INTEGRATED DEVICE TECHNOLOGY INC
Form 10-Q
November 06, 2008
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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 September 28, 2008

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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

x Large accelerated filer	¨ Accelerated filer	¨ Non-accelerated filer (Do not check if smaller reporting company)	¨ Smaller reporting company

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

The number of outstanding shares of the registrant s Common Stock, $0.001 par value, as of October 24, 2008, was 169,033,283.

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INTEGRATED DEVICE TECHNOLOGY, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 28, 2008

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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		Six months ended	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Revenues	$ 200,541	$ 204,127	$ 388,749	$ 403,143
Cost of revenues	113,388	115,937	217,137	230,065
Gross profit	87,153	88,190	171,612	173,078
Operating expenses:				
Research and development	41,532	41,876	85,151	86,575
Selling, general and administrative	32,211	43,615	65,176	88,729
Total operating expenses	73,743	85,491	150,327	175,304
Operating income (loss)	13,410	2,699	21,285	(2,226)
Interest expense	(15)	(28)	(33)	(69)
Interest income and other, net	384	4,446	1,849	10,298
Income before income taxes	13,779	7,117	23,101	8,003
Provision for income taxes	2,104	2,358	2,272	4,340
Net income	$ 11,675	$ 4,759	$ 20,829	$ 3,663
Basic net income per share	$ 0.07	$ 0.02	$ 0.12	$ 0.02
Diluted net income per share	$ 0.07	$ 0.02	$ 0.12	$ 0.02
Weighted average shares:				
Basic	169,570	190,745	170,325	192,000
Diluted	169,752	195,923	170,586	196,914

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

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INTEGRATED DEVICE TECHNOLOGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED; IN THOUSANDS)

	September 28, 2008	March 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 186,071	$ 131,986
Short-term investments	121,443	107,205
Accounts receivable, net	88,254	83,091
Inventories	76,373	79,954
Deferred taxes assets	4,853	4,853
Prepayments and other current assets	16,658	26,081
Total current assets	493,652	433,170
Property, plant and equipment, net	77,173	81,652
Goodwill	1,026,724	1,027,438
Acquisition-related intangibles, net	163,038	204,489
Other assets	32,143	36,504
Total assets	$ 1,792,730	$ 1,783,253
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 45,321	$ 44,655
Accrued compensation and related expenses	27,177	26,621
Deferred income on shipments to distributors	22,377	24,312
Income taxes payable	755	150
Other accrued liabilities	21,866	19,978
Total current liabilities	117,496	115,716
Deferred tax liabilities	8,152	7,678
Long-term income taxes payable	20,826	20,673
Other long-term obligations	17,763	18,364
Total liabilities	164,237	162,431
Commitments and contingencies (Note 14)		
Stockholders equity:		
Preferred Stock; $0.001 par value: 10,000 shares authorized; no shares issued and outstanding		
Common stock; $0.001 par value: 350,000 shares authorized; 221,950 and 220,677 shares issued; 169,023 and 171,282 shares outstanding at September 28, 2008 and March 30, 2008, respectively	222	221
Additional paid-in capital	2,263,211	2,237,584
Treasury stock; at cost: 52,927 and 49,395 shares at September 28, 2008 and March 30, 2008, respectively	(752,935)	(715,509)
Accumulated other comprehensive income	1,720	3,080
Retained earnings	116,275	95,446
Total stockholders equity	1,628,493	1,620,822
Total liabilities and stockholders equity	$ 1,792,730	$ 1,783,253

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

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INTEGRATED DEVICE TECHNOLOGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED; IN THOUSANDS)

	Six months ended	
	Sept. 28, 2008	**Sept. 30, 2007**
Operating activities		
Net income	$ 20,829	$ 3,663
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,263	15,766
Amortization of intangible assets	41,451	61,018
Gain on sale of investment in equity securities		(1,687)
Stock-based compensation expense	16,771	23,630
Deferred income taxes	474	214
Changes in assets and liabilities:		
Accounts receivable, net	(5,163)	(4,197)
Inventories	3,517	4,226
Prepayments and other assets	8,645	(6,907)
Accounts payable	332	4,151
Accrued compensation and related expenses	556	(2,771)
Deferred income on shipments to distributors	(1,935)	(4,535)
Income taxes receivable and payable	6,044	5,609
Other accrued and long-term liabilities	1,451	5,063
Net cash provided by operating activities	106,235	103,243
Investing activities		
Purchases of property, plant and equipment	(8,434)	(7,572)
Purchases of short-term investments	(103,988)	(72,530)
Proceeds from sales and maturities of short-term investments	89,631	87,998
Net cash (used in) provided by investing activities	(22,791)	7,896
Financing activities		
Issuance of common stock	8,921	31,893
Repurchases of common stock	(37,426)	(138,694)
Net cash used in financing activities	(28,505)	(106,801)
Effect of exchange rates on cash and cash equivalents	(854)	513
Net increase in cash and cash equivalents	54,085	4,851
Cash and cash equivalents at beginning of period	131,986	246,589
Cash and cash equivalents at end of period	$ 186,071	$ 251,440

The accompanying notes are an integral part of these unaudtied 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 September 28, 2008 (Q2 2009), June 29, 2008 (Q1 2009), March 30, 2008 (Q4 2008) and September 30, 2007 (Q2 2008) 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 March 30, 2008. Operating results for the three months and six months ended September 28, 2008 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. Subsequent to shipment to the distributor, the Company reduces product pricing through price protection based on market conditions, competitive considerations and other factors. Price protection is granted to distributors on the inventory that they have on hand at the date the price protection is offered. The Company also grants certain credits to its distributors on specifically identified portions of the distributors business to allow them to earn a competitive gross margin on the sale of the Company s products to their end customers. As a result of its inability to estimate these credits, the Company has determined that the sales price to these distributors is not fixed or determinable until the final sale to the end-customer.

In the Asia Pacific (APAC) region, the Company has distributors for which revenue is recognized upon shipment, with reserves recorded for the estimated return and pricing adjustment exposures. 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 contractual 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.

Based on the terms in the agreements with its distributors and the application of this policy, the Company recognizes revenue once the distributor sells our products to an end-customer for North American and European distributors and recognizes revenue upon shipment to Japanese and other Asian distributors.

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 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 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.

During Q1 2009, the Company updated its analysis of the stock option exercise behavior over the twelve years prior to its adoption of SFAS 123(R) and as a result the Company updated the expected term of stock option grants. 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 limited 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 April 2008, the FASB issued FASB Staff Position (FSP) 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of the pending adoption of FSP 142-3 on its consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). The standard requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows; relative volume of derivative activity; the objectives and strategies for using derivative instruments; the accounting treatment for those derivative instruments formally designated as the hedging instrument in a hedge relationship; and the existence and nature of credit-related contingent features for derivatives. SFAS 161 does not change the accounting treatment for derivative instruments. SFAS 161 is effective in the first quarter of fiscal year 2010. The Company is currently evaluating the impact of the pending adoption of SFAS 161 on its consolidated financial statements.

In February 2008, the FASB issued FSP 157-1, Application of FASB Statement 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP 157-2, Effective Date of FASB Statement 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2010. The Company is currently evaluating the impact that these provisions of SFAS 157 will have on its consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of fiscal year 2010.

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 pre-acquisition 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. The adoption of SFAS 141(R) will change our accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2010.

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. Currently, the Company has elected not to adopt the fair value option under this pronouncement.

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. The Company adopted this standard in the first quarter of fiscal 2009. See Fair Value Measurements in Note 8 for further discussion.

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Note 4

Net Income Per Share

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

(in thousands)	Three months ended Sept. 28, 2008	Three months ended Sept. 30, 2007	Six months ended Sept. 28, 2008	Six months ended Sept. 30, 2007
Weighted average common shares outstanding	169,570	190,745	170,325	192,000
Dilutive effect of employee stock options	182	5,178	261	4,914
Weighted average common shares outstanding, assuming dilution	169,752	195,923	170,586	196,914

Stock options to purchase 30.0 million shares for the three and six month periods ended September 28, 2008, respectively, and 11.4 million shares and 10.9 million shares for the three and six month periods ended September 30, 2007, respectively, were outstanding, but were excluded from the calculation of diluted earnings per share because the exercise price of the stock options was greater than the average share price of the common shares and therefore, the effect would have been anti-dilutive. In addition, 0.7 million and 0.5 million unvested restricted stock units were excluded from the calculation for the three and six months ended September 28, 2008 because they were anti-dilutive after considering unrecognized stock-based compensation expense.

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 Sept. 28, 2008	Three months ended Sept. 30, 2007	Six months ended Sept. 28, 2008	Six months ended Sept. 30, 2007
Cost of revenue	$ 1,183	$ 1,189	$ 1,969	$ 2,242
Research and development	5,149	6,615	10,301	13,346
Selling, general and administrative	2,310	3,996	4,501	8,042
Total stock-based compensation expense	8,642	11,800	16,771	23,630
Tax effect on stock-based compensation expense (1)				
Total stock-based compensation expense, net of related tax effects	$ 8,642	$ 11,800	$ 16,771	$ 23,630

(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 attributes the value of stock-based compensation to expense on an accelerated method.

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

(in thousands)	Three months ended Sept. 28, 2008	Sept. 30, 2007	Six months ended Sept. 28, 2008	Sept. 30, 2007
Employee stock options	$ 6,315	$ 10,105	$ 12,443	$ 20,549
Employee stock purchase plan (ESPP)	626	577	1,504	1,521
Restricted stock units (RSUs)	1,415	914	2,760	1,494
Change in amounts capitalized in inventory	286	204	64	66
Total stock-based compensation expense	$ 8,642	$ 11,800	$ 16,771	$ 23,630

Valuation Assumptions

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

	Three months ended Sept. 28, 2008	Sept. 30, 2007	Six months ended Sept. 28, 2008	Sept. 30, 2007
Stock option plans:				
Expected Term	4.69 years	4.73 years	4.56 years	4.66 years
Risk-free interest rate	2.87%	4.52%	3.00%	4.79%
Volatility	39.3%	40.7%	39.3%	43.6%
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Weighted average grant-date fair value	$ 3.95	$ 6.49	$ 4.31	$ 6.47
ESPP:				
Expected Term	0.25 years	0.25 years	0.25 years	0.25 years
Risk-free interest rate	1.9%	4.95%	1.57%	5.01%
Volatility	38.8%	28.1%	36.6%	31.2%
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Weighted average fair value	$ 2.29	$ 3.21	$ 2.04	$ 3.32

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 stockholders approved the 1994 Plan. In September 2000, the Company s stockholders elected to extend the plan to expire in 2010. 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 September 28, 2008, 544,838 shares remain available for future grant under the 1994 Plan.

2004 Equity Plan (2004 Plan)

In September 2004, the Company s stockholders approved the 2004 Plan. Under the 2004 Plan, 28,500,000 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

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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 September 28, 2008, 6,178,502 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 a 48-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 September 28, 2008, 1,223,515 restricted stock unit awards were outstanding under the 2004 Plan.

The following table summarizes the Company s stock option activities for the six months ended September 28, 2008:

(in thousands, except per share amounts)	**Shares**	**Weighted Average Exercise Price**
Options outstanding as of March 30, 2008	30,506	$ 13.00
Granted	2,576	11.66
Exercised (1)	(346)	9.33
Canceled, Forfeited or Expired	(3,197)	14.33
Options outstanding as of September 28, 2008	29,539	12.79
Options exercisable at September 28, 2008	21,382	$ 12.69

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

As of September 28, 2008, the weighted average remaining contractual life of options outstanding was 3.7 years and the aggregate intrinsic value was $0.3 million. The weighted average remaining contractual life of options exercisable was 3.0 years and the aggregate intrinsic value was $0.3 million. Unrecognized compensation cost related to non-vested stock-based awards, net of estimated forfeitures was $16.4 million and will be recognized over a weighted average period of 1.2 years.

As of September 28, 2008, stock options vested and expected to vest totaled approximately 28.1 million shares, with a weighted-average exercise price of $12.78 per share and a weighted average remaining contractual life of 3.6 years. The aggregate intrinsic value was approximately $0.3 million.

	Three months ended		**Six Months Ended**	
(in thousands)	**Sept. 28, 2008**	**Sept. 30, 2007**	**Sept. 28, 2008**	**Sept. 30, 2007**
Net cash proceeds from options exercised	$ 1,971	$ 17,341	$ 3,226	$ 25,915
Total intrinsic value of options exercised	$ 589	$ 7,573	$ 734	$ 10,810
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 cash flows rather than operating expenses.

The following table summarizes the Company s restricted stock unit activities for the six months ended September 28, 2008:

	Shares (in thousands)	Weighted Average Grant Date Fair Value
RSU s outstanding as of March 30, 2008	627	$ 14.53
Granted	845	12.14
Released	(140)	14.93
Forfeited	(108)	13.24
Outstanding at September 28, 2008	1,224	$ 12.94

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As of September 28, 2008, there was approximately $7.6 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 2.0 years.

As of September 28, 2008, restricted stock units vested and expected to vest totaled approximately 0.9 million shares, with a weighted average remaining contractual life of 1.8 years. The aggregate intrinsic value was approximately $7.4 million.

1984 ESPP

In July 1984, the Company s stockholders 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 six months ended September 28, 2008, the Company issued 787,021 shares of common stock with a weighted-average purchase price of $7.24 per share.

Note 6

Balance Sheet Detail

(in thousands)	Sept. 28, 2008	March 30, 2008
Inventories		
Raw materials	$ 6,060	$ 4,674
Work-in-process	44,181	43,556
Finished goods	26,132	31,724
Total inventories	$ 76,373	$ 79,954
Other long-term obligations		
Deferred compensation related liabilities	$ 12,990	$ 12,858
Long-term portion of deferred gain on equipment sales	870	897
Long-term portion of lease impairment obligations	997	1,103
Long-term portion of supplier obligations	2,738	3,086
Other	168	420
Total other long-term obligations	$ 17,763	$ 18,364

Note 7

Deferred income on shipments to distributors

Included in the caption *Deferred income on shipments to distributors* on the consolidated balance sheet are amounts related to shipments to certain distributors for which revenue is not recognized until our product has been sold by the distributor to an end customer. The components at September 28, 2008 and March 30, 2008 were as follows:

(in thousands)	**Sept. 28, 2008**	**March 30, 2008**
Gross deferred revenue	$ 28,648	$ 30,741
Gross deferred costs	6,271	6,429
Deferred income on shipments to distributors	$ 22,377	$ 24,312

The gross deferred revenue represents the gross value of shipments to distributors at the list price billed to the distributor less any price protection credits provided to them in connection with reductions in list price while the products remain in their inventory. The amount ultimately recognized as revenue will be lower than this amount as a result of future price protection and ship from stock pricing credits which are issued in connection with the sell through of our products to end customers. Historically this amount represents on average approximately 25% of the list price billed to the customer. The gross deferred costs represent the standard costs of products we sell to the distributors. Although we monitor the levels and quality of inventory in the distribution channel, our experience is that product returned from these distributors are able to be sold to a different distributor or in a different region of the world. As such, inventory write-downs for product in the distribution channel have not been significant.

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Note 8

Fair Value Measurement

Effective March 31, 2008, the Company adopted SFAS 157, *Fair Value Measurements* (SFAS 157), except as it applies to the non-financial assets and non-financial liabilities subject to Financial Staff Position SFAS 157-2.

SFAS 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing assets or liabilities. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact.

Fair Value Hierarchy

SFAS 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy which prioritizes the inputs used to measure fair value from market based assumptions to entity specific assumptions are as follows:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measure date.

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

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

The following table summarizes the Company s financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS 157 as of September 28, 2008:

	Fair Value at Reporting Date Using:		
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Total Balance**
Cash Equivalents and Short Term Investments:			
Money market funds	$ 135,582		135,582
US government treasuries and agencies securities	81,105		81,105
Corporate commercial paper		44,825	44,825
Certificates of deposits		15,748	15,748
Corporate bonds		11,198	11,198
Bank deposits		8,138	8,138
Asset back securities		509	509
Other Assets:			
Assets related to non-qualified deferred compensation plan		11,864	11,864
Total assets measured at fair value	**$ 216,687**	**92,282**	**$ 308,969**
Liabilities:			
Non-qualified deferred compensation obligations		12,990	12,990
Total liabilities measured at fair value	**$**	**12,990**	**$ 12,990**

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The Company s cash equivalent and short term investment are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotation, or alternative pricing sources with reasonable levels of price transparency. The securities in Level 1 are highly liquid and actively traded in exchange markets or over-the-counter markets. The securities in Level 2 represent securities with quoted prices in markets that are not as active or for which all significant inputs are observable.

The Company maintains an unfunded deferred compensation plan to provide benefits to executive officers and other key employees. Under the plan, participants can defer any portion of their salary and bonus compensation into the plan and may choose from a portfolio of funds from which earnings are measured. Participant balances are always 100% vested. The deferred compensation plan obligation is recorded at fair value based on the quoted prices of the underlying mutual funds and included in Other Long-Term Obligations on the Company s Condensed Consolidated Balance Sheets. Increases or decreases related to the obligations are recorded in operating expenses. Additionally, the Company has set aside assets in a separate trust that is invested in corporate owned life insurance intended to substantially offset the liability under the plan. The value of these assets is determined by the quoted prices of the underlying mutual funds of the life insurance adjusted by the insurance premium charges and is included in Other Assets on the Company s Condensed Consolidated Balance Sheets. Gains or losses of these assets are recorded in Interest income and other, net. The Company has identified both its assets and liability related to the plan within Level 2 in the fair value hierarchy as these valuations are based on observable market data obtained directly from the dealer or observable price quotes for similar assets such as the underlying mutual fund pricing. As of September 28, 2008, we do not maintain any assets or liabilities with a Level 3 valuation that would require a high level judgment to determine fair value.

Cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. The Company maintains the cash and cash equivalents with reputable major financial institutions. Deposits with these banks may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits or similar limits in foreign jurisdictions. These deposits typically may be redeemed upon demand and, therefore, bear minimal risk. In addition, a significant portion of cash equivalents is concentrated in money market funds which has either elected to participate in the US Treasury s Temporary Guarantee Program for Money Market Funds, or has invested in US government treasuries only. While the Company monitors daily the cash balances in its operating accounts and adjusts the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which the Company deposits fails or is subject to other adverse conditions in the financial markets. As of today, the Company has not experienced any loss in its operating accounts.

All of the Company s available-for-sale investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including a review of the closing price over the length of time, general market conditions and the Company s intent and ability to hold the investment for a period of time sufficient to allow for recovery. Although the Company believes the portfolio continues to be comprised of sound investments due to high credit ratings and government guarantees of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of its investments and their liquidity. The Company continually monitors the credit risk in its portfolio and future developments in the credit markets and makes appropriate changes to its investment policy as deemed necessary. The Company did not record any impairment charges related to its investments in Q2 2009.

Note 9

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 September 28, 2008, 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 Condensed Consolidated Balance Sheet.

Note 10

Goodwill and Other Intangible Assets

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.

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Goodwill and identified intangible asset balances are summarized as follows:

	September 28, 2008		
(in thousands)	**Gross assets**	**Accumulated amortization**	**Net assets**
Goodwill	$ 1,026,724	$	$ 1,026,724
Identified intangible assets:			
Existing technology	288,558	(172,662)	115,896
Trademarks	10,534	(8,322)	2,212
Customer relationships	158,396	(115,236)	43,160
Foundry & Assembler relationships	65,256	(63,921)	1,335
Non-compete agreements	53,165	(52,889)	276
Other	31,174	(31,015)	159
Subtotal, identified intangible assets	607,083	(444,045)	163,038
Total goodwill and identified intangible assets	$ 1,633,807	$ (444,045)	$ 1,189,762

	March 30, 2008		
(in thousands)	**Gross assets**	**Accumulated amortization**	**Net assets**
Goodwill	$ 1,027,438	$	$ 1,027,438
Identified intangible assets:			
Existing technology	288,558	(144,570)	143,988
Trademarks	10,534	(7,716)	2,818
Customer relationships	158,396	(103,506)	54,890
Foundry & Assembler relationships	65,256	(63,219)	2,037
Non-compete agreements	53,165	(52,688)	477
Other	31,174	(30,895)	279
Subtotal, identified intangible assets	607,083	(402,594)	204,489
Total goodwill and identified intangible assets	$ 1,634,521	$ (402,594)	$ 1,231,927

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill is reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. These tests are performed at the reporting unit level using a two-step, fair-value based approach. The first step, used to determine if impairment possibly exists, is to compare the carrying amount of a reporting unit, including goodwill, to its fair value. If the carrying amount of the reporting unit exceeds the fair value, the second step is to determine the amount of a possible impairment by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. The Company completed its annual review of the goodwill during the fourth quarter ended March 30, 2008 and concluded that there was no impairment. Due to the recent extraordinary market and economic conditions, the Company experienced a decline in its stock price, resulting in the Company s market capitalization falling below its net book value. Given the extreme volatility of the U.S. equity markets, the Company has not yet concluded that these conditions are a long term trend or other than temporary. The Company continues to monitor changes in the global economy that could impact future operating results of its operating units. If the businesses acquired fail to meet its expectations set out at the time of the acquisition or if the market capitalization of the Company s stock trades at a depressed level for an extended period of time, the Company could incur significant impairment charges which could negatively impact its financial results.

In Q2 2009, goodwill decreased $0.7 million as a result of the release of certain reserves related to the ICS and Zetta pre-acquisition contingency items.

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Amortization expense for identified intangibles is summarized below:

	Three months ended		Six months ended	
(in thousands)	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Existing technology	$ 13,998	$ 14,227	$ 28,093	$ 28,475
Trademarks	303	626	605	1,315
Customer relationships	5,820	8,426	11,730	16,851
Foundry & assembler relationships	351	1,060	702	2,120
Non-compete agreements	67	5,177	201	11,399
Other	53	429	120	858
Total	$ 20,592	$ 29,945	$ 41,451	$ 61,018

Based on the identified intangible assets recorded at September 28, 2008, the future amortization expense of identified intangibles for the next five fiscal years is as follows (*in thousands*):

Fiscal year	Amount
Remainder of FY 2009	$ 40,236
2010	54,526
2011	28,304
2012	18,423
2013	10,689
Thereafter	10,860
Total	$ 163,038

Note 11

Comprehensive Income

The components of comprehensive income were as follows:

	Three months ended		Six months ended	
(in thousands)	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Net income	$ 11,675	$ 4,759	$ 20,829	$ 3,663
Currency translation adjustments	(762)	380	(731)	342
Change in net unrealized loss on investment	(330)	(4)	(629)	(1,479)
Comprehensive income	$ 10,583	$ 5,135	$ 19,469	$ 2,526

The components of accumulated other comprehensive income were as follows:

(in thousands)	Sept. 28, 2008	March 30, 2008
Cumulative translation adjustments	$ 1,797	$ 2,528

Unrealized gain (loss) on available-for-sale investments	(77)	552
Total accumulated other comprehensive income	$ 1,720	$ 3,080

During the first six months of fiscal 2008, the Company sold approximately 1.2 million shares, or 89% of its equity investment in Maxtek for proceeds, net of commissions, totaling approximately $2.7 million and recognized a gain of $1.7 million, which was classified within interest income and other, net. During the remainder of fiscal year 2008, the Company sold the remaining shares of its equity investment in Maxtek for proceeds, net of commissions, totaling approximately $0.2 million and recognized a gain of $0.1 million, which was classified within interest income and other, net.

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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. As of the end of Q2 2009 and Q2 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 six months of fiscal 2009 and 2008.

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 (NSEs), switching solutions, flow-control management devices, FIFOs, multi-port products, and integrated communications processors

Timing and Memory Interface segment: includes clock generation and distribution products, 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		**Six months ended**	
(in thousands)	**Sept. 28, 2008**	**Sept. 30, 2007**	**Sept. 28, 2008**	**Sept. 30, 2007**
Networking	$ 49,388	$ 51,141	$ 100,687	$ 105,643
Timing	118,984	118,879	224,948	229,299
Standard Products and Other	32,169	34,107	63,114	68,201

Total consolidated revenues	$ 200,541	$ 204,127	$ 388,749	$ 403,143

Income (loss) by segment

	Three months ended		Six months ended	
(in thousands)	**Sept. 28, 2008**	**Sept. 30, 2007**	**Sept. 28, 2008**	**Sept. 30, 2007**
Networking	$ 12,491	$ 9,034	$ 24,346	$ 15,976
Timing	33,722	36,814	64,505	69,533
Standard Products and Other	(3,082)	(491)	(7,949)	(647)
Amortization of intangible assets	(20,592)	(29,943)	(41,451)	(61,018)
Acquisition related costs and other	3	(539)	6	(1,647)
Restructuring and related	(471)	(193)	(1,305)	(459)
Facility closure costs	(19)	(183)	(96)	(334)
Stock-based compensation expense	(8,642)	(11,800)	(16,771)	(23,630)
Interest income and other	384	4,446	1,849	10,298
Interest expense	(15)	(28)	(33)	(69)
Income before income taxes	$ 13,779	$ 7,117	$ 23,101	$ 8,003

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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.

During Q2 2009, the Company announced a re-organization of its business units into five operating segments. The re-organization is being performed to reduce costs, improve margin and align resources with the needs of each segment and also with the manner that the products are marketed and sold. The re-organization is expected to be fully implanted in Q3 2009. As a result, the Company is currently evaulating its reportable business segments in accordance with SFAS 131.

Note 14

Commitments and Contingencies

Guarantees

As of September 28, 2008, the Company s financial guarantees consisted of guarantees and standby letters of credit, which are primarily related to the Company s electrical utilities in Malaysia, utilization of non-country nationals in Malaysia and Singapore, consumption tax and value-added tax obligations in Japan and Singapore, and a workers compensation plan in the United States. The maximum amount of potential future payments under these arrangements is approximately $2.6 million.

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 $0.4 million as of September 28, 2008 and March 30, 2008.

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 U.S. 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. The Company was not named as a defendant in either complaint. Pursuant to tolling agreements with the indirect and direct purchaser plaintiffs, the Company 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. The Company and the State of Florida have reached an agreement that suspends its obligation to respond to the CID. The agreement also tolls the statute of limitations until January 21, 2009 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. On March 19, 2008, the Company entered into a tolling agreement with the plaintiffs in the Ontario, British Columbia and Quebec actions. On March 25, 2008, the Ontario Superior Court of Justice entered an order that discontinued the action in Ontario against the Company without prejudice. On May 2, 2008, a Notice of Discontinuance was filed by the plaintiff in the Supreme Court of British Columbia, resulting in a discontinuation of the action against the Company without prejudice. On August 28, 2008, the court in Quebec issued an order of discontinuance with respect to the Company. The Company cannot predict their

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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.

In April 2008, LSI Corporation and its wholly owned subsidiary Agere Systems Inc. (collectively LSI) instituted an action in the United States International Trade Commission (ITC), naming the Company and 17 other respondents in an action seeking an exclusion preventing importation into the U.S. of semiconductor integrated circuit devices and products made by methods alleged to infringe an LSI patent on the use of tungsten metallization in semiconductor manufacturing. LSI also filed a companion case against the same parties in the U.S. District Court for the Eastern District of Texas seeking an injunction and damages in an unspecified amount relating to such alleged infringement. Since the initiation of both actions, five other parties have been named as respondents/defendants in the respective actions. The action in the U.S. District Court has been stayed pending the outcome of the ITC action. Although no hearing date has been set yet in the ITC action, it is expected that a hearing will occur in early to mid calendar year 2009. The Company cannot predict their outcome or provide an estimate of any possible losses. Any litigation could be costly, divert the 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 the litigation.

The Company is currently a party to various other legal proceedings, claims, disputes and litigation arising in the ordinary course of business. Based on the Company s own investigations, the Company does not believe the ultimate outcome of its current legal proceedings, individually and in the aggregate, will have a material adverse effect on its financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of such litigation and investigations, should the outcome of these actions be unfavorable, the Company s business, financial condition, results of operations or cash flows could be materially and adversely affected.

Note 15

Restructuring

The following table shows the breakdown of the restructuring charges and the liability remaining as of September 28, 2008:

(In thousands)	**Cost of goods sold Restructuring**	**Operating Expenses Restructuring**
Balance as of March 30, 2008	$ 433	$ 1,132
Non-cash charges	655	149
Cash payments	(712)	(337)
Balance as of June 29, 2008	$ 376	$ 944
Non-cash charges		471
Cash payments	(15)	(59)
Balance as of Sept. 28, 2008	$ 361	$ 1,356

Restructuring Actions

During Q2 2009, the Company initiated a reduction-in force, which primarily affected its Texas design center. This restructuring action was taken to streamline its operations within one of its business units. This action resulted in the reduction of approximately 21 employees. The Company recorded a one-time restructuring expense of $0.5 million for severance benefits in Q2 2009 associated with this action.

During Q1 2009, the Company initiated restructuring actions, which primarily affected its manufacturing personnel in Penang, Malaysia as well as sales personnel in the U.S.and Sweden, including the closure of its Sweden office. The Company took these restructuring actions to rebalance its workforce to better align with its growth opportunities. These restructuring actions resulted in the reduction of approximately 79 employees. The Company recorded a one-time restructuring expense of approximately $0.8 million for severance benefits associated with these restructuring actions in Q1 2009. As of September 28, 2008, all termination payments have been made.

During Q2 2006, the Company completed the consolidation of its Northern California workforce into its San Jose headquarters and exited leased facilities in Salinas and Santa Clara. Upon exiting the buildings the Company recorded lease impairment charges of approximately $6.5 million, which represented the future rental payments under the agreements, reduced by an estimate of sublease income, and discounted to present value using an interest rate applicable to the Company. These charges were recorded as cost of revenues of $2.6 million, R&D of $2.1 million and SG&A of $2.4 million. In addition, the Company also wrote-off approximately $0.6 million of leasehold improvements and assets no longer in use. In fiscal 2008, the Company entered into a sublease agreement for our Salinas facility, resulting in a reduction to our accrued lease liabilities by $0.2 million. Since the initial restructuring, the Company has made lease payments of $6.2 million related to vacated facilities in Santa Clara and Salinas. As of September 28, 2008, the remaining accrued lease liabilities were $1.2 million.

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Note 16

Income Taxes

The Company recorded an income tax provision of approximately $2.1 million in Q2 2009 compared to a provision of approximately $2.4 million in Q2 2008. The provision for income taxes in Q2 2009 and Q2 2008 primarily reflects estimated foreign income and withholding taxes and estimated U.S. and state taxes.

As of September 28, 2008 and March 30, 2008, the unrecognized tax benefits without interest and penalties were approximately $44.7 million and $42.8 million respectively, of which $18.8 million would affect the Company s effective tax rate if recognized. The increase in the unrecognized tax benefits during the quarter was primarily related to uncertain tax positions regarding transfer pricing between its related entities.

As of September 28, 2008 and March 30, 2008, the Company was subject to examination in the U.S. federal tax jurisdiction for the fiscal years beginning with 2002. The Company was also subject to examination in various state and foreign jurisdictions for tax years 2002 forward, none of which were individually material.

Note 17

Share Repurchase Program

On January 18, 2007, the Company s Board of Directors initiated a $200 million share repurchase program. During fiscal 2008, the Company s Board of Directors approved a $200 million expansion of the share repurchase program to a total of $400 million. In fiscal 2008, the Company repurchased approximately 28.9 million shares at an average price of $11.60 per share for a total purchase price of $334.8 million. On April 30, 2008, the Company s Board of Directors approved an additional $100 million expansion of the share repurchase program to a total of $500 million. During Q1 2009, the Company repurchased approximately 2.1 million shares at average price of $10.71 per share for a total purchase price of $22.3 million. During Q2 2009, the Company repurchased approximately 1.4 million shares at average price of $10.44 per share for a total purchase price of $15.1 million. Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders equity. As of September 28, 2008, approximately $103 million was available for future share repurchases. The program is intended to reduce the number of outstanding shares of Common Stock to increase stockholder value.

Note 18

Subsequent Event

On October 20, 2008, the Company entered into a purchase agreement with Silicon Optix, a private-held fabless semiconductor company based in San Jose, CA. Pursuant to the agreement and upon closing the transaction, the Company acquired video processing technology and related assets along with members of the Silicon Optix s intellectual property and engineering teams. The total transaction value was approximately $20 million in cash.

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

All references are to our fiscal quarters ended September 28, 2008 (Q2 2009), June 29, 2008 (Q1 2009), March 30, 2008 (Q4 2008) and September 30, 2007 (Q2 2008) 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: global business and economic conditions; operating results; new product introductions and sales; competitive conditions; capital expenditures and resources; manufacturing capacity utilization; customer demand and inventory levels; 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. Our 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. We recognize 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, we defer revenue and related cost of revenues on sales to these distributors until the product is subsequently sold by the distributor to an end-customer. Subsequent to shipment to the distributor, we may reduce product pricing through price protection based on market conditions, competitive considerations and other factors. Price protection is granted to distributors on the inventory that they have on hand at the date the price protection is offered. We may also grant certain credits to our distributors on specifically identified portions of the distributors inventory to allow them to earn a competitive gross margin upon the sale of our products to the distributors end customers. As a result of our inability to estimate these credits, we have determined that the sales price to these distributors is not fixed or determinable until the final sale to the end-customer.

In the APAC region, we have distributors for which revenue is recognized upon shipment, with reserves recorded for the estimated return and potential pricing adjustment exposures. The determination of the amount of reserves to be recorded for stock rotation rights requires us to make estimates as to the amount of product which will be returned by customers within their limited contractual rights. We utilize historical return rates to estimate the exposure in accordance with Statement of Financial Accounting Standards (SFAS) 48, *Revenue Recognition When Right of Return Exists* (SFAS 48). In addition, from time-to-time, we are 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 our estimates in the past, if our estimates are inaccurate, it could have a material impact on our 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 Q2 2009 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 FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes an Interpretations of FASB Statement 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 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. 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 March 30, 2008, 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.

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable in accordance with SFAS 142, *Goodwill and Other Intangible Assets.* Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We utilize a discounted cash flow analysis to estimate the fair value of our reporting units. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. Our annual goodwill impairment analysis did not result in an impairment charge. However, changes in these estimates could cause one or more of the businesses to be valued lower, which could result in an impairment of our goodwill in the future.

Over the past several years, we have made several acquisitions. As a result of these acquisitions, we have over $1 billion of goodwill and over $163 million of intangible assets on our balance sheet as of September 28, 2008. Due to the recent extraordinary market and economic conditions, the Company experienced a decline in its stock price, resulting in the Company s market capitalization falling below its net book value. Given the extreme volatility of the U.S. equity markets, the Company has not yet concluded that these conditions are a long term trend or other than temporary. The Company continues to monitor changes in the global economy that could impact future operating results of its operating units. If the businesses acquired fail to meet its expectations set out at the time of the acquisition or if the market capitalization of the Company s stock trades at a depressed level for an extended period of time, the Company could incur significant impairment charges which could negatively impact its financial results.

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Stock-based Compensation. In accordance with FASB 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 and rights to purchase shares under employee stock purchase plans, based on their estimated fair value and recognize the costs in the financial statements on an accelerated basis.

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 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 our 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, develop, manufacture and market a broad range of high-performance, mixed-signal semiconductor solutions for the advanced communications, computing and consumer industries. This is achieved by developing detailed systems-level knowledge, and applying our fundamental semiconductor heritage in high speed serial interfaces, timing, switching and memory to create solutions to compelling technology problems faced by customers.

Our reportable segments include the following:

- Networking segment (which includes NSEs, switching solutions, pre-processing switches, FIFOs, multi-port products, and integrated communications processors);
- Timing and Memory Interface segment (which includes clock generation and distribution products, high-performance server memory interfaces and other timing solution products); and
- Standard Products and Other segment (which includes high-speed SRAM, military applications, digital logic, telecommunications, PC audio and video products).

During Q2 2009, our CEO announced a re-organization of its business units into five operating segments. The re-organization is being performed to reduce costs, improve margin and align resources with the needs of each segment and also with the manner that our products are marketed and sold. The re-organization is expected to be fully implanted in Q3 2009. As a result, we are currently evaulating its reportable business segments in accordance with SFAS 131.

Revenues

	Three months ended		Six months ended	
(in thousands)	**Sept. 28, 2008**	**Sept. 30, 2007**	**Sept. 28, 2008**	**Sept. 30, 2007**
Networking	$ 49,388	$ 51,141	$ 100,687	$ 105,643

Timing and Memory Interface	118,984	118,879	224,948	229,299
Standard Products and Other	32,169	34,107	63,114	68,201
Total	$ 200,541	$ 204,127	$ 388,749	$ 403,143

Networking Segment

Revenues in our Networking segment decreased $1.8 million, or 3% in Q2 2009 as compared to Q2 2008. Revenues within our IP-Co Processor division decreased approximately 17%, primarily related to decreased consumption at our largest customer in one product family, offset by growth in new platforms at customers in the Asia Pacific region. Partially offsetting this decrease, revenues within our Switching Solutions division increased approximately 14% due to the growth in our PCI Express products which outpaced the decline in our legacy products. In addition, revenues within our Flow Control Management division increased approximately 9% due to increased sales of low power dual port products. The overall decrease in revenues in this segment was driven by lower average selling price, partially offset by increased unit sales, primarily related to our Flow Control Management division.

Timing and Memory Interface Segment

Revenues in our Timing and Memory Interface segment increased slightly in Q2 2009 as compared to Q2 2008. Revenues within our Netcom division increased approximately 32% as we continue to have success with our timing products in the communications markets. Partially offsetting this increase, revenues within our PC Clock (PCC) and Microclock (MCC) divisions decreased approximately 13%, primarily attributable to the weakness in the computing and non-gaming consumer markets. Revenues within our Memory Interface division decreased approximately 3% in Q2 2009 compared to Q2 2008, primarily due to the continuously decreased sale of DDR1 & DDR2 based products. The overall decrease in revenues in this segment was driven by lower unit sales, as our average selling price were fairly steady due to the mix of products sold.

Standard Products and Other Segment

Revenues in our Standard Products and Other segment decreased $1.9 million, or 6% in Q2 2009 as compared to Q2 2008 as our PC Audio revenues were negatively impacted by some customer/platform transition issues from late fiscal 2008. In addition, revenues from our digital logic products declined significantly in Q2 2009. Partially offsetting these decreases was an increase in our military business when compared to the same period one year ago. The overall decrease in revenues in this segment was driven by a less favorable mix of products sold.

Revenues (recent trends and outlook). We currently anticipate overall revenues to decrease significantly in Q3 2009, primarily due to the overall weakness in the economy and semiconductor industry.

Revenues in Asia Pacific (APAC), North America, Japan and Europe accounted for 66%, 18%, 8% and 8%, respectively, of our consolidated revenues in Q2 2009 compared to 57%, 27%, 9%, and 7%, respectively, in Q2 2008. The Asia Pacific region continues to be our strongest region as many of our largest customers utilize manufacturers in the APAC region.

Revenues (first six months of fiscal 2009 compared to first six months of fiscal 2008). Our year-to-date revenues through Q2 2009 were $388.7 million, a decrease of $14.4 million, or 4% when compared to the same period one year ago. Revenues in our Networking segment decreased $5.0 million, or 5%, driven by decreased sales in our IP-Co Processor division resulting from decreased demand in communication end markets. Revenues in our Timing and Memory segment decreased $4.4 million, or 2%, due to weakness in our computing and non-gaming consumer markets, partially offset by the growth in our PCI-express products. Finally, revenues in our Standard and Other Segment decreased $5.1 million, or 7%, primarily from decreased demand for our PC Audio products.

Included in the caption *Deferred income on shipments to distributors* includes amounts related to shipments to certain distributors for which revenue is not recognized until our product has been sold by the distributor to an end customer. The components of September 28, 2008 and March 30, 2008 are as follows:

(in 000 s)	**Sept. 28, 2008**	**March 30, 2008**
Gross deferred revenue	$ 28,648	$ 30,741
Gross deferred costs	6,271	6,429
Deferred income on shipments to distributors	$ 22,377	$ 24,312

The gross deferred revenue represents the gross value of shipments to distributors at the list price billed to the distributor less any price protection credits provided to them in connection with reductions in list price while the products remain in their inventory. The amount ultimately recognized as revenue will be lower than this amount as a result of ship from stock pricing credits which are issued in connection with the sell through of our products to end customers. The gross deferred costs represent the standard costs of products we sell to the distributors.

Gross Profit

	Three months ended		Six months ended	
	Sept. 28, 2008	**Sept. 30, 2007**	**Sept. 28, 2008**	**Sept. 30, 2007**
Gross Profit	$ 87,153	$ 88,190	$ 171,612	$ 173,078
Gross Margin	43%	43%	44%	43%

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Gross profit (Q2 2009 compared to Q2 2008). Gross profit for Q2 2009 was $87.2 million, a decrease of $1.0 million compared to Q2 2008. Gross margin was 43% for Q2 2009 and Q2 2008. The decrease in gross profit was primarily driven by a $2.6 million increase in inventory excess and obsolescence reserves due to higher levels of inventory compared to forecasted demand for such products. The increase in inventory reserves was partially offset by improved utilization of our fabrication facility and a shift in the mix of products sold. The utilization of our manufacturing capacity in Oregon increased from approximately 59% of equipped capacity in Q2 2008 to 79% of equipped capacity in Q2 2009. Our gross margin benefited from a favorable mix of products sold during Q2 2009 compared to Q2 2008, as sales to the higher margin communication and networking end markets have grown, while our lower margin businesses declined year over year. In addition, our gross margin benefited from a $1.0 million decrease in intangible asset amortization as a portion is being amortized on an accelerated method, resulting in decreased amortization over time.

Gross Profit (first six months of fiscal 2009 compared to the first six months of fiscal 2008). Our year to date gross profit through Q2 2009 was $171.6 million, a decrease of $1.5 million, or 1% compared to the same period one year ago. Our gross margin for the six months of fiscal 2009 was 44% compared to 43% for the same period a year ago. The decrease in gross profit was primarily driven by lower revenue and higher inventory reserves. The increase in gross margin was primarily due to a $1.9 million decrease in the amortization of intangible asset and improved utilization of our Oregon manufacturing facility. Offsetting these increases, our gross margin was negatively impacted by higher inventory reserves. In addition, we recorded $0.7 million of severance costs related to a reduction in force initiated in the first six months of fiscal 2009 for our manufacturing workforce in Penang, Malaysia.

Operating Expenses

The following table shows our operating expenses:

	Three months ended				Six months ended			
	Sept. 28, 2008	**% of Net Revenues**	**Sept. 30, 2007**	**% of Net Revenues**	**Sept. 28, 2008**	**% of Net Revenues**	**Sept. 30, 2007**	**% of Net Revenues**
Research and Development	$ 41,532	21%	$ 41,876	21%	$ 85,151	22%	$ 86,575	21%
Selling, General and Administrative	$ 32,211	16%	$ 43,615	21%	$ 65,176	17%	$ 88,729	22%

Research and development (Q2 2009 compared to Q2 2008). R&D expenses decreased $0.3 million, or 1%, to $41.5 million in Q2 2009 compared to Q2 2008. The decrease was primarily attributable to a $1.5 million reduction in stock based compensation expense as stock options granted in connection with the ICS merger have been substantially amortized and lower valuation of new grants compared to Q2 2008. In addition, performance related bonuses decreased $0.6 million. We also benefited from a $ 0.4 million loss in the participant portfolio of the executive deferred compensation primarily due to sequential declines in the stock market. Partially offsetting these decreases were higher core labor expenses as a result of focal salary increases. In addition, we recorded $0.5 million of severance costs related to a reduction in force initiated in Q2 2009. Finally, insurance expenses increased $0.5 million.

Research and development (first six months of fiscal 2009 compared to the first six months of fiscal 2008). Our year to date R&D expenses through Q2 2009 were $85.2 million, a decrease of $1.4 million, or 2% compared to the same period one year ago. The decrease was primarily attributable to a $3.0 million decrease in stock based compensation expense and a $1.3 million decrease in performance related bonuses. In addition, we benefited from a $0.4 million loss in the participant portfolio of the executive deferred compensation, compared to a charge of $ 0.3 million in the first six months of fiscal 2008. Finally, our equipment expenses decreased $0.7 million primarily attributable to a decrease in depreciation expense. Offsetting these decreases, our core labor expense increased $2.3 million as a result of focal increases. In addition, our indirect materials expenses and outside services expenses increased $0.3 million and $0.6 million, respectively, primarily related to higher research and development material costs attributable to increased product development activities and launch of new designs. Finally, insurance expenses increased $0.8 million.

We currently anticipate that R&D spending in Q3 2009 will increase slightly as compared to Q2 2009.

Selling, general and administrative (Q2 2009 compared to Q2 2008). SG&A expenses decreased $11.4 million, or 26% in Q2 2009 compared to Q2 2008. The decrease was primarily attributable to an $8.3 million decrease in the amortization of intangible assets related to the ICS merger, a portion of which is being amortized on an accelerated method, resulting in decreased amortization expense over time. In addition, employee-related expenses decreased $1.9 million, primarily attributable to a $1.7 million decrease in stock based compensation expense as a result of lower valuation of new grants compared to Q2 2008. Finally, we experienced a $0.5 million decrease in sales representative commissions attributable to lower revenues in Q2 2009 and $0.6 million of lower outside services spending related to various consulting services.

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Selling, General and Administrative (first six months of fiscal 2009 compared to the first six months of fiscal 2008). Our year to date SG&A expenses through Q2 2009 were $65.2 million, a decrease of $23.6 million, or 27% compared to the same period one year ago. The decreases were primarily attributable to a $17.6 million reduction of intangible asset amortization, a portion of which is being amortized on an accelerated method, a decrease of $3.5 million in stock-based compensation expense, and lower performance related bonuses. Sales representative commissions decreased $1.1 million due to decreased sales. Finally, our outside services spending primarily related to consulting fees decreased $1.3 million.

We currently anticipate that SG&A spending in Q3 2009 will increase slightly as compared to Q2 2009.

Interest income and other, net. Changes in interest income and other, net are summarized as follows:

	Three months ended		Six months ended	
(in thousands)	**Sept. 28, 2008**	**Sept. 30, 2007**	**Sept. 28, 2008**	**Sept. 30, 2007**
Interest income	$ 1,616	$ 3,995	$ 3,210	$ 7,965
Other income (expense), net	(1,232)	451	(1,361)	2,333
Interest income and other, net	384	4,446	1,849	10,298

Interest income decreased $2.4 million in Q2 2009 compared to Q2 2008. The decrease is primarily attributable to less favorable interest rates and lower cash balances compared to the same period one year ago as a result of stock repurchases. Other income, net decreased $1.7 million in Q2 2009 compared to Q2 2008. The decrease is primarily attributable to additional $0.8 million loss on our investment portfolio of marketable equity securities related to deferred compensation arrangements in Q2 2009 compared to Q2 2008 and a currency loss of $0.6 million in Q2 2009 while we recorded a gain of $ 0.2 million in Q2 2008. In addition, we recognized a gain of $0.3 million upon the sale of our equity investment in Maxtek in Q2 2008, while we did not hold such shares in fiscal 2009.

Interest income decreased $4.8 million in the first six months of fiscal 2009 compared to the first six months of fiscal 2008. The decrease is primarily attributable to less favorable interest rates and lower cash balances compared to the same period one year ago as a result of stock repurchases. Other income, net decreased $3.7 million in the first six months of fiscal 2009 as compared to the first six months of fiscal 2008. The decrease is primarily attributable to a loss of $0.9 million on our investment portfolio of marketable equity securities related to deferred compensation arrangements while we recorded a gain of $ 0.4 million in the same period a year ago. We incurred an additional currency loss of $0.7 million, compared to the same period a year ago. In addition, we recorded a gain of $1.7 million upon the sale of our equity investment in Maxtek during the first six months of fiscal 2008, while we did not hold such shares in fiscal 2009.

Provision for income taxes. We recorded an income tax provision of $2.1 million in Q2 2009, a decrease of $0.3 million or 11%, compared to Q2 2008. The decrease is primarily attributable to lower tax rates in Singapore and Malaysia as a result of tax incentives obtained over the last three quarters, offset by foreign income in other regions, withholding taxes and U.S. federal and state taxes. The provision for income taxes in Q2 2008 primarily reflects estimated foreign income and withholding taxes and estimated U.S. federal and state taxes.

We recorded an income tax provision of $2.3 million for the six months ended Q2 2009, a decrease of $2.1 million, or 48% compared to the six months ended Q2 2008. The decrease is primarily related to a tax holiday certificate we received from Malaysian government which allows us to obtain full tax exemption on qualified statutory income for a period of 10 years. As a result, we reversed our prior quarters accruals, which were recorded at a full rate due to the uncertainty of the outcome. The provision for income taxes in the six months ended Q2 2009 primarily reflects estimated foreign income and withholding taxes and estimated U.S. Federal state taxes. The income tax provision for the six months ended Q2 2008 primarily reflects estimated foreign income and withholding taxes, estimated U.S. federal and state taxes.

As of September 28, 2008, 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 September 28, 2008, we were subject to examination in the U.S., various state and foreign jurisdiction for the fiscal years beginning with 2002.

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Liquidity and Capital Resources

Our cash and available for sale investments were $307.5 million at September 28, 2008, an increase of $68.3 million compared to March 30, 2008. The increase is primarily attributable to $106.2 million in cash from operations, offset by the repurchase of approximately $37.4 million of common stock. We had no outstanding debt at September 28, 2008 or March 30, 2008.

Cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. We maintain the cash and cash equivalents with reputable major financial institutions. Deposits with these banks may exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits or similar limits in foreign jurisdictions. These deposits typically may be redeemed upon demand and, therefore, bear minimal risk. In addition, a significant portion of cash equivalents is concentrated in money market funds which has either elected to participate in the US Treasury s Temporary Guarantee Program for Money Market Funds, or has invested in US government treasuries only. While we monitor daily the cash balances in our operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit fails or is subject to other adverse conditions in the financial markets. As of today, we have not experienced any loss or lack of access to our invested cash or cash equivalents in its operating accounts; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

All of our available-for-sale investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. This determination requires significant judgment. For publicly traded investments, impairment is determined based upon the specific facts and circumstances present at the time, including a review of the closing price over the length of time, general market conditions and our intent and ability to hold the investment for a period of time sufficient to allow for recovery. Although we believe the portfolio continues to be comprised of sound investments due to high credit ratings and government guarantees of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of its investments and their liquidity. We continually monitors the credit risk in our portfolio and future developments in the credit markets and makes appropriate changes to our investment policy as deemed necessary. We did not record any impairment charges related to its investments in Q2 2009.

We recorded net income of $20.8 million in the first six months of fiscal 2009 compared to a net income of $ 3.7 million in the first six months of fiscal 2008. Net cash provided by operating activities increased $3.0 million, or 3% to $106.2 million in the first six months of fiscal 2009 compared to $103.2 million in the first six months of 2008. A summary of the significant non-cash items included in net income are as follows:

Amortization of intangible assets was $41.5 million in the first six months of fiscal 2009, compared to $61.0 million in the first six months of fiscal 2008. The decrease is primarily associated with intangible assets related to our merger with ICS, a portion of which is being amortized on an accelerated method, resulting in decreased amortization expense over time.

Stock-based compensation was $16.8 million in the first six months of fiscal 2009, compared to $23.6 million in the first six months of fiscal 2008. The decrease is due to a portion of the ICS merger grants being fully amortized in fiscal 2008 and lower valuation of new grants as compared to Q2 2008.

Depreciation expense was $13.3 million in the first six months of fiscal 2009 compared to $15.8 million in the first six months of fiscal 2008. The decrease is primarily attributable to lower depreciation expense for our manufacturing equipment as a large portion of these assets are now fully depreciated and our continuous efforts to control fixed costs.

We recorded a $1.7 million gain in connection with the sale of our equity investment in Maxtek in the first six months of fiscal 2008. We recorded no such charges in the first six months of fiscal 2009.

Net cash provided by working capital-related items increased $12.8 million, from a net $0.6 million source of cash in the first six months of fiscal 2008 to net $13.4 million cash provided in the first six months of fiscal 2009. A summary of significant working capital items providing relatively more cash in the first six months of fiscal 2009 included:

A decrease in prepayments and other assets of $8.6 million in the first six months of fiscal 2009 compared to an increase of $6.9 million in the first six months of fiscal 2008. The decrease in fiscal 2009 is primarily attributable to the receipts of interest from the IRS for the tax settlement related to the ICS pre-acquisition income tax returns and VAT refund from the foreign government along with the normal recurring prepaid amortization. The fiscal 2008 increase is primarily attributable to the purchase of approximately $7.5 million of software design tool in Q1 2008 and $4.0 million of software design tools and $1.2 million of supply chain management software in Q2 2008, partially offset by the amortization of prepaid maintenance contracts.

An increase in accrued compensation of $0.6 million in the first six months of fiscal 2009 compared to a decrease of $2.8 million in the first six months of fiscal 2008. The increase in fiscal 2009 is primarily attributable to net $1.0 million increase in employee performance-related bonuses, partially offset by a $0.4 million decrease in our accrued salaries and wages. The decrease in fiscal 2008 is primarily attributable to the year end payout of employee performance-related bonuses in May 2007, partially offset by additional accruals related to our fiscal 2008 bonus program.

- An increase in deferred income on shipments to distributors of $1.9 million in the first six months of fiscal 2009 compared to an increase of $4.5 million in the first six months of fiscal 2008. The increase in deferred income on shipments to distributors is attributable to due to higher inventory levels in the channel.

The factors listed above were partially offset by other working capital items that used relatively more cash in the first six months of fiscal 2009:

- An increase in accounts payable of $0.3 million in the first six months of fiscal 2009 compared to an increase of $4.2 million in the first six months of fiscal 2008. The increase in account payable in the first six months of fiscal 2009 is attributable to the timing of payments. The increase in fiscal 2008 is primarily related to increases in the volumes of foundry and subcontract activity to support the Company s increased business activities during that period.

- An increase in other accrued and long term liability of $1.5 million in the first six months of fiscal 2009, compared to an increase of $5.1 million in the first six months of fiscal 2008. The increase in the first six months of fiscal 2009 is primarily attributable to increases in property tax accrual, severance costs accrual related to a reduction in force initiated in Q2 2009 and other miscellaneous accruals, partially offset by a payment of $1.2 million related to the executive transition agreement signed with our former CEO. The increase in fiscal 2008 is due to an increase in outstanding but uncleared vendor disbursements at the end of the period, partially offset by decreased royalty accruals.

Net cash used for investing activities in the first six months of fiscal 2009 was $22.8 million in Q2 2009, compared to net cash provided of $7.9 million in the first months of fiscal 2008. In the first six months of fiscal 2009, net cash used to purchase short-term investments were $14.4 million and the purchase of capital equipment totaled approximately $8.4 million. In the first six months of fiscal 2008, net proceeds from the sale and maturity of short-term investments were $15.5 million, partially offset by the purchase of approximately $7.6 million of capital equipment.

Net cash used for financing activities in the first six months of fiscal 2009 was $28.5 million, compared to $106.8 million in the first six months of fiscal 2008. During the first six months of fiscal 2009, we repurchased approximately $37.4 million of common stock, offset by proceeds of approximately $8.9 million from the exercise of employee stock options and the issuance of stock under our employee stock purchase plan. In the first six months of fiscal 2008, we repurchased approximately $138.7 million of common stock, offset by proceeds of approximately $31.9 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 $25.0 million during fiscal 2009 to be financed through cash generated from operations and existing cash and investments. This estimate includes $8.4 million in capital expenditures in the first six months of fiscal 2009.

We believe that existing cash and investment balances, together with cash flows from operations, will be sufficient to meet our working capital and capital expenditure needs for at least the next twelve months.

Off-balance Sheet Arrangements

As of September 28, 2008, we had no off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4).

Recent Accounting Pronouncements

In April 2008, the FASB issued FASB Staff Position (FSP) 142-3, *Determination of the Useful Life of Intangible Assets or FSP FAS 142-3* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the intangible asset. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of the pending adoption of FSP 142-3 on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). The standard requires additional quantitative disclosures (provided in tabular form) and qualitative disclosures for derivative instruments. The required disclosures include how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows; relative volume of derivative activity; the objectives and strategies for using derivative instruments; the accounting treatment for those derivative instruments formally designated as the hedging instrument in a hedge relationship; and the existence and nature of credit-related contingent features for derivatives. SFAS 161 does not change the accounting treatment for derivative instruments. SFAS 161 is effective in the first quarter of fiscal year 2010. We are currently evaluating the impact of the pending adoption of SFAS 161 on our consolidated financial statements.

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In February 2008, the FASB issued FSP 157-1, *Application of FASB Statement 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP 157-1) and FSP 157-2, Effective Date of FASB Statement 157 (FSP 157-2). FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2010. We are currently evaluating the impact that these provisions of SFAS 157 will have on our consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of fiscal year 2010.

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 pre-acquisition 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. The adoption of SFAS 141(R) will change our accounting treatment for business combinations on a prospective basis beginning in the first quarter of fiscal year 2010.

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. Currently, we have elected not to adopt the fair value option under this pronouncement.

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. We adopted this standard in the first quarter of fiscal 2009. See Fair Value Measurements in Note 8 for further discussion.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our interest rate risk relates primarily to our short-term investments of $121.4 million as of September 28, 2008. 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 September 28, 2008, the Company s cash and investment portfolio was highly concentrated in securities with same day liquidity and at the end of fiscal 2008, a substantial majority of securities in our investment portfolio had maturities of less than two years. Although a hypothetical 10% change in interest rates could have a material effect on the value of our investment portfolio at a given time, we normally hold these investments until maturity, which results in no realized impact on results of operations or cash flows. We do not currently use derivative financial instruments in our investment portfolio. In addition, we maintain assets in a separate trust that is invested in corporate owned life insurance intended to substantially offset the liability under the deferred compensation plan. The fair value of assets, determined based on the value of the underlying mutual funds was $11.9 million as of September 28, 2008. The deferred compensation obligation under the arrangement is classified in Other Long-Term Liabilities within the Consolidated Balance Sheet. As of September 28, 2008, the fair value of the obligation was $13.0 million.

The current financial markets are extremely volatile and there has been a tightening of the credit markets, which could negatively affect the value and liquidity of the investments in our portfolio. See Note 8, Fair Value Measurement, to the Condensed Consolidated Financial Statements in Part I, Item 1; Management s Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, in Part I, Item 2; and Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for a description of recent market events that may affect the value and liquidity of the investments in our portfolio that we held at September 28, 2008.

At September 28, 2008, we had no outstanding debt.

We are exposed to foreign currency exchange rate risk as a result of international sales, assets and liabilities of foreign subsidiaries, local operating expenses of our foreign entities and capital purchases denominated in foreign currencies. We may use derivative financial instruments to help manage our foreign currency exchange exposures. We do not enter into derivatives for speculative or trading purposes. We performed a sensitivity analysis as of September 28, 2008 and determined that, without hedging the exposure, a 10% change in the value of the U.S. dollar would result in an approximate 0.1% impact on gross profit margin percentage, as we operate manufacturing facilities in Malaysia and Singapore, and an approximate 0.4% impact to operating expenses (as a percentage of revenue) as we operate sales offices in Japan and throughout Europe and design centers in China and Canada. At September 28, 2008 we had no outstanding foreign exchange contracts.

We did not have any currency exposure related to any outstanding capital purchases as of September 28, 2008.

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 September 28, 2008, 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 Interim 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 Interim 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 controls 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.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 24, 2006, we were served with a civil antitrust complaint filed by Reclaim Center, Inc., et. al. as plaintiffs in the U.S. District Court for the Northern District of California against us 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. We were not named as a defendant in either complaint. Pursuant to tolling agreements with the indirect and direct purchaser plaintiffs, we have agreed that the statute of limitations will be tolled until January 10, 2009 as to potential claims against us.

In addition, on May 14, 2007, we were served with a Civil Investigative Demand from the State of Florida concerning SRAM products. We and the State of Florida have reached an agreement that suspends its obligation to respond to the CID. The agreement also tolls the statute of limitations until January 21, 2009 as to potential claims against us. Complaints concerning SRAM products have also been filed against us 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. On March 19, 2008, we entered into a tolling agreement with the plaintiffs in the Ontario, British Columbia and Quebec actions. On March 25, 2008, the Ontario Superior Court of Justice entered an order that discontinued the action in Ontario against us without prejudice. On May 2, 2008, a Notice of Discontinuance was filed by the plaintiff in the Supreme Court of British Columbia, resulting in a discontinuation of the action against us without prejudice. On August 28, 2008, the court in Quebec issued an order of discontinuance with respect to us. We 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 our business, results of operations, financial condition or cash flows. We intends to vigorously defend these actions.

In April 2008, LSI Corporation and its wholly owned subsidiary Agere Systems Inc. (collectively LSI) instituted an action in the United States International Trade Commission (ITC), naming us and 17 other respondents in an action seeking an exclusion preventing importation into the U.S. of semiconductor integrated circuit devices and products made by methods alleged to infringe an LSI patent on the use of tungsten metallization in semiconductor manufacturing. LSI also filed a companion case against the same parties in the U.S. District Court for the Eastern District of Texas seeking an injunction and damages in an unspecified amount relating to such alleged infringement. Since the initiation of both actions, five other parties have been named as respondents/defendants in the respective actions. The action in the U.S. District Court has been stayed pending the outcome of

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the ITC action. Although no hearing date has been set yet in the ITC action, it is expected that a hearing will occur in early to mid calendar year 2009. We 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 our business, results of operations, financial condition or cash flows. We intends to vigorously defend the litigation.

We are currently a party to various other legal proceedings, claims, disputes and litigation arising in the ordinary course of business. Based on our own investigations, we do not believe the ultimate outcome of its current legal proceedings, individually and in the aggregate, will have a material adverse effect on its financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of such litigation and investigations, should the outcome of these actions be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

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 net income of $34.2 million in fiscal 2008, net losses of $7.6 million and $81.7 million in fiscal 2007 and fiscal 2006, respectively. 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;
- Changes in the demand for and mix of products sold and in the markets we and our customers serve;
- Competitive pricing pressures;
- The success and timing of new product and process technology announcements and introductions from us or our competitors;
- Potential loss of market share among a concentrated group of customers;
- Difficulty in attracting and retaining key personnel;
- Difficulty in predicting customer product requirements;
- Production difficulties and interruptions caused by our complex manufacturing and logistics operations;
- Difficulty in managing fixed costs of our manufacturing capability in the face of changes in demand;

Reduced control over our manufacturing and product delivery as a result of our increasing reliance on subcontractors, foundry and other manufacturing services;

Costs and other issues relating to future acquisitions;

Availability and costs of raw materials from a limited number of suppliers;

Political and economic conditions in various geographic areas;

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

Legislative, tax, accounting, or regulatory changes or changes in their interpretation.

Global Market and Economic Conditions, including those related to the credit markets, may adversely affect our business and results of operations.

In the U.S., recent market and economic conditions have been unprecedented and challenging with tighter credit conditions and slower growth through Q2 2009. For the six-month period ended September 28, 2008, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, a declining real estate market in the U.S. and added concerns fueled by the federal government interventions in the U.S. financial and credit markets have contributed to instability in both U.S. and international capital and credit markets and diminished expectations for the U.S. and global economy. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment have in recent weeks subsequent to the end of the quarter contributed to volatility of unprecedented levels and an economic slowdown.

As a result of these market conditions, the cost and availability of capital and credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. If these market conditions continue, they may limit our ability, and the ability of our customers, to timely borrow and access the capital and credit markets to meet liquidity needs, and resulting in an adverse effect on our financial condition and results of operations. The economic slowdown may lead to reduced customer spending for semiconductors and reduced demand for our products which would have a negative impact on revenue, gross profit and results of operations. This may drive the semiconductor industry to reduce product pricing, which would also have a negative impact on revenue, gross profit and results of operations. In addition, the semiconductor industry has traditionally been highly cyclical and has often experienced significant downturns in connection with, or in anticipation of, a deterioration in general economic conditions and we cannot accurately predict how severe and prolonged any downturn might be.

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

Demand for our products depends primarily on demand in the communications, personal computer (PC), and consumer markets which can be significantly impacted by concerns over macroeconomic issues. Our product portfolio consists predominantly of semiconductor solutions for the communications, PC, and consumer markets. Our strategy and resources will be directed at the development, production and marketing of products for these markets. The markets for our products will depend on continued and growing demand for communications equipment, PCs and consumer electronics. These end-user markets may experience changes in demand that could adversely affect our business and could be greater in periods of economic uncertainty. To the extent demand for our products or markets for our products do not grow, our business could be adversely affected.

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

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

We are dependent on a concentrated group of customers for a significant part of our revenues. A large portion of our revenues depends on sales to a limited number of customers. If these relationships were to diminish, or if these customers were to develop their own solutions or adopt a competitor s solution instead of buying our products, our results could be adversely affected. For example, any diminished relationship with Cisco System, Inc. 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 20% of our annual revenues.

Many of our end-customer OEMs have outsourced their manufacturing to a concentrated group of global EMSs and ODMs who then buy product directly from us or from our distributors on behalf of the OEM. These EMSs and ODMs have achieved greater autonomy in the design win, product qualification and product purchasing decisions, especially for commodity products. Competition for the business of these EMSs and ODMs is intense and there is no assurance we can remain competitive and retain our existing market share with these customers. If these companies were to allocate a higher share of commodity or second-source business to our competitors instead of buying our products, our results would be adversely affected. Furthermore, as EMSs and ODMs have represented a growing percentage of our overall business, our concentration of credit and other business risks with these customers has increased. Competition among global EMSs and ODMs is intense as they operate on extremely thin margins. If any one or more of these global EMSs or ODMs 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 25% of our revenues for fiscal 2008 and represented approximately 30% of our gross accounts receivable as of March 30, 2008. If our business relationships were to diminish or any 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, 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.

We are exposed to potential impairment charges on certain assets. Over the past several years, we have made several acquisitions. As a result of these acquisitions, we have over $1 billion of goodwill and over $163 million of intangible assets on our balance sheet as of September 28, 2008. If the businesses acquired fail to meet our expectations set out at the time of the acquisition or if the market capitalization of the Company s stock trades at a depressed level for an extended period of time, we could incur significant impairment charges which could negatively impact our financial results. In addition, from time to time, we have made 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.

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

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

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

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

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A portion of our manufacturing capability is relatively fixed in nature. Although we have reduced our manufacturing cost structure substantially over the past several 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 could 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 revenue and gross margins we report.

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

We 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 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 have and may continue to 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, 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 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, delays and/or cost overruns;

The difficulty in forecasting long-term costs and schedules and the potential obsolescence of products related to long-term fixed price contracts; and

The need to transfer and obtain security clearances and export licenses, as appropriate.

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 six months of fiscal 2009**	**Twelve months of fiscal 2008**	**Twelve months of fiscal 2007**
Americas	19%	28%	30%
Asia Pacific	64%	56%	47%
Japan	9%	9%	13%
Europe	8%	7%	10%
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;

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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, as much of our revenues are generated outside the United States, a significant portion of our cash and investment portfolio accumulates offshore. At September 28, 2008, we had cash and investments of approximately $196 million invested overseas in accounts belonging to various IDT foreign operating entities. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies, and all offshore balances are exposed to local political, banking, currency control and other risks. In addition, these amounts may be subject to tax and other transfer restrictions.

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). 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.

Tax benefits we receive may be terminated or reduced in the future, which would increase our costs. As a result of our international manufacturing operations, a significant portion of our worldwide profits are in jurisdictions outside the United States, including Bermuda, Singapore and Malaysia which offer significant reductions in tax rates. These lower tax rates allow us to record a relatively low tax expense on a worldwide basis. Under current Bermuda law, we are not subject to tax on our income and capital gains. If the Internal Revenue Service were to change the law regarding deferral of manufacturing profits, this would have a significant impact to financial results.

In addition, the Economic Development Board of Singapore granted Pioneer Status to our wholly-owned subsidiary in Singapore in 1997. Initially, this tax exemption was to expire after ten years, but the Economic Development Board in January 2008 agreed to extend the term to twelve years. As a result, a significant portion of the income we earn in Singapore during this period will be exempt from the Singapore income tax. We are required to meet several requirements as to investment, headcount and activities in Singapore to retain this status. If our Pioneer Status is terminated early because we do not continue to meet these requirements, or for other reasons beyond our control, our financial results could be negatively impacted. Also, in Malaysia, we have been granted a tax holiday related to certain profits. If we are unable to renew this tax holiday when it expires, we will be required to start paying income tax at the statutory tax rate on our operations, which will adversely impact our effective tax rate.

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

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 this section.

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 issued requirements and regulations and continue to develop 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.

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

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 second quarter of fiscal 2009:

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)
June 30, 2008 July 27, 2008				
July 28, 2008 August 24, 2008	496,500	$ 10.46	496,500	$ 112,713,955
August 25, 2008 September 28, 2008	950,000	$ 10.43	950,000	$ 102,806,940
Total	1,446,500	$ 10.44	1,446,500	

(1) On January 18, 2007, the Company s Board of Directors initiated a $200 million share repurchase program. During fiscal 2008, the Company s Board of Directors approved a $200 million expansion of the share repurchase program to a total of $400 million. In fiscal 2008, the Company repurchased approximately 28.9 million shares at an average price of $11.60 per share for a total purchase price of $334.8 million. On April 30, 2008, the Company s Board of Directors approved an additional $100 million expansion of the share repurchase program to a total of $500 million. During Q1 2009, the Company repurchased approximately 2.1 million shares at average price of $10.71 per share for a total purchase price of $22.3 million. During Q2 2009, the Company repurchased approximately 1.4 million shares at average price of $10.44 per share for a total purchase price of $15.1 million. Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders equity. As of September 28, 2008, approximately $103 million was available for future share repurchases. The program is intended to reduce the number of outstanding shares of Common Stock to increase stockholder value.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On September 12, 2008, we held our 2008 Annual Meeting of Stockholders at our corporate headquarters, located at 6024 Silver Creek Valley Road, San Jose, California, 95138. On July 23, 2008, the record date, 169,897,452 shares of our Common Stock were outstanding and entitled to be voted. Tabulated proxies at the meeting represented 160,592,604 shares, or 94.5% of the total eligible to vote as of the record date. The results of the voting on the matters submitted to the stockholders are as follows:

Proposal I: Election of directors.

Name:	Votes For	Withheld
John Schofield	156,577,657	4,014,947
Lew Eggebrecht	147,189,795	13,402,809
Gordon Parnell	157,362,210	3,230,394
Ron Smith, Ph.D.	156,580,722	4,011,882
Nam P. Suh, Ph.D.	156,561,640	4,030,964
Theodore I, Tewksbury III, Ph.D.	157,361,069	3,231,535

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Proposal II: Approval of the amendment to the Company s 2004 Equity Plan to increase the number of shares reserved for issuance thereunder from 24.5 million shares to 28.5 million shares.

Votes For	Against	Abstained	No Vote
117,490,816	27,580,437	83,152	15,438,199

Proposal III: To ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending March 29, 2009.

Votes For	Against	Abstained
159,662,304	875,076	55,224

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) The following exhibits are filed herewith:

Exhibit number	Description
3.2	Amended and Restated Bylaws, as amended and restated effective October 27, 2008 (1)
10.1	Executive Compensation Agreement, dated September 23, 2008, by and between Registrant and its Chief Financial Officer, Richard D. Crowley, Jr. (2)
31.1	Certification of Chief Executive Officer as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, dated November 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 November 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, and 18 U.S.C. Section 1350 dated November 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 and 18 U.S.C. Section 1350 dated November 6, 2008.

(1) Incorporated by reference from Exhibit 3.1 to our Form 8-K filed October 28, 2008 (File No. 000-12695)

(2) Incorporated by reference from Exhibit 10.1 to our Form 8-K filed September 23, 2008 (File No. 000-12695)

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SIGNATURES

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

	INTEGRATED DEVICE TECHNOLOGY, INC.
Date: November 6, 2008	/S/ THEODORE L. TEWKSBURY III Theodore L.Tewksbury III *President and Chief Executive Officer*
Date: November 6, 2008	/S/ RICHARD D. CROWLEY, JR. Richard D. Crowley, Jr. *Vice President, Chief Financial Officer* (*Principal Financial and Accounting Officer)*

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