% | $ 123,941 | 21% |
| Selling, General and Administrative | $ 38,929 | 19% | $ 46,791 | 23% | $ 127,658 | 21% | $ 143,771 | 24% |
| In-process Research and Development | | | | | | | $ 500 | 0% |

*Research and development (Q3 2008 compared to Q3 2007).* Research and Development (R&D) expense decreased $2.9 million in Q3 2008 compared to Q3 2007. The decrease was primary attributable to a $1.7 million reduction in stock-based compensation expenses as the stock options granted in connection with the ICS merger have been substantially amortized. In addition, our indirect materials and equipment expenses decreased $2.2 million, primarily related to lower photomask costs attributable to the timing of product development activities. Offsetting these amounts was an increase in employee-related expenses of $1.1 million related to higher headcount as compared to the year ago period.

*Research and development (first nine months of fiscal 2008 compared to the first nine months of fiscal 2007).* Our year-to-date R&D expenses through Q3 2008 were $127.2 million, an increase of $3.3 million, or 3% compared to the same period one year ago. The increase was primarily attributable to $5.8 million of incremental employee-related expenses, as a result of the increase in headcount due to the acquisition of PC audio business in Q2 2007. Offsetting this amount was a $1.2 million reduction in stock-based compensation expenses as the stock options granted in connection with the ICS merger have been substantially amortized. In addition, our indirect materials and equipment expenses decreased $1.0 million, primarily related to lower photomask costs and depreciation expenses.

We anticipate that R&D spending in Q4 2008 will be lower as compared to Q3 2008.

*Selling, General and Administrative (Q3 2008 compared to Q3 2007).* Selling, General and Administrative (SG&A) expenses decreased $7.9 million in Q3 2008 compared to Q3 2007. The decrease is primarily attributable to a $9.7 million reduction in ICS intangible asset amortization, a portion of which is being amortized on an accelerated method, resulting in decreased amortization expense over time. This decrease was partially offset by an increase of $1.1 million in our employee-related expenses related to an executive transition agreement with our Chief Executive Officer. In addition, sales representative commissions increased $0.5 million as a higher percentage of our revenues were generated through sales representatives. Other increases included a $0.6 million increase in outside service expenses.

*Selling, General and Administrative (first nine months of fiscal 2008 compared to the first nine months of fiscal 2007).* Our year-to-date SG&A expenses through Q3 2008 were $127.7 million, a decrease of $16.1 million, or 11% compared to the same period one year ago. The decrease was attributable to $17.3 million reduction of intangible asset amortization, as a portion of which is being amortized on an accelerated method and a decrease of $1.9 million reduction in stock-based compensation expense. Offsetting these amounts was an increase in sales representative commissions of $2.2 million.

We currently anticipate that SG&A spending in Q4 2008 will be lower as compared to Q3 2008.

*Interest income and other, net.* Interest income and other, net, was $3.4 million in Q3 2008, a decrease of $0.6 million, or 15% compared to Q3 2007. The decrease is primarily attributable to a loss of $0.3 million in our investment portfolio of marketable equity securities related to deferred compensation arrangements while in Q3 2007; we recorded a gain of $0.7 million.

*Provision (benefit) for income taxes.* We recorded an income tax benefit of $1.2 million in Q3 2008, as compared to income tax expense of $1.4 million in Q3 2007. The tax benefit in Q3 2008 is primarily attributable to the reversal of $1.2 million of deferred tax liability established in connection with the ICS merger, as a result of a lower enacted tax rate in one of our foreign jurisdictions during Q3 2008, offset by estimated foreign income, withholding taxes and estimated U.S. and state taxes related to the utilization of acquisition related net operating losses. The provision for income taxes in Q3 2007 primarily reflects estimated foreign income and withholding taxes and estimated U.S. state taxes.

We recorded an income tax provision of $3.1 million for the nine months ended Q3 2008, a decrease of $0.6 million, or 16% compared to the nine months ended Q3 2007. The provision for income taxes in the nine months ended Q3 2008 benefited by the reversal of deferred tax liability as discussed above. It also included estimated foreign income, withholding taxes and estimated U.S. and state taxes. The income tax provision for the nine months ended Q3 2007 primarily reflects estimated foreign income and withholding taxes and U.S. state taxes.

Our Pioneer tax certificate in Singapore, which exempts certain income from taxation, was set to expire on December 31, 2007. On December 26, 2007, we applied for an extension of the Pioneer tax certificate. The Singapore EDB approved our application to extend the Pioneer tax certificate in January 2008 and offered to extend the Pioneer status of our Singapore subsidiary, until December 31, 2009. Currently we are evaluating whether to accept the offer from the Singapore EDB which is set to expire on March 11, 2008. If we had entered into an agreement with the EDB to extend the tax holiday during Q3 2008, the tax effect to the Q3 2008 tax provision would have been an additional tax benefit of $1.6 million.

As of December 30, 2007, we continued to maintain a full valuation allowance against our net U.S. deferred tax asset as we could not conclude that it is more likely than not that we will be able to realize our U.S. deferred tax assets in the foreseeable future. We will continue to evaluate the release of the valuation allowance on a quarterly basis.

As of December 30, 2007, we were subject to examination in the U.S. federal tax jurisdiction for the fiscal years beginning with 2002. The IRS has conducted an audit of the ICS pre-acquisition income tax returns for fiscal year 2001 through 2003. The IRS proposed adjustments to increase income primarily related to transfer pricing issues that ICS had with its wholly owned foreign subsidiary. On January 17, 2006, the Company appealed the proposed adjustments with the IRS Appeals Office. Subsequently, several meetings have been held with the IRS to resolve the matter. The Company believes it is highly likely that a settlement will be agreed upon with the IRS within the next 12 months. If settled, the effect on the total unrecognized tax benefits will most likely be a decrease of $6.3 million, all of which will be a reduction in goodwill.

As of December 30, 2007, we were also subject to examination in various state and foreign jurisdictions for tax years 2002 forward, none of which were individually material.

**Liquidity and Capital Resources**

Our cash and short-term investments were $284.7 million at December 30, 2007, a decrease of $75.2 million compared to April 1, 2007. We had no debt outstanding at December 30, 2007.

We recorded net income of $17.1 million in the first nine months of fiscal 2008, compared to net loss of $4.2 million in the first nine months of fiscal 2007. Net cash provided by operating activities increased $3.8 million, or 3% to $138.1 million in the first nine months of fiscal 2008 compared to $134.3 million in the first nine months of fiscal 2007. A summary of the significant non-cash items included in net income is as follows:

Amortization of intangible assets was $85.5 million in the first nine months of fiscal 2008, compared to $116.1 million in the same period one year ago. The decrease is primarily associated with intangible assets related to our merger with ICS, a portion of which are being amortized on an accelerated method, resulting in decreased amortization expense over time.

We recorded restructuring and impairment charges of $2.7 million in the first nine months of fiscal 2007 primarily related to an impairment charge to reduce the carry value of our facility in Manila, the Philippines which we had no similar charges in the first nine months of fiscal 2008.

Gains on the sale of equity investments were $1.7 million in the first nine months of fiscal 2008, compared to zero in the same period one year ago. In the first nine months of 2008, we sold approximately 1.3 million shares of our equity investment in Maxtek. We had no similar activities in the first nine months of fiscal 2007.

Net uses of cash related to working capital-related items improved $22.2 million, from a net $41.2 million use of cash in the first nine months of fiscal 2007 to a net $19.0 million use of cash in first nine months of fiscal 2008. A summary of significant working capital items providing relatively more cash in the first nine months of fiscal 2008 included:

A decrease in inventory of $5.5 million in first nine months of fiscal 2008, compared to an increase of $24.6 million in first nine months of fiscal 2007. The decrease in fiscal 2008 is primarily attributable to our efforts to align our inventory levels to meet current demand while the increase in fiscal 2007 was attributable to the ramp of our AMB product and the acquisition of the PC Audio business. In addition, we built additional inventory in Q3 2007 in anticipation of the transition of our remaining assembly operations to a third-party.

An increase in income taxes payable of $4.6 million in the first nine months of fiscal 2008, compared to a decrease of $12.2 million in the first nine months of fiscal 2007. The increase is attributable to taxes payable on income earned primarily in foreign jurisdictions and reduction in tax liability for unrecognized tax benefit related to the adoption of FIN 48 in Q1 2008. The decrease in the first nine months of fiscal 2007 is primarily attributable to tax payments.

An increase in accounts receivable of $2.3 million in first nine months of fiscal 2008, compared to an increase of $6.9 million in the first nine months of fiscal 2007. The increase in both periods is primarily attributable to increased revenue as a result of strong seasonal demand in computing and consumer market. Fiscal 2007 also included the benefits of the AMB ramp up and the acquisition of the PC Audio business.

An increase in prepayments and other assets of $5.4 million in first nine months of fiscal 2008, compared to an increase of $10.4 million in the first nine months of fiscal 2007. The increase in the first nine months of fiscal 2008 is primarily attributable to the purchase of approximately $7.5 million of software design tools in Q1 2008, $4.0 million of software design tools and $1.2 million of supply chain management software in Q2 2008, partially offset by the standard prepaid amortization. The increase in the first nine months of fiscal 2007 is due to other receivables related to assembly equipment sold to third-parties.

The above factors were offset by other working capital items that used relatively more cash in first nine months of fiscal 2008:

- A decrease in accrued compensation of $7.1 million in first nine months of fiscal 2008, compared to an increase of $0.1 million in the first nine months of fiscal 2007. The decrease is primarily attributable to our bi-annual payout of employee performance-related bonus in November 2007, offset by additional accruals related to our fiscal 2008 award program. In addition, the accrued salaries and wages decreased due to the timing of our fiscal period end and the payroll cycle.

- A decrease in other accrued and long term liability of $6.1 million in first nine months of fiscal 2008, compared to zero in the first nine months of fiscal 2007. The decrease in the first nine months of fiscal 2008 is primarily attributable to an adjustment of previous reserved lease impairment for vacated facilities as we completed a buyout of the San Jose ICS lease with the landlord and subleased the Salinas facility in Q3 2008. Fiscal 2008 is partially offset by a $1.2 million accrual related to the executive transition agreement signed with our Chief Executive Officer in Q3 2008.

- A decrease in deferred income on shipments to distributors of $5.5 million in first nine months of fiscal 2008, compared to an increase of $4.2 million in first nine months of fiscal 2007. The decrease in the first nine months of fiscal 2008 is primarily attributable to our distributors adjusting their inventories level in light of challenges in the communications and consumer end markets.

- A decrease in accounts payable of $2.8 million in the first nine months of fiscal 2008, compared to an increase of $7.3 million in the first nine months of fiscal 2007. The decrease in the first nine months of fiscal 2008 is primarily attributable to a decrease in the volumes of foundry and subcontract activity along with the timing of payments.

Net cash used by investing activities was $14.1 million in the first nine months of fiscal 2008, compared to net cash used of $171.3 million in the first nine months of fiscal 2007. The decrease is primarily attributable to $73.2 million used to purchase Sigmatel s PC Audio business in Q2 2007. In addition, in the first nine months of fiscal 2008, we increased our investment portfolio by $0.5 million using cash from operations while in the first nine months of fiscal 2007, we increased our investment portfolio by $84.5 million.

Net cash used in financing activities in first nine months of fiscal 2008 was $201.3 million, compared to $55.5 million of cash provided in the first nine months of fiscal 2007. During the first nine months of fiscal 2008, we repurchased approximately $240.5 million of common stock, offset by proceeds of approximately $39.1 million from the exercise of employee stock options and the issuance of stock under our employee stock purchase plan. In the first nine months of fiscal 2007, we repurchased approximately $100.0 million of common stock, offset by proceeds of $44.5 million from the exercise of employee stock options and the issuance of stock under our employee stock purchase plan.

We anticipate capital expenditures of approximately $20.0 million during fiscal 2008 to be financed through cash generated from operations and existing cash and investments. This estimate includes $13.6 million in capital expenditures in first nine months of fiscal 2008.

We believe that existing cash and investment balances, together with cash flows from operations, should be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months. Should we need to investigate other financing alternatives however, we cannot be certain that additional financing will be available on satisfactory terms.

*Off-balance Sheet Arrangements*

As of December 30, 2007, we had no off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a) (4).

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS 141 (R), *Business Combinations* (SFAS 141(R)). The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of SFAS 141(R) on our consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *the Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides companies the option (fair value option) to measure certain financial instruments and other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007, although earlier adoption is permitted. The Company is currently evaluating whether the adoption of SFAS 159 will have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which enhances existing guidance for measuring assets and liabilities using fair value. SFAS 157 defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating whether the adoption of SFAS 157 will have a material effect on our consolidated financial position, results of operations or cash flows.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our interest rate risk relates primarily to our short-term investments of $114.7 million as of December 30, 2007. 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 December 30, 2007 and April 1, 2007, the Company maintained its cash and investment portfolio in a variety of highly liquid money market funds and fixed income securities including such investments as short term and long term corporate debt and treasuries. As interest rates move, the market value of these fixed income securities will increase or decrease inversely to the interest rate change. Should the Company sell these securities prior to its maturity, a realized gain or loss will result based upon the change in interest rate since the time of purchase. Due to the relatively short duration of our investment portfolio, a hypothetical 10% change in interest rates would not have a material effect on the value of our portfolio at this time. We do not currently use derivative financial instruments in our investment portfolio.

In addition, we maintain a portfolio of investments for certain deferred compensation arrangements, the fair value of which was $14.7 million as of December 30, 2007. The portfolio is managed to achieve the same investment allocation as the participants directed investment election, which is classified in Other Long-Term Liabilities within the Consolidated Balance Sheet.

At December 30, 2007, 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. However, as of December 30, 2007, we have no such instruments outstanding. We do not enter into derivatives for speculative or trading purposes. We performed a sensitivity analysis as of December 30, 2007 and determined that, without hedging the exposure, a 10% change in the value of the U.S. dollar would result in an approximate 0.4% impact on gross profit margin percentage, as we operate manufacturing facilities in Malaysia and Singapore, and an approximate 0.5% impact to operating expenses (as a percentage of revenue) as we operate sales offices throughout APAC, Japan and Europe and design centers in China and Canada.

We did not have any currency exposure related to any outstanding capital purchases as of December 30, 2007 or April 1, 2007.

## 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 December 30, 2007, the end of the quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level. There have been no changes in our internal control over financial reporting during the Company s 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**

On October 24, 2006, the Company was served with a civil antitrust complaint filed by Reclaim Center, Inc., et. al. as plaintiffs in the US District Court for the Northern District of California against the Company and 37 other entities on behalf of a purported class of indirect purchasers of Static Random Access Memory (SRAM) products. The Complaint alleges that the Company and other defendants conspired to raise the prices of SRAM, in violation of Section 1 of the Sherman Act, the California Cartwright Act, and several other states antitrust, unfair competition, and consumer protection statutes. Shortly thereafter, a number of other plaintiffs filed similar complaints on behalf of direct and indirect purchasers of SRAM. Given the similarity of the complaints, the Judicial Panel on Multidistrict Litigation transferred the cases to a single judge in the Northern District of California and consolidated the cases for pretrial proceedings in February 2007. The consolidated cases are captioned In re Static Random Access Memory (SRAM) Antitrust Litigation. In August 2007, direct purchasers of SRAM and indirect purchasers of SRAM filed separate Consolidated Amended Complaints. IDT was not named as a defendant in either complaint. Pursuant to tolling agreements with the indirect and direct purchaser plaintiffs, IDT has agreed that the statute of limitations will be tolled until January 10, 2009 as to potential claims against the Company.

In addition, on May 14, 2007, the Company was served with a Civil Investigative Demand from the State of Florida concerning SRAM products. IDT and the State of Florida have reached an agreement that suspends IDT s obligation to respond to the CID. The agreement also tolls the statute of limitations until July 15, 2008 as to potential claims against the Company.

Complaints concerning SRAM products have also been filed against the Company in Ontario, British Columbia and Quebec, Canada. The allegations in these Complaints are parallel to the allegations in the Complaints pending in the United States. No response from the Company will be required until a Motion for Class Certification, if any, is filed.

Given the early stage of these matters, the Company cannot predict their outcome or provide an estimate of any possible losses. Any litigation could be costly, divert our management s attention and could have a material and adverse effect on the Company s business, results of operations, financial condition or cash flows. The Company intends to vigorously defend these actions.

**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.*

***Our operating results can fluctuate dramatically.*** Our operating results have fluctuated in the past and are likely to vary in the future. For example, we recorded a net loss of $7.6 million and $81.7 million in fiscal 2007 and fiscal 2006, respectively, after recording net income of $13.3 million in fiscal 2005. Fluctuations in operating results can result from a wide variety of factors, including:

- The cyclicality of the semiconductor industry and industry-wide wafer processing capacity;
- Difficulty in predicting customer product requirements;
- Adverse financial conditions experienced by any of our large customers;
- Changes in demand for our products and in the markets we and our customers serve;

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;

Competitive pricing pressures;

Changes in the demand for and mix of products sold;

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;

Availability and costs of raw materials, and of foundry and other manufacturing services;

Unexpected changes in customer product requirement forecasts;

Costs associated with other events, such as intellectual property disputes, or other litigation;

Political and economic conditions in various geographic areas; and

Costs and other issues relating to complicated and future acquisitions.

Many of these factors also impact the recoverability of the carrying value of certain of our manufacturing, goodwill, and other tangible and intangible assets. As business conditions change, future write-downs or abandonment of these assets may occur. For example, in fiscal 2007, we recorded impairment charges of approximately $4.4 million to reduce the carrying value of our facility in Manila, the Philippines to reflect current real estate market conditions. In addition, in fiscal 2006, we recorded impairment charges of $2.3 million for our investment portfolio and intangibles related to our acquisition of Newave.

Further, we may be unable to compete successfully in the future against existing or potential competitors, and our operating results could be harmed by increased competition. Our operating results are also impacted by changes in overall economic conditions, both domestically and abroad. Should economic conditions deteriorate, domestically or overseas, our sales and business results could be harmed.

***The cyclicality of the semiconductor industry exacerbates the volatility of our operating results.*** The semiconductor industry is highly cyclical. Significant changes in demand for our products have occurred rapidly and suddenly in the past. In addition, market conditions characterized by excess supply relative to demand and resulting selling price declines have also occurred in the past. Significant shifts in demand for our products and selling price declines resulting from excess supply may occur in the future. Significant and rapid swings in demand and average selling prices for our products can result in lower revenues and underutilization of our fixed cost infrastructure, both of which would cause material fluctuations in our gross margins and our operating results.

In fiscal 2006, in connection with our merger with ICS, we reviewed and modified our combined IDT and ICS distributor network. In Asia Pacific, in particular, we made changes to our distributors and the terms and conditions under which our distribution business is conducted. As a result of these changes, a higher percentage of our revenue in this region is now recognized at the time we sell product to our distributors. Consequently, we now have reduced 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 demand for our products. If we are not able to accurately forecast end demand for our products our business and financial results could be adversely affected.

***A significant amount of our accounts receivable is concentrated with a relatively small number of our customers.*** We maintain significant relationships with several global distributors and EMSs. For example, Maxtek and its affiliates represented 29% of our gross accounts receivable balance as of December 30, 2007. If any one or more of these global distributors or EMSs were to file for bankruptcy or otherwise experience significantly adverse financial conditions, our business and financial results could be adversely impacted.

***Demand for our products depends primarily on demand in the communications, personal computer (PC), and consumer markets.*** Our products consist primarily of timing and communications chips in the communications, PC, and consumer markets. Our strategy and resources will be directed at the development, production and marketing of products to these markets. To the extent we are unable to develop, produce and market our products on a timely basis ahead of competitive products or alternative products and at competitive prices, our products may not be selected by current and potential customers and demand for such products may decline. In addition, the markets for our products will depend on continued and growing demand for communications equipment, PCs and consumer electronics. These end-user markets may experience changes in demand that would adversely affect our business. To the extent demand for our products or markets for our products do not grow, our business could be adversely affected.

The majority of our products are incorporated into our customers systems in enterprise/carrier class network, wireless infrastructure, and access network applications. A smaller percentage of our products also serve in customers computer storage, computer-related, and other applications. The communications markets in which we sell these products have historically been characterized by rapid technological change and significant fluctuations in demand. Demand for a significant portion of our products, and therefore potential increases in revenue, depends upon growth in the communications market, particularly in the data networking and wireless telecommunications infrastructure markets and, to a lesser extent, the PC market. Any slowdown in the communications or PC market could materially and adversely affect our operating results.

A majority of the sales of legacy ICS products depend largely on sales of PCs and peripherals for PCs. Following our merger with ICS, a significant portion of our sales continue to be in the PC market. The PC industry is subject to price competition, rapid technological change, evolving standards, short product life cycles and continuous erosion of average selling prices. Should the PC market decline or experience slower growth, then a decline in the order rate for our products could occur and sales could decline. A downturn in the communications or PC markets could also affect the financial health of some of our customers, which could affect our ability to collect outstanding accounts receivable from such customers.

***Our results are dependent on the success of new products.*** The markets we serve are characterized by price 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 systems manufacturers products. In addition, the development of new products and wafer processing technology 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.

***We are dependent on a concentrated group of customers for a significant part of our revenues.*** A large portion of our revenues depend 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. For example, any diminished relationship with Cisco or other key customers could adversely affect our results. While we historically have made relatively few sales to Cisco directly, when all channels of distribution are considered, including sales of product to EMS customers, we estimate that end-customer sales to Cisco represented approximately 15% of our revenues during the first nine months of fiscal 2008.

Many of our end-customer OEMs have outsourced their manufacturing to a concentrated group of global EMSs who then buy product directly from us on behalf of the OEM. EMSs have achieved greater autonomy in the design win, product qualification and product purchasing decisions, especially for commodity products. Furthermore, these EMSs have generally been centralizing their global procurement processes. This has had the effect of concentrating a significant percentage of our revenue with a small number of companies. Competition for the business of these EMSs 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 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 is intense as they operate on extremely thin margins. Overall, the financial condition of EMSs, on average, declined significantly during the industry downturn in fiscal 2001- 2002. If any one or more of these global EMSs were to file for bankruptcy or otherwise experience significantly adverse financial conditions, our business would be adversely impacted as well.

Finally, 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, one family of distributors, Maxtek and its affiliates, represented approximately 20% of our revenues for fiscal 2007 and represented approximately 29% of our gross accounts receivable as of December 30, 2007. If our business relationships were to diminish or any one or more of these global 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 upon continued revenue from a small group of OEM end customers, EMSs 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 sales to decline significantly, and we may not be able to reduce the accompanying expenses at the same rate.

***Our product manufacturing operations are complex and subject to interruption.*** From time to time, we have experienced production difficulties, including reduced 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.

Substantially all of our revenues are derived from products manufactured at facilities which are exposed to the risk of natural disasters. If we were unable to use our facilities or those of our subcontractors and third party foundries as a result of a natural disaster or otherwise, our operations would be materially adversely affected. While we maintain certain levels of insurance against selected risks of business interruption, not all risks can be insured at a reasonable cost. For example, we do not insure our facilities for earthquake damage due to the costs involved. Even if we have purchased insurance, the adverse impact on our business, including both costs and lost revenue opportunities, could greatly exceed the amounts, if any, that we might recover from our insurers.

We are dependent upon electric power generated by public utilities where we operate our manufacturing facilities and we have periodically experienced electrical power interruptions. 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 could have a significant adverse impact on our business.

***A portion of our manufacturing capability is relatively fixed in nature.*** Although we have reduced our manufacturing cost structure substantially over the past five years, a portion of our manufacturing capability is relatively fixed in nature. Large and rapid swings in demand for our products can make it difficult to efficiently utilize this capacity on a consistent basis. Significant reductions in demand for our products, as we have most recently experienced in fiscal 2002 and 2003, will result in material under utilization of our manufacturing facilities while sudden increases in demand for our products could leave us short of capacity and unable to capitalize on incremental revenue opportunities. These swings in demand and the resulting under-utilization of our manufacturing capacity or inability to procure sufficient capacity to meet end customer demand for our products would cause material fluctuations in, and could materially and adversely affect, the gross margins we report.

***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. If demand forecasts are inaccurate or change suddenly, 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.

***We are increasingly reliant upon subcontractors.*** We utilize subcontractors for the vast majority of our assembly requirements, typically at higher costs than at our internal assembly and test operations. Our use of subcontractors has increased with our decision to outsource assembly operations in our Penang, Malaysia facility in fiscal Q2 2007, our closure of our test and assembly facility in Manila, the Philippines in fiscal Q2 2006 and our addition of ICS. Beginning in fiscal 2008, we do not perform assembly services in-house and are now totally dependent on sub-contractors for assembly operations. We are also dependent on third-party outside foundries for the manufacture of 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. We expect our use of subcontractors and third-party foundries to continue to increase. Due to production lead times and potential subcontractor 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 which could divert management s attention, cause ownership dilution to our stockholders, be difficult to integrate and adversely affect our financial results.*** Acquisitions are commonplace in the semiconductor industry and we may acquire businesses or 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. Such acquisitions could divert our management s attention from other business concerns. In addition, we might lose key employees while integrating new organizations. Acquisitions 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, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our business. Consequently, we might not be successful in integrating any acquired businesses, products or technologies, and might not achieve anticipated revenues and cost benefits.

***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.

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

***We have limited experience with government contracting, which entails differentiated business risks.*** Currently, certain of our subsidiaries derive revenue from contracts and subcontracts with agencies of, or prime contractors to, the U.S. government, including U.S. military agencies. Although former employees of ICS who work for us have experience contracting with agencies of the U.S. government, historically we have not contracted with agencies of the U.S. government. As a company engaged, in part, in supplying defense-related equipment to U.S. government agencies, 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 its 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 the company continue to supply products despite the expiration of a contract under certain circumstances;
- Require that the company 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 have 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 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.

***Intellectual property claims 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 in patent litigation in the past, which 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; 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 to 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.

***The costs associated with the legal proceedings in which we are involved 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 are currently involved in legal proceedings, as described above in Part II, Item 1 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 companies 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 our legal actions and an adverse decision in any of our legal actions could significantly harm our business and financial performance.

***International operations add increased volatility to our operating results.*** A substantial percentage of our revenues are derived from international sales, as summarized below:

| *(percentage of total revenues)* | **First nine months of fiscal 2008** | **Twelve months of fiscal 2007** | **Twelve months of fiscal 2006** |
|---|---|---|---|
| Asia Pacific | 56% | 47% | 49% |
| Americas | 28% | 30% | 26% |
| Japan | 9% | 13% | 13% |
| Europe | 7% | 10% | 12% |
| **Total** | **100%** | **100%** | **100%** |

In addition, our facilities in Malaysia and Singapore, 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 offshore sites 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.

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, in support of our international operations, a portion of our cash and investment portfolio accumulates offshore. At December 30, 2007, we had cash and investments of approximately $96.6 million invested overseas in accounts belonging to various IDT foreign operating entities. While these amounts are primarily invested in US 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 depend on the ability of our personnel, raw materials, equipment and products to move reasonably unimpeded around the world***. Any political, military, world health (e.g., SARS, Bird Flu) 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.

***We are exposed to potential impairment charges on investments***. From time to time, we have made strategic investments in other companies, both public and private. If the companies that we invest in are unable to execute their plans and succeed in their respective markets, we may not benefit from such investments, and we could potentially lose the amounts we invest. In addition, we evaluate our investment portfolio on a regular basis to determine if impairments have occurred. Impairment charges could have a material impact on our results of operations in any period. For example, in Q1 2006, we recorded impairment charges of $1.7 million for our investment portfolio.

***Our common stock has experienced substantial price volatility.*** Such volatility may occur in the future, particularly as a result of quarter-to-quarter variations in our actual or anticipated financial results, those 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 Part II, Item 1A Risk Factors of this form 10-Q.

***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 (see Critical

Accounting Policies in Part I, Item 2 of this Form 10-Q and Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended April 1, 2007). 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 SFAS 123(R) 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, R&D and SG&A expenses.

***Our business is subject to changing regulation of corporate governance and public disclosure that has increased both our costs and the risk of noncompliance.*** Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, state and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the SEC and NASDAQ, have recently issued requirements and regulations and continue developing additional regulations and requirements in response to corporate scandals and laws enacted by Congress, most notably the Sarbanes-Oxley Act of 2002. Our efforts to comply with these regulations have resulted in, and are likely to continue resulting in, increased general and administrative expenses and diversion of management time and attention from revenue-generating activities to compliance activities.

Because new and modified laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

***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 key technical and management personnel. If we are unable to identify, hire and retain highly qualified technical and managerial personnel, our business could be harmed.

## 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 third quarter of fiscal 2008:

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Approximate total dollar value of shares that may yet be purchased under the program (1) |
|---|---|---|---|---|
| September 30, 2007 October 28, 2007 | | | | |
| October 29, 2007 November 25, 2007 | 6,430,000 | $ 12.82 | 6,430,000 | $ 153,941,633 |
| November 26, 2007 December 30, 2007 | 1,622,200 | $ 11.93 | 1,622,200 | $ 134,586,676 |
| Total | 8,052,200 | $ 12.64 | 8,052,200 | |

(1) On January 18, 2007, the Company s Board of Directors authorized a program to repurchase up to $200 million of the Company s common stock. During the fourth quarter of fiscal 2007, the Company repurchased approximately 1.6 million shares at an average price of $15.93 per share for a total purchase price of $24.9 million. During the first quarter of fiscal 2008, the Company repurchased approximately 6.6 million shares at an average price of $15.07 per share for a total purchase price of $99.8 million. During the second quarter of fiscal 2008, the Company repurchased approximately 2.5 million shares at an average price of $15.27 per share for a total purchase price of $38.9 million. On October 19, 2007, the Company s Board of Directors approved a $200 million expansion of the share repurchase program to a total of $400 million. During the third quarter of fiscal 2008, the Company repurchased approximately 8.1 million shares at an average price of $12.64 per share for a total purchase price of $101.8 million. As of December 30, 2007, approximately $135 million was available for future purchase under the share repurchase.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

(a) The following exhibits are filed herewith:

| Exhibit number | Description |
|---|---|
| 10.1 | Executive Transition Agreement, dated November 13, 2007, by and between Registrant and Gregory S. Lang (incorporated by reference to Exhibit 10.1 of Current Report on Form 8-K as filed on November 16, 2007) |
| 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 6, 2008. |
| 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 6, 2008. |
| 32.1 | Certification of Chief Executive Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, dated February 6, 2008. |
| 32.2 | Certification of Chief Financial Officer as required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, dated February 6, 2008. |

**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.

**INTEGRATED DEVICE TECHNOLOGY, INC.**

| | |
|---|---|
| Date: February 6, 2008 | /s/ GREGORY S. LANG<br>Gregory S. Lang<br>President and Chief Executive Officer<br><br>(duly authorized officer) |
| Date: February 6, 2008 | /s/ CLYDE R. HOSEIN<br>Clyde R. Hosein<br>Vice President, Chief Financial Officer<br><br>(Principal Financial and Accounting Officer) |