

**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 July 1, 2018 OR
- // TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**Commission File No. 0-12695**

**INTEGRATED DEVICE TECHNOLOGY, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**DELAWARE**

(State or Other Jurisdiction of Incorporation or Organization)

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

**94-2669985**

(I.R.S. Employer Identification No.)

**95138**  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
	(Do not check if a smaller reporting company)	Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of outstanding shares of the registrant's Common Stock, \$.001 par value, as of August 3, 2018 was approximately 129,347,795.

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**INTEGRATED DEVICE TECHNOLOGY, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
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**PART I. FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

**INTEGRATED DEVICE TECHNOLOGY, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>(Unaudited, in thousands)</i>	<b>July 1, 2018</b>	<b>April 1, 2018</b>
Assets		
Current assets:		
Cash and cash equivalents	\$ 148,071	\$ 136,873
Short-term investments	198,188	222,026
Accounts receivable, net	122,977	108,779
Inventories	66,177	68,702
Prepayments and other current assets	12,193	12,734
Total current assets	547,606	549,114
Property, plant and equipment, net	86,935	86,845
Goodwill	420,117	420,117
Intangible assets, net	170,899	180,781
Deferred tax assets	9,355	11,764
Other assets	48,809	61,910
Total assets	\$ 1,283,721	\$ 1,310,531
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 33,579	\$ 41,070
Accrued compensation and related expenses	28,679	44,002
Current portion of bank loan	1,980	2,000
Other accrued liabilities	32,493	26,524
Total current liabilities	96,731	113,596
Deferred tax liabilities	11,516	10,221
Long-term income tax payable	23,573	25,034
Convertible notes	303,166	299,551
Long-term bank loan, net	190,803	191,073
Other long-term liabilities	27,369	25,684
Total liabilities	653,158	665,159
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock: \$0.001 par value: 10,000 shares authorized; no shares issued	—	—
Common stock: \$0.001 par value: 350,000 shares authorized; 129,677 and 129,531 shares outstanding as of July 1, 2018 and April 1, 2018, respectively	130	130
Additional paid-in capital	2,773,242	2,752,784
Treasury stock at cost: 130,076 and 128,518 shares as of July 1, 2018 and April 1, 2018, respectively	(1,850,962)	(1,801,624)
Accumulated deficit	(284,405)	(301,155)
Accumulated other comprehensive loss	(7,442)	(4,763)
Total stockholders' equity	630,563	645,372
Total liabilities and stockholders' equity	\$ 1,283,721	\$ 1,310,531

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

**INTEGRATED DEVICE TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

<i>(Unaudited, in thousands, except per share data)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Revenues	\$ 228,516	\$ 196,713
Cost of revenues	91,909	86,675
Gross profit	136,607	110,038
Operating expenses:		
Research and development	52,234	48,449
Selling, general and administrative	42,995	41,942
Total operating expenses	95,229	90,391
Operating income	41,378	19,647
Other-than-temporary impairment loss on investment	(2,000)	—
Interest expense	(7,185)	(6,897)
Interest income and other, net	1,671	2,982
Income before income taxes	33,864	15,732
Benefit from (provision for) income taxes	(3,144)	982
Net income	\$ 30,720	\$ 16,714
Net income per share:		
Basic	\$ 0.24	\$ 0.13
Diluted	\$ 0.23	\$ 0.12
Weighted average shares:		
Basic	129,560	133,302
Diluted	132,806	136,642

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

**INTEGRATED DEVICE TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(Unaudited, in thousands)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Net income	\$ 30,720	\$ 16,714
Other comprehensive income (loss), net of taxes:		
Currency translation adjustments	(2,708)	1,403
Change in net unrealized gain on investments, net of tax	29	134
Total other comprehensive income (loss)	(2,679)	1,537
Comprehensive income	<u>\$ 28,041</u>	<u>\$ 18,251</u>

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

**INTEGRATED DEVICE TECHNOLOGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(Unaudited, in thousands)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Cash flows from operating activities:		
Net income	\$ 30,720	\$ 16,714
Adjustments:		
Depreciation	6,586	6,116
Amortization of intangible assets	10,097	11,736
Amortization of debt issuance costs and debt discount	3,820	3,641
Other-than-temporary impairment loss on investment	2,000	—
Stock-based compensation expense, net of amounts capitalized in inventory	15,063	11,820
Deferred income tax	3,704	(3,023)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable, net	(3,234)	582
Inventories	2,505	253
Prepayments and other assets	(2,625)	239
Accounts payable	(6,008)	(5,530)
Accrued compensation and related expenses	(15,324)	(6,226)
Deferred income on shipments to distributors	—	233
Income taxes payable and receivable	(1,937)	917
Other accrued liabilities and long-term liabilities	(1,074)	(2,499)
Net cash provided by operating activities	44,293	34,973
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	—	(237,716)
Purchases of property, plant and equipment, net	(8,459)	(8,434)
Purchases of intangible assets	(778)	(259)
Purchases of short-term investments	(3,478)	(47,689)
Proceeds from sales of short-term investments	2,425	14,568
Proceeds from maturities of short-term investments	24,419	11,401
Net cash provided by (used in) investing activities	14,129	(268,129)
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,415	3,209
Repurchases of common stock	(49,338)	(34,826)
Payment of capital lease obligations	(449)	(200)
Proceeds of Initial Term B Loan, net of discount and issuance costs	—	194,252
Principal payments of long-term bank loan	(495)	(500)
Payment of contingent consideration	(750)	—
Net cash provided by (used in) financing activities	(45,617)	161,935
Effect of exchange rates on cash and cash equivalents	(1,607)	1,200
Net increase (decrease) in cash and cash equivalents	11,198	(70,021)
Cash and cash equivalents at beginning of period	136,873	214,554
Cash and cash equivalents at end of period	\$ 148,071	\$ 144,533

**Supplemental disclosure of cash flow information**

*(Unaudited, in thousands)*

	Three Months Ended	
	July 1, 2018	July 2, 2017
Non-cash investing and financing activities:		
Additions to property, plant and equipment included in accounts payable	\$ 524	\$ 1,879
Additions to intangible assets included in accounts payable and other accrued liabilities	\$ 215	\$ —
Fair value of partially vested employee equity awards related to pre-combination services that were assumed as part of the business acquisition	\$ —	\$ 3,400

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

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**INTEGRATED DEVICE TECHNOLOGY, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

**Nature of Business.** Integrated Device Technology, Inc. (IDT or the Company) designs, develops, manufactures and markets a broad range of integrated circuits for the advanced communications, computing, consumer and automotive industries.

**Basis of Presentation.** The Company's fiscal year is the 52 or 53 week period ending on the Sunday closest to March 31. In a 52 week year, each fiscal quarter consists of 13 weeks. In a 53 week year, the additional week is usually added to the third quarter, making such quarter consist of 14 weeks. The first quarter of fiscal 2019 and fiscal 2018 was 13 week periods.

**Principles of Consolidation.** The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

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

**Significant Accounting Policies.** For a description of significant accounting policies, see Note 1, Summary of Significant Accounting Policies to the consolidated financial statements included in the Company's annual report on Form 10-K for the fiscal year ended April 1, 2018. There have been no material changes to the Company's significant accounting policies since the filing of the annual report on Form 10-K other than Revenue Recognition Policy detailed below.

*Revenue Recognition Policy Effective April 2, 2018*

Effective April 2, 2018, the Company adopted Financial Accounting Standards Board or FASB ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606) using the modified retrospective method applied to those contracts which were not completed as of April 2, 2018.

The Company recognizes revenue when control of its goods and services is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for its services. Sales taxes are excluded from revenue. The Company determines revenue recognition through the following steps:

- Identification of the contract or contracts with a customer
- Identification of the performance obligation in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company's revenue results from semiconductor products 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. Revenue for semiconductor products is recognized when the control is transferred to the customer, which is typically upon shipment to customers. Distributors have rights to price protection, ship from stock pricing credits and stock rotation. The Company accounts for the right of returns, rebates and other pricing adjustments as variable consideration and uses the portfolio approach to estimate these amounts based on the expected amount to be provided to customers and reduce the revenue recognized. The Company utilizes historical experience and market trends to estimate the reserves. Historically, differences between actual and estimated credits have not been material.

For proprietary software licenses that constitute functional intellectual properties, revenue is recognized at the later of when (i) the license term starts and (ii) the software is made available to customers.

The Company recognizes revenue from per-unit royalty-based IP licenses in the period the licensee consumes the licenses. The revenues from fixed-price support or maintenance performance obligations are recognized ratably over the support period consistently with the stand-ready nature of these performance obligations.

The Company's non-recurring engineering ("NRE") contracts with customers may include multiple performance obligations. For NRE arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. Revenue is recognized over time in the amount to which the Company has a right to invoice, if the right to consideration from the customer is in an amount that corresponds reasonably with the value to the customer of the entity's performance completed to date.



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### *Practical Expedients and Elections*

The Company recognizes commission costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. As a result, no commission costs are capitalized.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed. The Company does not disclose the nature of the performance obligations and the remaining duration of the performance obligations.

The Company has elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

The Company also elects to exclude amounts collected from customers for all sales taxes from the transaction price.

The Company has adopted the practical expedient which states an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less.

In the opinion of management, these condensed consolidated financial statements, consisting only of normal recurring adjustments, reflect all adjustments which are necessary for the fair statement of the condensed consolidated financial statements for the interim period.

### ***Accounting Pronouncements Recently Adopted***

#### *Adoption of ASC Topic 606:*

On May 28, 2014, FASB issued ASC Topic 606, which creates a single source of revenue guidance under US generally accepted accounting principles for all companies, in all industries, effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Under the new standard, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for goods and services. The FASB also issued additional guidance that defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. This new guidance supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the standard.

Effective April 2, 2018, the Company adopted ASC Topic 606 using the modified retrospective method applied to those contracts which were not completed as of April 2, 2018. Results for reporting periods beginning after April 2, 2018 are presented under ASC Topic 606. Prior period amounts are not adjusted and continue to be reported in accordance with its historic accounting under ASC Topic 605. The sale of semiconductor products accounts for the substantial majority of the Company's consolidated revenue and recognition for such product sales has remained the same under ASC Topic 606 as that under Topic 605. Additionally, other revenue streams remain substantially unchanged. Hence, there was no impact on the opening accumulated deficit as of April 2, 2018 due to the adoption of Topic 606. The Company expects the ongoing impact of the new revenue standard to be immaterial to the consolidated financial statements. Additionally, the balance sheet presentation of certain reserve balances previously shown net within accounts receivable are now presented as refund liabilities within "Other Accrued Liabilities" on the Condensed Consolidated Balance Sheets. Refer to Significant Accounting Policies section above for the Company's practical expedients and elections.

#### *Other recently adopted pronouncements:*

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which changes the current accounting related to (i) the classification and measurement of certain equity investments, (ii) the presentation of changes in the fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk, and (iii) certain disclosures associated with the fair value of financial instruments. Most notably, ASU 2016-01 requires that equity investments, with certain exemptions, be measured at fair value with changes in fair value recognized in net income as opposed to other comprehensive income. The guidance further clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The Company adopted this guidance in the first quarter of fiscal 2019 on a retrospective basis and concluded that there is no cumulative effect adjustment. The Company has elected to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (referred to as the measurement alternative). See Note 6 for details.

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In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This amends current GAAP which prohibits recognition of current and deferred income taxes for all types of intra-entity asset transfers until the asset has been sold to a third party or otherwise recovered through use. The Company adopted the new guidance in the first quarter of fiscal 2019. Upon adoption, the Company applied a modified retrospective transition approach and recognized the unamortized portion of the deferred tax charge of \$13.9 million through a cumulative-effect adjustment to accumulated deficit.

In March 2018, the FASB issued ASU 2018-05, Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The amendments allow companies to record provisional amounts during a measurement period that is similar to the measurement period used when accounting for business combinations. As of April 1, 2018, the Company has made reasonable estimates of the effects on its existing deferred tax balances and the one-time repatriation tax recording provisional charges as a component of income tax expense from continuing operations. As of July 1, 2018, the Company had not fully completed its accounting for the tax effects of the enactment of the TCJA. The Company's provision for income taxes is based in part on a reasonable estimate of the effects on its transition tax and existing deferred tax balances. The Company will continue to assess the impact of the recently enacted tax law and expected further guidance from federal and state tax authorities as well as further guidance for the associated income tax accounting on its business and consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), which clarifies the definition of business. The update provides a more robust framework to use in determining when a set of assets and activities is a business. The new guidance provides a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The new guidance becomes effective in fiscal years beginning after December 15, 2017, though early adoption is permitted. The Company adopted the new guidance prospectively in the first quarter of fiscal 2019. There was no material impact in the period of adoption.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the requirements related to accounting in changes to stock compensation awards. The guidance in ASU 2017-09 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the new guidance in the first quarter of fiscal 2019. There was no material impact in the period of adoption.

### ***Accounting Pronouncements Not Yet Effective for Fiscal 2019***

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows an entity to elect to reclassify the stranded tax effects resulting from the change in income tax rate from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The amendments in this update are effective for periods beginning after December 15, 2018. The Company plans to adopt the new standard effective the first quarter of fiscal 2020. The Company does not believe that the adoption of this new accounting guidance will have any material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), which simplifies the measurement of goodwill by eliminating the Step 2 impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The new guidance requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The new guidance becomes effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, though early adoption is permitted. The Company does not believe that the adoption of this new accounting guidance will have any material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses, which changes the accounting for recognizing impairments of financial assets. Under the new guidance, credit losses for certain types of financial instruments will be estimated based on expected losses. The new guidance also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. The new guidance will be effective for the Company starting in the first quarter of fiscal 2021. Early adoption is permitted starting in the first quarter of fiscal 2020. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements.

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In February 2016, the FASB issued an ASU 2016-02, Leases (Topic 842). In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases which clarifies, corrects or consolidates authoritative guidance issued in ASU 2016-02 and is effective upon adoption of ASU 2016-02. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create a right-of-use asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. This ASU is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. As currently issued, entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. There are additional optional practical expedients that an entity may elect to apply. The Company plans to adopt the new standard effective the first quarter of fiscal 2020 and expects to elect certain available transitional practical expedients. The Company is currently assessing the impact that the new standard will have on its consolidated financial statements, which will consist primarily of a balance sheet gross up of right-of-use assets and lease liabilities on the Condensed Consolidated Balance Sheets upon adoption, which will increase the Company's total assets and liabilities.

**Note 2. Net Income Per Share**

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive potential common shares outstanding during the period. Potential common shares include employee stock options, restricted stock units and performance-based stock units. For purposes of computing diluted net income per share, weighted average potential common shares do not include potential common shares that are anti-dilutive under the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share:

<i>(in thousands, except per share amounts)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Numerator (basic and diluted):		
Net income	\$ 30,720	\$ 16,714
Denominator:		
Weighted average common shares outstanding, basic	129,560	133,302
Dilutive effect of employee stock options, restricted stock units and performance stock units	3,246	3,340
Weighted average common shares outstanding, diluted	132,806	136,642
Basic net income per share	\$ 0.24	\$ 0.13
Diluted net income per share	\$ 0.23	\$ 0.12

Potential dilutive common shares of 0.2 million and 24 thousand pertaining to employee stock options, restricted stock units and performance-based stock units were excluded from the calculation of diluted earnings per share for the three months ended July 1, 2018 and July 2, 2017, respectively, because the effect would have been anti-dilutive.

The denominator for diluted net income per share for each of the three months ended July 1, 2018 and July 2, 2017 does not include any effect from the 0.875% Convertible Senior Notes due 2022, or the Convertible Notes. In accordance with ASC 260, Earnings per Share, the Convertible Notes will not impact the denominator for diluted net income per share unless the average price of our common stock, as calculated under the terms of the Convertible Notes, exceeds the conversion price of \$33.45 per share. Likewise, the denominator for diluted net income per share will not include any effect from the warrants unless the average price of our common stock, as calculated under the terms of the warrants, exceeds \$48.66 per share.

The denominator for diluted net income per share for each of the three months ended July 1, 2018 and July 2, 2017 also does not include any effect from the convertible note hedge transaction, or the Note Hedges. In future periods, the denominator for diluted net income per share will exclude any effect of the Note Hedges, as their effect would be anti-dilutive. In the event an actual conversion of any or all of the Convertible Notes occurs, the shares that will be delivered to us under the Note Hedges are designed to neutralize the dilutive effect of the shares that the Company will issue under the Convertible Notes. Refer to Note 15 for further discussion regarding the Convertible Notes.

**Note 3. Revenue***Disaggregated Revenue by Timing of Recognition\**

<i>(in thousands)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Goods/services transferred at a point in time	\$ 226,590	\$ 196,488
Goods/services transferred over time	1,926	225
<b>Total Revenue</b>	<b>\$ 228,516</b>	<b>\$ 196,713</b>

\* For other disaggregated revenue information, refer to Note 18.

*Contract Balances and Refund Liabilities*

The following table provides information about contract assets, refund liabilities and contract liabilities on the condensed consolidated balance sheets:

<i>(in thousands)</i>	<b>July 1, 2018</b>	<b>April 2, 2018</b> <b>(as adjusted**)</b>
Contract assets - unbilled revenue	\$ 2,051	\$ 1,595
Refund liabilities - price adjustment and other revenue reserves	\$ (9,519)	\$ (10,964)
Contract Liabilities - short-term	\$ (774)	\$ (778)
Contract Liabilities - long-term	\$ (1,161)	\$ (1,354)

\*\* The as adjusted balances at April 2, 2018 reflect the comparative amounts under ASC Topic 606.

Contract assets consist of the Company's unbilled revenue to transfer goods or services to a customer for which the Company has yet to receive consideration or the amount is due from the customer. Contract assets are included in "Accounts Receivable, Net" on the Condensed Consolidated Balance Sheets.

The beginning and ending balances of contract assets in the first quarter of fiscal 2019 was \$1.6 million and \$2.1 million, respectively. During the three months ended July 1, 2018, contract assets increased by \$2.0 million associated with unbilled revenue for additional goods and services transferred to customers in the quarter, which was offset by \$1.5 million decrease primarily due to invoices issued to customers.

Refund liabilities consist of variable consideration estimates for returns, rebates, price protection, ship from stock pricing credits and stock rotation. Such reserves were previously shown net within "Accounts Receivable, Net" and are now presented within "Other Accrued Liabilities" on the Condensed Consolidated Balance Sheets effective April 2, 2018.

Contract liabilities consist of the Company's obligation to transfer goods or services to a customer for which the Company has received consideration or the amount is due from the customer. Contract liabilities are classified as short-term or long-term within "Other Accrued Liabilities" or "Other Long-term Liabilities", respectively, on the Condensed Consolidated Balance Sheets.

*Remaining Performance Obligations*

As of the end of a reporting period, some of the performance obligations associated with contracts will have been unsatisfied or only partially satisfied. In accordance with the practical expedients available in the guidance, the Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less, and the remaining duration of the performance obligations for contracts with an original expected duration of greater than one year. As of July 1, 2018, the Company's remaining performance obligations from contracts with an original expected duration of greater than one year is \$4.8 million.

*Practical Expedients*

The Company has elected to apply the practical expedient to expense commission costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. As a result, no commission costs are capitalized. The Company records these costs within selling, general and administrative expenses on the Condensed Consolidated Statements of Operations.

The Company has adopted the practical expedient which states an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less. The Company does not have payments associated with performance obligations outside this one-year time frame.

**Note 4. Acquisitions***GigPeak, Inc.*

On April 4, 2017, the Company completed its purchase all of the outstanding shares of GigPeak, Inc, a publicly held company mainly operating in the United States, for approximately \$250.1 million (the "Acquisition"). GigPeak was a global supplier of semiconductor integrated circuits and software solutions for high-speed connectivity and high-quality video compression over the network and the cloud. The Company funded the Acquisition from its available cash on hand and net proceeds from borrowings under its credit facility entered into on April 4, 2017 with JP Morgan Chase Bank, N.A. as administrative agent and the various lenders signatory thereto (the "Credit Agreement"). The Credit Agreement provides for a \$200 million term loan facility (the "Initial Term B Loan"). Refer to Note 16 for details.

Total consideration consisted of the following:

*(in thousands)*

Cash paid to GigPeak shareholders	\$	246,717
Fair value of partially vested employee equity awards related to pre-combination services		3,400
Total purchase price		<u>250,117</u>
Less: cash acquired		(9,001)
Total purchase price, net of cash acquired	\$	<u>241,116</u>

In connection with the Acquisition, the Company assumed unvested restricted stock units ("RSUs") originally granted by GigPeak and converted them into IDT RSUs. IDT included \$3.4 million, representing the portion of the fair value of the assumed GigPeak unvested equity awards associated with service rendered through the date of the Acquisition, as a component of the total estimated acquisition consideration. As of April 4, 2017, the total unrecognized stock-based compensation expense, net of estimated forfeitures, was also \$3.4 million, which is expected to be recognized over the remaining weighted average service period of 2.6 years.

The Company allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over those fair values was recorded as goodwill. Because the Acquisition was structured as a stock acquisition for income tax purposes, none of the asset step-up or asset recognition required by purchase accounting, including the goodwill described below, is deductible for tax purposes.

The fair value of accounts receivable, other current assets, accounts payable, and other accrued liabilities were generally determined using historical carrying values given the short-term nature of these assets and liabilities. The fair values for acquired inventory, property, plant and equipment and intangible assets were determined with the assistance of a third-party valuation using discounted cash flow analysis, and estimate made by management. The fair values of certain other assets and liabilities were determined internally using historical carrying values and estimates made by management. During the second quarter of fiscal 2018, the Company obtained additional information in regards to inventory, deferred tax assets, accounts receivable and assumed liabilities and recorded purchase accounting adjustments which were not considered to be material.

The financial results of the GigPeak business have been included in the Company's Condensed Consolidated Statements of Operations from April 4, 2017, the closing date of the acquisition. Goodwill is primarily attributable to the assembled workforce of GigPeak, anticipated synergies and economies of scale expected from the operations of the combined company.

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The Company's allocation of the purchase price is as follows:

<i>(in thousands)</i>	<b>Estimated Fair Value</b>
Cash and cash equivalents	\$ 9,001
Accounts receivable	14,806
Inventories	18,399
Prepayments and other current assets	2,641
Property, plant and equipment	2,434
Goodwill	113,192
Intangible assets	97,860
Deferred tax assets	7,610
Other assets	1,501
Accounts payable	(5,753)
Accrued compensation and related expenses	(3,279)
Other accrued liabilities	(3,538)
Long-term income tax payable	(1,253)
Other long-term liabilities	(3,504)
Total purchase price	<u>\$ 250,117</u>

A summary of the fair value of intangible assets and their estimated useful lives is as follows:

<i>(in thousands)</i>	<b>Estimated Fair Value</b>	<b>Estimated Useful Life</b>
Developed technology	\$ 56,000	5 years
Customer contracts and related relationships	28,900	5 years
Order backlog	200	1 year
Software licenses	2,560	less than a year
In-process research and development ("IPR&D")	10,200	
Total	<u>\$ 97,860</u>	

IPR&D represents the fair value of incomplete research and development projects that had not reached technological feasibility as of the date of acquisition. IPR&D consisted of various projects. As of the acquisition date, the estimated remaining costs to complete and the estimated fair value of the IPR&D projects were approximately \$7.5 million and \$10.2 million, respectively. The IPR&D projects will either be amortized or impaired depending upon whether the project is completed or abandoned. The fair value of IPR&D was determined using the MPEE method under the income approach. This method reflects the present value of the projected cash flows that are expected to be generated by the IPR&D less charges representing the contribution of other assets to those cash flows. A discount rate of 17% was used to discount the cash flows to the present value. The acquired IPR&D will not be amortized until completion of the related products which is determined by when the underlying projects reach technological feasibility and commence commercial production. In fiscal 2018, \$1.2 million of purchased IPR&D projects reached technological feasibility and was reclassified as core and developed technology and began being amortized over its estimated useful life. In addition, in fiscal 2018, the Company recognized a total of \$2.0 million impairment charge related to certain IPR&D projects, which was recorded in Research and Development Expense in the Condensed Consolidated Statements of Operations. During the three months ended July 1, 2018, \$2.0 million of purchased IPR&D projects reached technological feasibility and was reclassified as core and developed technology and began being amortized over its estimated useful life. The Company expects to complete the remaining projects in fiscal 2019. Refer to Note 11 for additional information.

**Note 5. Fair Value Measurements**

*Financial Assets Measured at Fair Value on a Recurring Basis:*

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of July 1, 2018:

<i>(in thousands)</i>	Fair Value at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<b>Assets</b>			
Cash Equivalents and Short-Term Investments:			
US government treasuries and agencies securities	\$ 60,288	\$ —	\$ 60,288
Money market funds	26,979	—	26,979
Asset-backed securities	—	15,865	15,865
Corporate bonds	—	109,482	109,482
International government bonds	—	2,644	2,644
Corporate commercial paper	—	10,683	10,683
Bank deposits	—	41,456	41,456
Repurchase agreement	—	291	291
Total assets measured at fair value	<u>\$ 87,267</u>	<u>\$ 180,421</u>	<u>\$ 267,688</u>

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of April 1, 2018:

<i>(in thousands)</i>	Fair Value at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<b>Assets</b>			
Cash Equivalents and Short-Term Investments:			
US government treasuries and agencies securities	\$ 60,272	\$ —	\$ 60,272
Money market funds	48,847	—	48,847
Asset-backed securities	—	16,687	16,687
Corporate bonds	—	109,605	109,605
International government bonds	—	2,638	2,638
Corporate commercial paper	—	9,034	9,034
Bank deposits	—	45,080	45,080
Repurchase agreements	—	142	142
Total assets measured at fair value	<u>\$ 109,119</u>	<u>\$ 183,186</u>	<u>\$ 292,305</u>

U.S. government treasuries and U.S. government agency securities as of July 1, 2018 and April 1, 2018 do not include any U.S. government guaranteed bank issued paper.

The securities in Level 1 are highly liquid and actively traded in exchange markets or over-the-counter markets. Level 2 fixed income securities are priced using quoted market prices for similar instruments, non-binding market prices that are corroborated by observable market data. There were no transfers into or out of Level 1 or Level 2 financial assets during the three months ended July 1, 2018.

*Deferred Compensation Plan:*

The deferred compensation plan assets of \$18.1 million and \$16.9 million as of July 1, 2018 and April 1, 2018, are carried on the Condensed Consolidated Balance Sheets at their fair value which were determined on the basis of market prices observable for similar instruments and are considered Level 2 in the fair value hierarchy. See Note 14 for additional information on the Employee Benefit Plans.

[Table of Contents](#)*Convertible Notes:*

The Convertible Notes are carried on the Condensed Consolidated Balance Sheets at their original issuance value including accreted interest, net of unamortized debt discount and issuance cost. The Convertible Notes are not marked to fair value at the end of each reporting period. The fair value of Convertible Notes was \$426.3 million and \$422.0 million as of July 1, 2018 and April 1, 2018, which was determined on the basis of market prices observable for similar instruments and is considered Level 2 in the fair value hierarchy. See Note 15 for additional information on the Convertible Notes.

*Bank Loan:*

The Term B-1 Loan is carried on the Condensed Consolidated Balance Sheets at its outstanding principal balance including accreted interest, net of unamortized debt discount and issuance cost. The fair value of the Term B-1 Loan and the Initial Term B Loan was \$199.6 million as of July 1, 2018 and April 1, 2018, respectively. The Company classified the Term B-1 Loan as Level 2 fair value measurement hierarchy as the debt is not actively traded and has variable interest structure based upon market rates currently available to the Company for debt with similar terms and maturities. Refer to Note 16 for additional information.

*Others:*

In fiscal 2017, IDT purchased substantially all of the assets and liabilities of Synkera Technologies, Inc. (Synkera) for total purchase consideration of approximately \$2.8 million, of which \$1.5 million was paid in cash at closing and \$1.3 million was recorded as a liability representing the fair value of contingent cash consideration of up to \$1.5 million. The liability was recognized for the Company's estimate of the fair value of contingent consideration on the acquisition date based on probability-based attainment of certain milestones. This fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement, which reflects the Company's own assumptions concerning the milestones related to the acquired business in measuring fair value. During the three months ended July 1, 2018, the Company paid \$0.7 million upon the achievement of certain milestones. The fair value of the liability measured using significant unobservable inputs (Level 3) was approximately \$0.6 million and \$1.3 million as of July 1, 2018 and April 1, 2018, respectively.

In fiscal 2018, the Company purchased certain assets of SpectraBeam, LLC ("SpectraBeam") for a total purchase consideration of \$17.0 million, of which \$12.9 million was paid in cash at closing and \$4.1 million was recorded as a liability representing the contingent cash consideration. The liability was recognized for the Company's estimate of the fair value of contingent consideration on the acquisition date based on probability-based attainment of certain milestones. The fair value measurement is based on significant inputs not observed in the market and thus represents a Level 3 measurement, which reflects the Company's own assumptions concerning the milestones related to the asset acquisition in measuring fair value. The fair value of the liability measured using significant unobservable inputs (Level 3) was approximately \$4.1 million as of July 1, 2018 and April 1, 2018.

**Note 6. Investments***Available-for-Sale Securities*

The amortized cost and fair value of available-for-sale investments as of July 1, 2018 were as follows:

<i>(in thousands)</i>	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries and agencies securities	\$ 61,184	\$ —	\$ (896)	\$ 60,288
Money market funds	26,979	—	—	26,979
Asset-backed securities	15,958	—	(93)	15,865
Corporate bonds	111,135	37	(1,690)	109,482
International government bonds	2,650	—	(6)	2,644
Corporate commercial paper	10,683	—	—	10,683
Bank deposits	41,456	—	—	41,456
Repurchase agreements	291	—	—	291
Total available-for-sale investments	270,336	37	(2,685)	267,688
Less amounts classified as cash equivalents	(69,500)	—	—	(69,500)
Short-term investments	\$ 200,836	\$ 37	\$ (2,685)	\$ 198,188



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The amortized cost and fair value of available-for-sale investments as of April 1, 2018 were as follows:

<i>(in thousands)</i>	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries and agencies securities	\$ 61,166	\$ —	\$ (894)	\$ 60,272
Money market funds	48,847	—	—	48,847
Asset-backed securities	16,797	—	(110)	16,687
Corporate bonds	111,266	43	(1,704)	109,605
International government bonds	2,650	—	(12)	2,638
Corporate commercial paper	9,034	—	—	9,034
Bank deposits	45,080	—	—	45,080
Repurchase agreements	142	—	—	142
Total available-for-sale investments	294,982	43	(2,720)	292,305
Less amounts classified as cash equivalents	(70,279)	—	—	(70,279)
Short-term investments	\$ 224,703	\$ 43	\$ (2,720)	\$ 222,026

The cost and estimated fair value of available-for-sale securities as of July 1, 2018, by contractual maturity, were as follows:

<i>(in thousands)</i>	Amortized Cost	Estimated Fair Value
Due in 1 year or less	\$ 103,395	\$ 103,252
Due in 1-2 years	120,978	119,343
Due in 2-5 years	45,963	45,093
Total investments in available-for-sale securities	\$ 270,336	\$ 267,688

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses as of July 1, 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position.

<i>(in thousands)</i>	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	\$ 79,242	\$ (1,358)	\$ 23,324	\$ (332)	\$ 102,566	\$ (1,690)
Asset-backed securities	13,027	(77)	2,340	(16)	15,367	(93)
U.S. government treasuries and agencies securities	25,348	(248)	34,940	(648)	60,288	(896)
International government bonds			2,644	(6)	2,644	(6)
Total	\$ 117,617	\$ (1,683)	\$ 63,248	\$ (1,002)	\$ 180,865	\$ (2,685)

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The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses, as of April 1, 2018, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

<i>(in thousands)</i>	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	\$ 78,726	\$ (1,324)	\$ 23,286	\$ (380)	\$ 102,012	\$ (1,704)
Asset-backed securities	14,147	(90)	2,540	(20)	16,687	(110)
U.S. government treasuries and agencies securities	25,352	(221)	34,920	(673)	60,272	(894)
International government bonds	—	—	2,638	(12)	2,638	(12)
<b>Total</b>	<b>\$ 118,225</b>	<b>\$ (1,635)</b>	<b>\$ 63,384</b>	<b>\$ (1,085)</b>	<b>\$ 181,609</b>	<b>\$ (2,720)</b>

Currently, a significant portion of the Company's available-for-sale investments that it holds are high grade instruments. As of July 1, 2018, the unrealized losses on the Company's available-for-sale investments represented an insignificant amount in relation to its total available-for-sale portfolio. Substantially all of the Company's unrealized losses on its available-for-sale marketable debt instruments can be attributed to fair value fluctuations in an unstable credit environment that resulted in a decrease in the market liquidity for debt instruments. Because the Company has the ability to hold these investments until a recovery of fair value, which maybe maturity, the Company did not consider these investments to be other-than-temporarily impaired as of July 1, 2018 and April 1, 2018.

*Non-marketable Equity Securities*

As of July 1, 2018 and April 1, 2018, the Company holds capital stock of privately-held companies with total amount of \$25.3 million and \$27.3 million, respectively. These investments in stocks (included in Other Assets on the Condensed Consolidated Balance Sheets) are accounted for as cost-method investments, as the Company owns less than 20% of the voting securities and does not have the ability to exercise significant influence over operating and financial policies of each entity. The Company measures equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (referred to as the measurement alternative). The Company recorded an impairment charge of \$2.0 million for certain investment during the three months ended July 1, 2018. There was no impairment charge in the three months ended July 2, 2017.

**Note 7. Stock-Based Employee Compensation**

Total stock-based compensation expense, related to all of the Company's share-based awards, was comprised as follows:

<i>(in thousands)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Cost of revenues	\$ 1,028	\$ 632
Research and development	7,136	5,963
Selling, general and administrative	6,899	5,225
Total stock-based compensation expense	\$ 15,063	\$ 11,820

The amount of stock-based compensation expense that was capitalized during the periods presented above was immaterial.

**Note 8. Stockholders' Equity**

**Stock Repurchase Program.** On April 24, 2018, the Company's Board of Directors approved an increase to the share repurchase authorization of \$400 million. In the three months ended July 1, 2018 and July 2, 2017, the Company repurchased 1.6 million shares for \$49.3 million and 1.4 million shares for \$34.8 million, respectively. As of July 1, 2018, approximately \$457.5 million was available for future purchase under the share repurchase program. Shares repurchased were recorded as treasury stock and resulted in a reduction of stockholder's equity.

**Note 9. Balance Sheet Detail**

<i>(in thousands)</i>	<u>July 1, 2018</u>	<u>April 1, 2018</u>
<i>Inventories, net</i>		
Raw materials	\$ 5,137	\$ 4,345
Work-in-process	43,782	45,713
Finished goods	17,258	18,644
Total inventories, net	<u>\$ 66,177</u>	<u>\$ 68,702</u>
<i>Accounts receivable, net</i>		
Accounts receivable, gross	\$ 124,539	\$ 120,953
Allowance for returns, price credits and doubtful accounts (1)	(1,562)	(12,174)
Total accounts receivable, net	<u>\$ 122,977</u>	<u>\$ 108,779</u>
<i>Property, plant and equipment, net</i>		
Land	\$ 11,535	\$ 11,535
Machinery and equipment	291,073	285,784
Building and leasehold improvements	50,647	50,722
Total property, plant and equipment, gross	353,255	348,041
Less: accumulated depreciation (2)	(266,320)	(261,196)
Total property, plant and equipment, net	<u>\$ 86,935</u>	<u>\$ 86,845</u>
<i>Other accrued liabilities</i>		
Accrued restructuring costs (3)	\$ 2,055	\$ 4,637
Current income tax payable	5,801	6,281
Refund liabilities (1)	9,519	—
Other (4)	15,118	15,606
Total other accrued liabilities	<u>\$ 32,493</u>	<u>\$ 26,524</u>
<i>Other long-term obligations</i>		
Deferred compensation related liabilities	\$ 18,105	\$ 16,310
Other (5)	9,264	9,374
Total other long-term liabilities	<u>\$ 27,369</u>	<u>\$ 25,684</u>

(1) Upon adoption of ASC Topic 606 under the modified retrospective method, price adjustment and other revenue reserves were presented in "Other Accrued Liabilities" effective April 2, 2018. Those reserves were previously included in "Accounts Receivable, Net". Refer to Note 3 for additional information.

(2) Depreciation expense was \$6.6 million and \$6.1 million for the three months ended July 1, 2018 and July 2, 2017, respectively.

(3) Includes accrued severance costs related to various restructuring actions. Refer to Note 12 for additional information.

(4) Other current liabilities consist primarily of accrued royalties and outside commissions, current portion of deferred revenue, current portion of lease payable, current portion of liability for contingent consideration, and other accrued unbilled expenses.

(5) Other long-term obligations consist primarily of non-current portion of liability for contingent consideration, non-current portion of deferred revenue, non-current portion of lease payable, and other long-term accrued liabilities.

**Note 10. Accumulated Other Comprehensive Income (Loss)**

Changes in the balance of accumulated other comprehensive income (loss) by component, net of tax, for the three months ended July 1, 2018 consisted of the following:

<i>(in thousands)</i>	<b>Cumulative translation adjustments</b>	<b>Unrealized gain (loss) on available-for-sale investments</b>	<b>Pension adjustments</b>	<b>Total</b>
Balance as of April 1, 2018	\$ (2,151)	\$ (2,677)	\$ 65	\$ (4,763)
Other comprehensive income (loss) before reclassifications	(2,708)	29	—	(2,679)
Net current-period other comprehensive income (loss)	(2,708)	29	—	(2,679)
Balance as of July 1, 2018	<u>\$ (4,859)</u>	<u>\$ (2,648)</u>	<u>\$ 65</u>	<u>\$ (7,442)</u>

There was no reclassification out of accumulated other comprehensive income or loss during the three months ended July 1, 2018.

**Note 11. Goodwill and Intangible Assets, Net**

During the first quarter of fiscal 2019, the Company revised the composition of its reportable segments as a result of certain organizational changes (Refer to Note 18 for details). Goodwill was reallocated between the two reportable segments using a relative fair value approach. As a result, the Company completed assessments of any potential goodwill impairment for all reportable segments immediately prior to and after the reallocation and determined that no impairment existed.

Goodwill balances by reportable segment as of July 1, 2018 and April 1, 2018 are as follows:

<i>(in thousands)</i>	<b>Reportable Segments</b>		
	<b>Communications</b>	<b>Computing, Consumer and Industrial</b>	<b>Total</b>
Balance as of April 1, 2018	\$ 141,300	\$ 278,817	\$ 420,117
Reallocation of goodwill	(21,206)	21,206	—
Balance as of July 1, 2018	<u>\$ 120,094</u>	<u>\$ 300,023</u>	<u>\$ 420,117</u>

Goodwill balances as of July 1, 2018 and April 1, 2018 were net of \$920.3 million in accumulated impairment losses.

Intangible asset balances as of July 1, 2018 and April 1, 2018 are summarized as follows:

<i>(in thousands)</i>	<b>July 1, 2018</b>		
	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net Assets</b>
Purchased intangible assets:			
Developed technology	\$ 338,365	\$ (230,174)	\$ 108,191
Trademarks	5,391	(5,391)	—
Customer relationships	201,997	(152,458)	49,539
Intellectual property licenses	7,500	(4,201)	3,299
Software licenses	6,237	(1,406)	4,831
Total amortizable purchased intangible assets	<u>559,490</u>	<u>(393,630)</u>	<u>165,860</u>
In-process research and development (IPR&D)	5,039	—	5,039
Total purchased intangible assets	<u>\$ 564,529</u>	<u>\$ (393,630)</u>	<u>\$ 170,899</u>

	<b>April 1, 2018</b>			
<i>(in thousands)</i>	<b>Gross Assets</b>	<b>Impairment</b>	<b>Accumulated Amortization</b>	<b>Net Assets</b>
<b>Purchased intangible assets:</b>				
Developed technology	\$ 336,402	\$ —	\$ (223,882)	\$ 112,520
Trademarks	5,391	—	(5,391)	—
Customer relationships	201,997	—	(149,416)	52,581
Intellectual property licenses	7,500	—	(3,901)	3,599
Software licenses	6,023	—	(943)	5,080
<b>Total amortizable purchased intangible assets</b>	<b>557,313</b>	<b>—</b>	<b>(383,533)</b>	<b>173,780</b>
In-process research and development (IPR&D)	9,017	(2,016)	—	7,001
<b>Total purchased intangible assets</b>	<b>\$ 566,330</b>	<b>\$ (2,016)</b>	<b>\$ (383,533)</b>	<b>\$ 180,781</b>

Amortization expense for the three months ended July 1, 2018 and July 2, 2017 was \$10.1 million and \$11.7 million, respectively.

As a result of the acquisition of GigPeak, the Company recognized additional intangible assets with fair value of \$97.9 million during the three months ended July 2, 2017 (see Note 4). In the first quarter of fiscal 2018, the Company recorded an accelerated amortization charge of \$2.0 million related to certain software licenses as the estimated future cash flows expected resulting from the use of the assets were less than the carrying amount.

The intangible assets are being amortized over estimated useful lives of 1 to 7 years.

Based on the intangible assets recorded as of July 1, 2018, the expected future amortization expense for intangible assets is as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2019 (Remaining 9 months)	\$ 30,530
2020	40,573
2021	39,617
2022	37,331
2023 and thereafter	17,809
<b>Total amortizable purchased intangible assets</b>	<b>165,860</b>
<b>IPR&amp;D</b>	<b>5,039</b>
<b>Total intangible assets</b>	<b>\$ 170,899</b>

**Note 12. Restructuring**

The following table shows the provision of the restructuring charges and the liability remaining as of July 1, 2018:

<i>(in thousands)</i>	<b>Continuing Operations</b>	<b>HSC (Discontinued Operations)</b>	<b>Total</b>
<i>Severance and related charges:</i>			
Balance as of April 1, 2018	\$ 4,013	\$ 624	\$ 4,637
Provision	533	—	533
Payments and other adjustments	(3,115)	—	(3,115)
Balance as of July 1, 2018	<u>\$ 1,431</u>	<u>\$ 624</u>	<u>\$ 2,055</u>
<i>Facility and related charges:</i>			
Balance as of April 1, 2018	\$ 2,281	\$ —	\$ 2,281
Provision	121	—	121
Payments and other adjustments	(202)	—	(202)
Balance as of July 1, 2018	<u>\$ 2,200</u>	<u>\$ —</u>	<u>\$ 2,200</u>

As part of an effort to streamline operations with changing market conditions and to create a more efficient organization, the Company has undertaken restructuring actions to reduce its workforce and consolidate facilities. The Company's restructuring expenses consist primarily of severance and termination benefit costs related to the reduction of its workforce, asset impairment charges and lease obligation charges related to a facility that is no longer used.

***Integration-related Restructuring Plans***

In fiscal 2018, the Company implemented planned cost reduction and restructuring activities in connection with the acquisition of GigPeak. Accordingly, the Company reduced headcount by 46 and recorded severance costs of approximately \$2.7 million, of which \$2.1 million was paid during fiscal 2018. The Company paid \$0.4 million during the first quarter of fiscal 2019 and the remaining \$0.2 million will be paid by the second quarter of fiscal 2019.

In connection with the GigPeak integration, the Company recorded \$2.8 million in fiscal 2018 for lease obligation charges related to a facility that the Company had determined to meet the cease-use date criteria. The fair value of this liability at the cease-use date was determined based on the remaining cash flows for lease rentals, and minimum lease payments, reduced by estimated sublease rentals, discounted using a credit adjusted risk free rate in accordance with ASC 420, *Exit or Disposal Cost Obligations*. As of July 1, 2018, the total accrued balance for the lease obligation was \$2.2 million, of which \$1.5 million was classified as other long-term liabilities and the remaining \$0.7 million was recorded as other accrued liabilities.

***Other Restructuring Plans***

In fiscal 2018, the Company exited certain non-strategic businesses and reduced headcount by 63. The Company recorded employee severance costs of approximately \$5.1 million, of which \$2.3 million was paid during fiscal 2018. The Company recorded additional accruals of \$0.5 million and paid \$2.2 million during the first quarter of fiscal 2019. As of July 1, 2018, the total accrued balance for employee severance costs related to this action was \$1.1 million which is expected to be paid by the second quarter of fiscal 2019. In addition, in fiscal 2018, the Company recorded an impairment charge of \$7.8 million on certain assets comprised of intangibles, equipment and prepaid licenses, which were determined to be specifically used in these non-strategic businesses and had no alternative use. Impairment charges of \$5.4 million and \$2.4 million, were included in Cost of Revenues and Research and Development Expenses, respectively in the Condensed Consolidated Statements of Operations.

In fiscal 2017, the Company prepared a workforce-reduction plan with respect to employees and closed its remaining business in France. The Company has substantially completed payments of termination benefits and the total accrued balance related to this action was \$0.8 million as of April 1, 2018. The Company paid \$0.5 million during the first quarter of fiscal 2019. Accordingly, the total accrued balance for employee severance costs related to this action was \$0.3 million as of July 1, 2018. The Company expects to complete this action by the third quarter of fiscal 2019.

In fiscal 2015, the Company prepared a workforce-reduction plan with respect to employees of its HSC business in France and the Netherlands. The Company has substantially completed payments of termination benefits and the total accrued balance related to this action was \$0.6 million as of April 1, 2018 and July 1, 2018. The Company expects to complete this action by the third quarter of fiscal 2019.

**Note 13. Commitments and Contingencies**

**Warranty**

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The Company maintains an accrual for obligations it incurs under its standard product warranty program and customer, part, or process specific matters. The Company's standard warranty period is one year, however in certain instances the warranty period may be extended to as long as two years. Management estimates the fair value of the Company's warranty liability based on actual past warranty claims experience, its policies regarding customer warranty returns and other estimates about the timing and disposition of product returned under the standard program. Customer, part, or process specific accruals are estimated using a specific identification method. Historical profit and loss impact related to warranty returns activity has been minimal. The total warranty accrual was \$0.3 million as of both July 1, 2018 and April 1, 2018.

### **Litigation**

On March 23, 2018, a complaint for patent infringement was served on the Company by DIFF Scale Operations Research, LLC ("DSOR") in the Federal Court for the District of Delaware. DSOR alleged to be the owner of a certain collection of patents previously owned by ADC Communications, some of which were the subject of the litigation against the Company. This dispute between the parties has now been resolved, and the court case dismissed based on a joint stipulation of the parties on June 28, 2018, with no finding of infringement liability against IDT.

In January 2012, Maxim I Properties, a general partnership that had purchased a certain parcel of real property (the Property) in 2003, filed a complaint in the Northern District of California naming approximately 30 defendants, including the Company ("Defendants"), alleging various environmental violations of the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and Resource Conservation and Recovery Act (RCRA), the California Hazardous Substance Account Act (HSAA), and other common law claims (the Complaint). The Complaint alleged that Defendants including the Company "...generated, transported, and/or arranged for the transport and/or disposal of hazardous waste to the Property." On August 15, 2012, Maxim I Properties voluntarily dismissed its Complaint without prejudice. However, another defendant, Moyer Products, Inc., counter-claimed against the plaintiff, Maxim, and cross-claimed against the remaining co-Defendants, including the Company. Thus, the Company remains a cross-defendant in this action.

In a related, but independent action, the California Department of Toxic Substances Control (DTSC) notified the Company in September 2012 that the Company, and more than 50 other entities, were being named as respondents to DTSC's Enforcement Order, as "a generator of hazardous waste." In April 2013, the Company, along with the other "respondent" parties, entered into a Corrective Action Consent Agreement (CACA) with the DTSC, agreeing to conduct the Property investigation and corrective action selection. The CACA supersedes the DTSC's Enforcement Order. The District Court for the Northern District of California stayed the Maxim/Moyer litigation pending the Property investigation under the CACA and DTSC's corrective action selection.

Property investigation activity took place between April 2013 and June 2015. On June 23, 2015, the DTSC deemed the Property investigation complete. The DTSC continues to evaluate corrective action alternatives. The Company will continue to vigorously defend itself against the allegations in the Complaint and evaluate settlement options with Moyer upon notification from DTSC of its corrective action selection. No specific corrective action has been selected yet, and thus no specific monetary demands have been made.

The Company may also be a party to various other legal proceedings and claims arising in the normal course of business from time to time. With regard to the matters listed above, along with various other legal proceedings and claims and future matters that may arise, potential liability and probable losses or ranges of possible losses due to an unfavorable litigation outcome cannot be reasonably estimated at this time. Generally, litigation is subject to inherent uncertainties, and no assurance can be given that the Company will prevail in any particular lawsuit or claim. Pending lawsuits, claims as well as potential future litigation, could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

### **Note 14. Employee Benefit Plans**

#### *401(k) Plan*

The Company sponsors a 401(k) retirement matching plan for qualified domestic employees. The Company recorded expenses of approximately \$1.2 million and \$0.8 million in matching contributions under the plan during the three months ended July 1, 2018 and July 2, 2017, respectively.

#### *Deferred Compensation Plans*

Effective November 1, 2000, the Company established 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. As of July 1, 2018 and April 1, 2018, obligations under the plan totaled approximately \$18.1 million and \$16.3 million. Additionally, the Company has set aside assets in a separate trust that is invested in corporate owned life insurance intended to substantially fund the liability under the plan. As of July 1, 2018 and April 1, 2018, the deferred compensation plan assets were approximately \$18.1 million and \$16.9 million respectively.

During the first quarter of fiscal 2013, the Company assumed a deferred compensation plan associated with the acquisition of Fox Enterprises, Inc. Under this plan, participants in retirement are entitled to receive a fixed amount from the Company on a monthly basis. The Company has purchased life insurance policies with the intention of funding the liability under this plan. As of July 1, 2018 and April 1, 2018, the deferred compensation plan assets were approximately \$0.4 million, respectively. As of July 1, 2018 and April 1, 2018, the liabilities under this plan were approximately \$0.8 million, respectively.

### **Note 15. Convertible Senior Notes, Warrants and Hedges**

#### *Convertible Notes Offering*

On October 29, 2015, the Company priced its private offering of \$325 million in aggregate principal amount of 0.875% Convertible Senior Notes due 2022 ("Initial Convertible Notes"). On November 3, 2015, the initial purchasers in such offering exercised in full the over-allotment option to purchase an additional \$48.8 million in aggregate principal amount of Convertible Notes ("Additional Convertible Notes", and together "Convertible Notes"). The aggregate principal amount of Convertible Notes is \$373.8 million. The net proceeds from this offering were approximately \$363.4 million, after deducting the initial purchasers' discounts and commissions and the offering expenses.

The Convertible Notes are governed by the terms of an indenture, dated November 4, 2015 ("Indenture"), between the Company and a trustee. The Convertible Notes are the senior unsecured obligations of the Company and bear interest at a rate of 0.875% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, commencing May 15, 2016. The Convertible Notes will mature on November 15, 2022, unless earlier repurchased or converted. At any time prior to the close of business on the business day immediately preceding August 15, 2022, holders may convert their Convertible Notes at their option only under the certain circumstances as defined in the Indenture. On or after August 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of such circumstances.

The conversion rate for the Convertible Notes will initially be 29.8920 shares of common stock per \$1,000 principal amount of Convertible Notes, which corresponds to an initial conversion price of approximately \$33.45 per share of common stock. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events, including, but not limited to, the issuance of certain stock dividends on common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, the payment of cash dividends and certain issuer tender or exchange offers.

As of July 1, 2018, none of the conditions allowing holders of the Notes to convert had been met.

At the debt issuance date, the Convertible Notes, net of issuance costs, consisted of the following:



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<i>(in thousands)</i>	<b>November 3, 2015</b>
Liability component	
Principal	\$ 274,435
Less: Issuance cost	(7,568)
Net carrying amount	266,867
Equity component *	
Allocated amount	99,316
Less: Issuance cost	(2,738)
Net carrying amount	96,578
Convertible Notes, net	<u>\$ 363,445</u>

\* Recorded on the Condensed Consolidated Balance Sheets within additional paid-in capital.

The following table includes total interest expense recognized related to the Convertible Notes during the three months ended July 1, 2018 and July 2, 2017:

<i>(in thousands)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Contractual interest expense	\$ 827	\$ 827
Amortization of debt discount	3,345	3,166
Amortization of debt issuance costs	270	270
	<u>\$ 4,442</u>	<u>\$ 4,263</u>

The net liability component of Convertible Notes is comprised of the following as of July 1, 2018:

<i>(in thousands)</i>	<b>July 1, 2018</b>
Net carrying amount as of April 1, 2018	\$ 299,551
Amortization of debt issuance costs during the period	3,345
Amortization of debt discount during the period	270
Net carrying amount as of July 1, 2018	<u>\$ 303,166</u>

During the three months ended July 1, 2018 and July 2, 2017, the Company paid contractual interest on the Convertible Notes of approximately \$1.6 million, respectively. See Note 5 to the Company's condensed consolidated financial statements for fair value disclosures related to the Company's Convertible Notes.

#### *Convertible Note Hedge and Warrant Transactions*

In connection with the pricing of the Convertible Notes, on October 29, 2015, the Company entered into convertible note hedge transaction (the "Initial Bond Hedge"), with JPMorgan Chase Bank, National Association (the "Option Counterparty") and paid \$81.9 million.

On October 29, 2015, the Company also entered into separate warrant transaction (the "Initial Warrant Transaction") with the Option Counterparty and received \$49.4 million.

In connection with the exercise of the Over-Allotment Option, on November 3, 2015, the Company entered into a convertible note hedge transaction (the "Additional Bond Hedge", and together with the Initial Bond Hedges, the "Bond Hedge") with the Option Counterparty and paid \$12.3 million. On November 3, 2015, the Company also entered into separate additional warrant transaction (the "Additional Warrant Transaction", and together with the Initial Warrant Transaction, the "Warrant Transactions") with the Option Counterparty and received \$7.4 million. Total amount paid for the purchase of bond hedge and total amount received for the sale of warrants were \$94.2 million and \$56.8 million, respectively.

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The Bond Hedges are generally expected to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any payments in cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, that the Company is required to make in excess of the principal amount of the Convertible Notes upon conversion of any Convertible Notes, as the case may be, in the event that the market price per share of common stock, as measured under the terms of the Bond Hedges, is greater than the strike price \$33.45 of the Bond Hedges, which initially corresponds to the conversion price of the Convertible Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the Convertible Notes. The Warrant Transactions will separately have a dilutive effect to the extent that the market value per share of common stock, as measured under the terms of the Warrant Transactions, exceeds the applicable strike price of the warrants issued pursuant to the Warrant Transactions (the "Warrants"). The initial strike price of the Warrants is \$48.66 per share. The Bond Hedges and Warrants are not marked to market. The value of the Bond Hedges and Warrants were initially recorded in stockholders' equity and continue to be classified as stockholders' equity in accordance with ASC 815-40, *Derivatives and Hedging - Contracts in Entity's Own Equity*. As of July 1, 2018 and April 1, 2018, no warrants have been exercised.

**Note 16. Term B Loan**

On April 4, 2017, the Company, JP Morgan Chase bank, N.A. ("JP Morgan") as administrative agent and a group of lenders entered into a credit agreement that provides for variable rate term loans in aggregate principal amount of \$200 million, with an original term of 7 years (the "Initial Term B Loan"). After payment of transaction costs associated with the Credit Agreement, the Company received net proceeds from the Initial Term B Loan of approximately \$194.3 million, which was used to partially finance the acquisition of GigPeak and other payments related to such transaction.

On May 29, 2018 (the "Closing Date"), the Company entered into Amendment No. 1 (the "Amendment") to its Credit Agreement, for the purpose of, among other things, reducing the interest margin applicable to loans under the Credit Agreement by 0.50%, all of which was treated as a debt modification. On the Closing Date, the aggregate principal amount of the term loans outstanding under the Credit Agreement was approximately \$198.0 million. Under the Amendment, the lenders agreed to provide to IDT new term loans (the "Term B-1 Loan") in the same aggregate principal amount as the outstanding Initial Term B Loan. Such Term B-1 Loan was used to refinance the outstanding Initial Term B Loan in full. The maturity date of the Term B-1 Loan is April 4, 2024; provided that if any of the Company's Convertible Notes are outstanding on August 16, 2022, the maturity date of which had not otherwise been extended to a date that is no earlier than 91 days after April 4, 2024, the Term B-1 Loan maturity date shall instead be August 16, 2022, unless the Company and its guarantors shall have cash, permitted investments and/or unwithdrawn revolving credit commitments in an aggregate amount not less than the aggregate principal amount of then outstanding Convertible Notes.

The Company will repay the principal amount of the Term B-1 Loan on the last day of each March 31, June 30, September 30 and December 31, in an amount equal to 0.25% of the principal amount of the Term B-1 Loan; and on the maturity date, as described above, in an amount equal to the remainder of the outstanding principal amount of the Term B-1 Loan. The Company may prepay the Term B-1 Loan, in whole or in part, at any time without premium or penalty, subject to certain conditions, and amounts repaid or prepaid may not be reborrowed. The interest rate of the Term B-1 Loan is based on adjusted LIBO rate which is equal to the LIBO rate for such interest period multiplied by statutory reserve rate, plus an applicable margin of 2.5% (3.0% prior to the Amendment). For the three-month periods ended June 30, 2018 and June 30, 2017, the interest rate on the Term B-1 Loan and the Initial Term B Loan is approximately 4.59% and 4.15%, respectively.

The following table summarizes the outstanding borrowings as of July 1, 2018 and April 1, 2018, respectively:

<i>(in thousands)</i>	<b>July 1, 2018</b>	<b>April 1, 2018</b>
Outstanding principal balance	\$ 197,505	\$ 198,000
Unamortized debt issuance costs and debt discount	(4,722)	(4,927)
Outstanding principal, net of unamortized debt issuance costs and debt discount	\$ 192,783	\$ 193,073
Classified as follows:		
Current portion of bank loan	\$ 1,980	\$ 2,000
Long-term bank loan	\$ 190,803	\$ 191,073

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The Company made payments totaling \$0.5 million towards the outstanding principal balance of the long-term bank loan during the three months ended July 1, 2018 and July 2, 2017, respectively. The following table includes the total interest expense recognized during the three months ended July 1, 2018 and July 2, 2017, respectively:

<i>(in thousands)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Contractual interest expense	\$ 2,345	\$ 2,106
Amortization of debt issuance costs and debt discount	205	205
Total	\$ 2,550	\$ 2,311

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends or make distributions and repurchase stock. The Credit Agreement includes customary events of default, including among others, nonpayment of principal or interest, material inaccuracy of representations and failure to comply with covenants. Under certain circumstances, a default interest rate will apply on all overdue obligations under the Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The occurrence of an event of default could result in the acceleration of obligations. The Company is in compliance with the covenants as of July 1, 2018.

See Note 5 to the Company's consolidated financial statements for fair value determination.

### **Note 17. Income Taxes**

During the three ended July 1, 2018 and July 2, 2017, the Company recorded an income tax expense of \$3.1 million and an income tax benefit of \$1.0 million, respectively.

The income tax expense recorded in the three ended July 1, 2018 was primarily due to the impacts of the current year U.S. taxation of certain income of the Company's foreign subsidiaries and an increase in higher-taxed earnings in foreign jurisdictions, partially offset by tax benefits from U.S. research and development. The income tax benefit recorded in the three months ended July 2, 2017 was primarily due to the benefit from research and development tax credits and excess tax benefits from stock based compensation.

The Company's effective tax rate was significantly less than the U.S. federal statutory rate of 21% in all periods primarily due to the benefits of lower-taxed earnings in foreign jurisdictions, including Malaysia, where a tax holiday is in effect through fiscal 2021.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA provides for numerous significant tax law changes and modifications including, among other things, reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; requiring companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries; generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; and creating a new limitation on deductible interest expense. Certain provisions of the TCJA began to impact the Company fiscal year 2018, while other provisions began to impact the Company beginning in fiscal year 2019.

The SEC staff issued Staff Accounting Bulletin 118 which allows companies to record provisional amounts during a measurement period that is similar to the measurement period used when accounting for business combinations. As of April 1, 2018, the Company has made reasonable estimates of the effects on its existing deferred tax balances and the one-time repatriation tax recording provisional charges of \$10.3 million and \$103.9 million, respectively, as a component of income tax expense from continuing operations.

The \$10.3 million charge for the effect on the Companies deferred tax balances resulted from the reduction of the corporate income tax rate to 21%. U.S. GAAP requires companies to remeasure their deferred tax assets and liabilities as of the date of enactment, with resulting tax effects accounted for in the reporting period of enactment. The Company remeasured deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future.

The \$103.9 million charge for the one-time repatriation tax increased other accrued liabilities by \$1.5 million, increased long-term income taxes payable by \$24.1 million, and reduced deferred tax assets, for the utilization of tax attributes, by \$78.3 million. The liabilities resulting from the repatriation tax are payable over a period of up to eight years. The provisional amount was based on the Company's total post-1986 earnings and profits ("E&P") of its foreign subsidiaries. The majority of these earnings were historically permanently reinvested outside the United States, thus no taxes had previously been provided for these earnings. In addition, the one-time repatriation tax is based in part on the amount of those earnings held in cash and other specified assets either as of the end of fiscal year 2018 or the average of the year-end balances for fiscal years 2016 and 2017.

The TCJA creates a new Global Intangible Low-Taxed Income ("GILTI") requirement under which certain income earned by controlled foreign corporations ("CFC"s) must be included currently in the gross income of the CFCs' U.S. shareholder. GILTI is the excess of the shareholder's "net CFC tested income" over the net deemed tangible income return, which is currently defined as the excess of (1) 10 percent of the aggregate of the U.S. shareholder's pro rata share of the qualified business asset investment of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income.

Because of the complexity of the new GILTI tax rules, the Company is continuing to evaluate this provision of the TCJA and the application of ASC 740. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). The Company's selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on analyzing the Company's global income to determine what the impact is expected to be. The Company is not yet able to reasonably estimate the effect of this provision of the TCJA. Therefore, the Company has not made a policy decision regarding whether to record deferred taxes on GILTI. As a result, for the period ended July 1, 2018, the Company has treated GILTI as a period cost and will continue to refine the calculations as additional analysis is completed.



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As of July 1, 2018, the Company had not fully completed its accounting for the tax effects of the enactment of the TCJA. The Company's provision for fiscal year 2018 was based in part on a reasonable estimate of the effects on its transition tax and existing deferred tax balances. The Company will continue to assess the impact of the recently enacted tax law and expected further guidance from federal and state tax authorities as well as further guidance for the associated income tax accounting on its business and consolidated financial statements.

In fiscal year 2018, in connection with the TCJA and review of the Company's projected offshore cash flows, and global cash requirements, the Company determined that historical foreign earnings would no longer be permanently reinvested. The Company plans to continue to repatriate its offshore earnings to the U.S. for domestic operations, and has accrued for the related tax impacts accordingly.

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This amends current GAAP which prohibits recognition of current and deferred income taxes for all types of intra-entity asset transfers until the asset has been sold to a third party or otherwise recovered through use. The Company adopted the new guidance in the first quarter of fiscal 2019. Upon adoption, the Company applied a modified retrospective transition approach and recognized the unamortized portion of the deferred tax charge of \$13.9 million through a cumulative-effect adjustment to accumulated deficit.

As of July 1, 2018, the Company continues to maintain a valuation allowance against the Company's net deferred tax assets in certain foreign and state jurisdictions, as the Company is not able to conclude that it is more likely than not that these deferred tax assets will be realized. The Company reached this decision based on judgment, which included consideration of historical operating results and projections of future profits. The Company will continue to monitor the need for the valuation allowance on a quarterly basis.

The Company benefits from tax incentives granted by local tax authorities in certain foreign jurisdictions. In the fourth quarter of fiscal 2011, the Company agreed with the Malaysia Industrial Development Board to enter into a new tax incentive agreement which is a full tax exemption on statutory income for a period of 10 years commencing April 4, 2011. This tax incentive agreement is subject to the Company meeting certain financial targets, investments, headcounts and activities in Malaysia.

As of July 1, 2018, the Company is under examination in Malaysia for fiscal years 2012 through 2015 and in Canada for fiscal years 2016 through 2017. Although the final outcome of each examination is uncertain, based on currently available information, the Company believes that the ultimate outcome will not have a material adverse effect on its financial position, cash flows or results of operations.

The Company's open years in the U.S. federal jurisdiction are fiscal year 2015 and later years. In addition, the Company is effectively subject to federal tax examination adjustments for tax years ended on or after fiscal year 2000, in that the Company has tax attribute carryforwards from these years that could be subject to adjustments, if and when utilized. The Company's open years in various state and foreign jurisdictions are fiscal years 2011 and later.

The Company does not expect a material change in unrecognized tax benefits within the next twelve months.

### **Note 18. Segment Information**

The Chief Operating Decision Maker is the Company's President and Chief Executive Officer.

During the first quarter of fiscal 2019, the Company reorganized its operating segment structure resulting in a change to the composition of its reportable segments. Prior to the reorganization, some product groups of the acquired GigPeak business were aggregated into the Communications segment while the rest were included in the Computing, Consumer and Industrial segment. As a result of the reorganization, the entire GigPeak business was aggregated to the Computing, Consumer and Industrial segment. The segment financial results for the three months ended July 2, 2017 have been adjusted to conform to the new reportable segment structure effective April 2, 2018.

The Company's reportable segments include the following:

- Communications segment: includes clock and timing solutions, radio frequency (RF), flow-control management such as multi-port products, telecommunication interface, high-speed static random access memory, first in and first out memory, digital logic and frequency control solutions and Serial RapidIO® switching solutions.
- Computing, Consumer and Industrial segment: includes clock generation and distribution products, high-performance server memory interfaces, wireless power, PCI Express®, signal integrity, power management solutions, signal integrity products, optical interconnect, video distribution and contribution solutions and sensing products for mobile, automotive and industrial solutions.

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The tables below provide information about these segments:

<i>Revenues by segment</i> <i>(in thousands)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
	<i>(1)</i>	
Communications	\$ 67,086	\$ 56,548
Computing, Consumer and Industrial	161,430	140,165
Total revenues	<u>\$ 228,516</u>	<u>\$ 196,713</u>

<i>Income by segment</i> <i>(in thousands)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
	<i>(1)</i>	
Communications	\$ 31,536	\$ 20,752
Computing, Consumer and Industrial	36,227	28,931
Unallocated expenses:		
Amortization of intangible assets	(9,334)	(10,841)
Inventory fair market value adjustment	(790)	(4,081)
Stock-based compensation	(15,063)	(11,820)
Severance, retention and facility closure costs	(488)	(653)
Acquisition-related costs and other	—	(2,225)
Other-than-temporary impairment loss on investment	(2,000)	—
Interest expense and other, net	(6,224)	(4,331)
Income before income taxes	<u>\$ 33,864</u>	<u>\$ 15,732</u>

*(1) Prior period numbers have been adjusted to conform to the current organizational structure.*

The Company does not allocate goodwill and intangible assets impairment charge, IPR&D, severance, 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.

Revenues from unaffiliated customers by geographic area, based on the customers' shipment locations, were as follows:

<i>(in thousands)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
	Hong Kong	\$ 80,675
Korea	27,527	18,162
Rest of Asia Pacific	67,292	64,536
Americas <i>(2)</i>	23,268	25,795
Europe	29,754	24,332
Total revenues	<u>\$ 228,516</u>	<u>\$ 196,713</u>

*(2) The revenues from the customers in the U.S. were \$18.2 million and \$22.1 million in the three months ended July 1, 2018 and July 2, 2017, respectively.*

The Company utilizes global and regional distributors around the world, that buy products directly from the Company on behalf of their customers. Two distributors, Uniquist and its affiliates and Avnet and its affiliates, accounted for 14% and 13%, respectively, of the Company's revenues in the three months ended July 1, 2018. One direct original equipment manufacturer (OEM) customer, SK Hynix, accounted for 10% of the Company's revenues in the three months ended July 1, 2018. One distributor, Avnet and its affiliates accounted for 11% of the Company's revenues in the three months ended July 2, 2017. One direct OEM customer, Samsung Electronics accounted for 11% of the Company's revenues in the three months ended July 2, 2017.

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As of July 1, 2018, one distributor represented approximately 20% of the Company's gross accounts receivable. As of April 1, 2018, one distributor represented approximately 15% of the Company's gross accounts receivable.

The Company's significant operations outside of the United States include a test facility in each of Malaysia and Germany, design centers in the U.S., Canada and China, and sales subsidiaries in APAC and Europe. The Company's net property, plant and equipment are summarized below by geographic area:

<i>(in thousands)</i>	July 1, 2018	April 1, 2018
United States	\$ 40,704	\$ 41,230
Malaysia	29,379	28,264
Germany	9,689	10,210
All other countries	7,163	7,141
Total property, plant and equipment, net	<u>\$ 86,935</u>	<u>\$ 86,845</u>

**Note 19. Interest Income and Other, Net**

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

<i>(in thousands)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Interest income	\$ 1,176	\$ 757
Other income, net	495	2,225
Interest income and other, net	<u>\$ 1,671</u>	<u>\$ 2,982</u>

Interest income is derived from earnings on cash and short-term investments. Other income, net primarily consists of gains or losses in the value of deferred compensation plan assets, foreign currency gains or losses and other non-operating gains or losses.

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

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

This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in this report and the Audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended April 1, 2018 filed with the SEC on May 18, 2018. Operating results for the three months ended July 1, 2018 are not necessarily indicative of operating results for an entire fiscal year.

**Critical Accounting Policies**

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

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For a discussion of our critical accounting policies, see Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended April 1, 2018 and our Condensed Consolidated Financial Statements and accompanying Notes included in this report. We believe that these accounting policies are “critical,” as defined by the SEC, in that they are both highly important to the portrayal of our financial condition and results, and they require difficult management judgments, estimates and assumptions about matters that are inherently uncertain. Except for the adoption of ASC Topic 606 and other newly adopted accounting policies discussed in Note 1 to the Condensed Consolidated Financial Statements included in this report, we believe that there have been no other significant changes during the three months ended July 1, 2018 to the items that we disclosed as our critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended April 1, 2018.

### **Business Overview**

We develop system-level solutions that optimize our customers’ applications in key markets. IDT’s market-leading products in radio frequency (RF), timing, real-time interconnect, wireless power transfer, serial switching, memory interfaces, automotive application-specific integrated circuits (ASICs), optical interconnect, video distribution and contribution, sensor signal conditioner integrated circuits (ICs) and environmental sensors are among our broad array of complete mixed-signal solutions for the communications, computing, consumer, automotive and industrial segments. These products are used for development in areas such as 4G/5G infrastructure, network communications, cloud datacenters, autonomous driving, connected homes, smart appliances and power management for computing and mobile devices.

Our top talent and technology, paired with an innovative product-development philosophy, allows us to solve complex customer problems when designing communications, computing, consumer, automotive and industrial applications.

On a worldwide basis, we primarily market our products to original equipment manufacturers (OEMs) through a variety of channels, including direct sales, distributors, electronic manufacturing suppliers (EMSs) and independent sales representatives.

For more information on our business, please see Part I, Item 1, “Business,” in our Annual Report on Form 10-K for the fiscal year ended April 1, 2018.

### **Recent developments**

#### *Refinancing of Term B Loan*

On May 29, 2018 (the “Closing Date”), we entered into Amendment No. 1 (the “Amendment”) to our Credit Agreement dated April 4, 2017, for the purpose of, among other things, reducing the interest margin applicable to loans under the Credit Agreement by 0.50%, all of which was treated as a debt modification. On the Closing Date, the aggregate principal amount of the term loans outstanding under the Credit Agreement was approximately \$198.0 million. Under the Amendment, the lenders agreed to provide to IDT new term loans (the “Term B-1 Loan”) in the same aggregate principal amount as the outstanding Initial Term B Loan. Such Term B-1 Loan was used to refinance the outstanding Initial Term B Loan in full. Refer to Note 16 for details.

#### *Asset Acquisition*

On August 10, 2017, we purchased certain assets of SpectraBeam for a total purchase consideration of \$17.0 million, of which \$12.9 million was paid in cash at closing and \$4.1 million was recorded as a liability representing the fair value of contingent cash consideration. The acquisition did not meet the criteria for a business combination in accordance with ASC 805, Business Combinations, and accordingly, was accounted for as an asset acquisition. Aside from developed technology classified as an intangible asset, there was no other asset or liability that was allocated value in the purchase price allocation. The contingent cash consideration will be paid based upon achievement of certain milestones to be completed within two years from the closing date. Given that the milestones are probable of being achieved and the related amounts are estimable, the fair value of the contingent consideration was recognized as part of the cost of asset acquired at closing date. Accordingly, the total purchase consideration of \$17.0 million was allocated to the developed technology.

#### *Acquisition of GigPeak, Inc.*

On April 4, 2017, we completed the acquisition of all of the outstanding common stock of GigPeak, a publicly held company mainly operating in the United States in an all-cash transaction for approximately \$250.1 million (the “Acquisition”). As a result of this Acquisition, we recorded amortizable intangible assets of \$97.9 million and goodwill of \$113.2 million during the first quarter of fiscal 2018. In addition, we recorded approximately \$2.2 million of acquisition related costs during the first quarter of fiscal 2018, which were included in Selling, General and Administrative Expenses in the Condensed Consolidated Statements of Operations. Refer to Note 4 for details.



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**Overview**

The following table and discussion provide an overview of our operating results for the three months ended July 1, 2018 and July 2, 2017:

<i>(in thousands, except for percentage)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Revenues	\$ 228,516	\$ 196,713
Gross profit	\$ 136,607	\$ 110,038
As a % of revenues	60%	56%
Operating income	\$ 41,378	\$ 19,647
As a % of revenues	18%	10%
Net income	\$ 30,720	\$ 16,714
As a % of revenues	13%	8%

Our revenues increased by \$31.8 million, or 16%, to \$228.5 million during the quarter ended July 1, 2018 compared to the quarter ended July 2, 2017. The increase was primarily due to increased demand for memory interface products, higher revenue contribution from automotive/industrial/sensing products and revenue increases from other communications and certain legacy products. These increases were partially offset by other computing, consumer and industrial products. Gross profit percentage and operating income percentage were 60% and 18%, respectively, for the quarter ended July 1, 2018; and 56% and 10%, respectively, for the quarter ended July 2, 2017. Net income was \$30.7 million in the first quarter of fiscal 2019, as compared to net income \$16.7 million in the first quarter of fiscal 2018. The increase in net income was primarily driven by higher operating income, which was partially offset by higher net other expense and provision for income taxes as compared to the same period in prior fiscal year.

**Results of Operations**

**Revenues**

**Revenues by segment:**

*(in thousands)*

	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Communications	\$ 67,086	\$ 56,548
Computing, Consumer and Industrial	161,430	140,165
Total revenues	<u>\$ 228,516</u>	<u>\$ 196,713</u>

**Product groups representing greater than 10% of net revenues:**

<i>As a percentage of net revenues</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Communications:		<i>(1)</i>
Communications timing products	11%	11%
All others less than 10% individually (2)	18%	18%
Total Communications	<u>29%</u>	<u>29%</u>
Computing, Consumer and Industrial:		
Memory interface products	29%	25%
Wireless power products	11%	12%
Automotive, industrial and sensing products	15%	13%
All others less than 10% individually (2)	16%	21%
Total Computing, Consumer and Industrial	<u>71%</u>	<u>71%</u>
Total	<u>100%</u>	<u>100%</u>

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(1) Prior period numbers have been adjusted to conform to our current organizational structure. The percentage of net revenues for prior period remained the same as previously reported. See Note 18 for details.

(2) Includes product group with less than 10% of net revenue individually in a given year.

**Communications Segment**

Revenues in our Communications segment increased by \$10.5 million, or 19%, to \$67.1 million during the quarter ended July 1, 2018 as compared to the quarter ended July 2, 2017. The increase was primarily due to a \$6.9 million revenue increase in other communications products and a \$3.6 million revenue increase from our legacy products.

**Computing, Consumer and Industrial Segment**

Revenues in our Computing, Consumer and Industrial segment increased by \$21.3 million, or 15% to \$161.4 million during the quarter ended July 1, 2018 as compared to the quarter ended July 2, 2017. The increase was primarily due to a \$15.4 million revenue increase in our memory interface products and an \$8.1 million revenue increase in our automotive/industrial/sensing products. The increase was partially offset by decreases from other computing, consumer and industrial products.

**Revenues by Region**

Revenues, based on shipped to locations, in Hong Kong, Korea, rest of APAC, Americas and Europe accounted for 35%, 12%, 30%, 10% and 13%, respectively, of consolidated revenues in the quarter ended July 1, 2018 compared to 32%, 9%, 33%, 13% and 13%, respectively, of our consolidated revenues in the quarter ended July 2, 2017.

**Gross Profit**

<i>(in thousands, except for percentages)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Gross Profit	\$ 136,607	\$ 110,038
Gross Profit Percentage	59.8%	55.9%

Gross profit increased by \$26.6 million in the three months ended July 1, 2018 compared to the three months ended July 2, 2017, as a result of increased revenues. Gross profit as a percentage of revenues increased by 3.9% in the three months ended July 1, 2018 compared to the three months ended July 2, 2017. Gross profit percentage increased primarily due to an improved shipment mix of higher margin products and an improved inventory management.

**Operating Expenses**

The following table presents our operating expenses for the three ended July 1, 2018 and July 2, 2017:

<i>(in thousands, except for percentages)</i>	Three Months Ended			
	July 1, 2018		July 2, 2017	
	Dollar Amount	% of Net Revenue	Dollar Amount	% of Net Revenue
Research and development	\$ 52,234	23%	\$ 48,449	25%
Selling, general and administrative	\$ 42,995	19%	\$ 41,942	21%

**Research and Development (R&D)**

R&D expense increased by \$3.8 million, or 7.8%, to \$52.2 million in the quarter ended July 1, 2018 compared to the quarter ended July 2, 2017. The increase was primarily driven by higher personnel-related costs (including stock-based compensation) which resulted from a mix of increased variable compensation, salary increases and new hires to support future product development.

**Selling, General and Administrative (SG&A)**

SG&A expense increased by \$1.1 million, or 2.5%, to \$43.0 million in the quarter ended July 1, 2018 as compared to the quarter ended July 2, 2017. The increase was primarily driven by a \$3.2 million from higher personnel-related costs (including stock-based compensation) which resulted from a mix of increased variable compensation and salary increases. This increase was partially offset by a \$2.2 million decrease in acquisition-related expenses as a result of GigPeak acquisition during the quarter ended July 2, 2017.

**Interest Expense**

The components of interest expense for the three months ended July 1, 2018 and July 2, 2017 are summarized as follows:

<i>(in thousands)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Contractual interest expense	3,172	2,932
Amortization of debt discount	3,345	3,166
Amortization of debt issuance costs	475	475
Other	193	324
Total interest expense	<u>\$ 7,185</u>	<u>\$ 6,897</u>

Interest expense for the three months ended July 1, 2018 and July 2, 2017 was primarily related to the Convertible Notes and the term loans.

#### Interest Income and Other, Net

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

<i>(in thousands)</i>	Three Months Ended	
	July 1, 2018	July 2, 2017
Interest income	\$ 1,176	\$ 757
Other income, net	495	2,225
Interest income and other, net	<u>\$ 1,671</u>	<u>\$ 2,982</u>

Interest income is derived from earnings on our cash and short-term investments. Other income, net primarily consists of gains or losses in the value of deferred compensation plan assets, foreign currency gains or losses and other non-operating gains or losses. The increase in interest income in the three months ended July 1, 2018 as compared to the same periods in prior year was primarily attributable to higher average interest rates for the period. The decrease in other income in the three months ended July 1, 2018 as compared to the same periods in prior year was primarily driven by the unfavorable impact of foreign currency fluctuations which were partially offset by the increase in fair value of the underlying investments of the deferred compensation plan.

#### Income Tax Expense (Benefit)

During the three months ended July 1, 2018 and July 2, 2017, we recorded an income tax expense of \$3.1 million and an income tax benefit of \$1.0 million, respectively. The income tax expense recorded in the three ended July 1, 2018 was primarily due to the impacts of the current year U.S. taxation of certain income of our foreign subsidiaries and an increase in higher-taxed earnings in foreign jurisdictions, partially offset by tax benefits from U.S. research and development. The income tax benefit recorded in the three months ended July 2, 2017 was primarily due to the benefit from research and development tax credits and excess tax benefits from stock based compensation.

As of July 1, 2018, we continue to maintain a valuation allowance against our net deferred tax assets in certain foreign and state jurisdictions, as we are not able to conclude that it is more likely than not that these deferred tax assets will be realized. We reached this decision based on judgment, which included consideration of historical operating results and projections of future profits. We will continue to monitor the need for the valuation allowance on a quarterly basis.

In fiscal year 2018, in connection with the TCJA and review of our projected offshore cash flows, and global cash requirements, we determined that historical foreign earnings would no longer be permanently reinvested. We plan to continue to repatriate its offshore earnings to the U.S. for domestic operations, and has accrued for the related tax impacts accordingly.

The SEC staff issued Staff Accounting Bulletin 118 which allows companies to record provisional amounts during a measurement period that is similar to the measurement period used when accounting for business combinations. As of April 1, 2018, we have made reasonable estimates of the effects on our existing deferred tax balances and the one-time repatriation tax recording provisional charges as a component of income tax expense from continuing operations. As of July 1, 2018, we had not fully completed our accounting for the tax effects of the enactment of the TCJA. Our provision for income taxes is based in part on a reasonable estimate of the effects on our transition tax and existing deferred tax balances. We will continue to assess the impact of the recently enacted tax law and expected further guidance from federal and state tax authorities as well as further guidance for the associated income tax accounting on our business and consolidated financial statements.

We benefit from tax incentives granted by local tax authorities in certain foreign jurisdictions. In the fourth quarter of fiscal 2011, we agreed with the Malaysia Industrial Development Board to enter into a new tax incentive agreement which is a full tax exemption on statutory income for a period of 10 years commencing April 4, 2011. This tax incentive agreement is subject to the Company meeting certain financial targets, investments, headcounts and activities in Malaysia.

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As of July 1, 2018, we are under examination in Malaysia for fiscal years 2012 through 2015 and in Canada for fiscal years 2016 through 2017. Although the final outcome of each examination is uncertain, based on currently available information, we believe that the ultimate outcome will not have a material adverse effect on its financial position, cash flows or results of operations.

Our open years in the U.S. federal jurisdiction are fiscal year 2015 and later years. In addition, we are effectively subject to federal tax examination adjustments for tax years ended on or after fiscal year 2000, in that we have tax attribute carryforwards from these years that could be subject to adjustments, if and when utilized. Our open years in various state and foreign jurisdictions are fiscal years 2011 and later.

We do not expect a material change in unrecognized tax benefits within the next twelve months.

### **Liquidity and Capital Resources**

Our cash and cash equivalents and short-term investments were \$346.3 million at July 1, 2018, a decrease of \$12.6 million compared to April 1, 2018. We had an outstanding debt in the form of Convertible Notes amounting to \$373.8 million as of July 1, 2018 and April 1, 2018, and term loans with outstanding principal balance of \$197.5 million and \$198.0 million as of July 1, 2018 and April 1, 2018, respectively.

The Convertible Notes are governed by the terms of an indenture, dated November 4, 2015, between the Company and a trustee. The Convertible Notes are the senior unsecured obligations of the Company and bear interest at a rate of 0.875% per annum, payable semi-annually in arrears on May 15 and November 15 of each year, commencing May 15, 2016. The Convertible Notes will mature on November 15, 2022, unless earlier repurchased or converted. At any time prior to the close of business on the business day immediately preceding August 15, 2022, holders may convert their Convertible Notes at their option only under the certain circumstances as defined in the indenture. On or after August 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of such circumstances. The conversion rate for the Convertible Notes will initially be 29.8920 shares of common stock per \$1,000 principal amount of Convertible Notes, which corresponds to an initial conversion price of approximately \$33.45 per share of common stock. The conversion rate is subject to adjustment from time to time upon the occurrence of certain events, including, but not limited to, the issuance of certain stock dividends on common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, the payment of cash dividends and certain issuer tender or exchange offers. As of July 1, 2018, none of the conditions allowing holders of the Convertible Notes to convert had been met.

On May 29, 2018 (the "Closing Date"), we entered into Amendment No. 1 (the "Amendment") to its Credit Agreement, for the purpose of, among other things, reducing the interest margin applicable to loans under the Credit Agreement by 0.50%, all of which was treated as a debt modification. On the Closing Date, the aggregate principal amount of the term loans outstanding under the Credit Agreement was approximately \$198.0 million. Under the Amendment, the lenders agreed to provide to IDT new term loans (the "Term B-1 Loan") in the same aggregate principal amount as the outstanding Initial Term B Loan. Such Term B-1 Loan was used to refinance the outstanding Initial Term B Loan in full. The maturity date of the Term B-1 Loan is April 4, 2024; provided that if any of our Convertible Notes are outstanding on August 16, 2022, the maturity date of which had not otherwise been extended to a date that is no earlier than 91 days after April 4, 2024, the Term B-1 Loan maturity date shall instead be August 16, 2022, unless we and its guarantors shall have cash, permitted investments and/or unwithdrawn revolving credit commitments in an aggregate amount not less than the aggregate principal amount of then outstanding Convertible Notes.

We will repay the principal amount of the Term B-1 Loan on the last day of each March 31, June 30, September 30 and December 31, in an amount equal to 0.25% of the original principal amount of the Initial Term B Loan; and on the maturity date, as described above, in an amount equal to the remainder of the outstanding principal amount of the Term B-1 Loan. We may prepay the Term B-1 Loan, in whole or in part, at any time without premium or penalty, subject to certain conditions, and amounts repaid or prepaid may not be reborrowed. The interest rate of the Term B-1 Loan is based on adjusted LIBO rate which is equal to the LIBO rate for such interest period multiplied by statutory reserve rate, plus an applicable margin of 2.5% (3.0% prior to the Amendment. For the three-month periods ended June 30, 2018 and June 30, 2017, the interest rate on the Term B-1 Loan and the Initial Term B Loan is approximately 4.59% and 4.15%, respectively.

### *Cash Flows from Operating Activities*

Net cash provided by operating activities totaled \$44.3 million in the three months ended July 1, 2018 compared to \$35.0 million in the three months ended July 2, 2017. Cash provided by operating activities in the three months ended July 1, 2018 consisted of our net income of \$30.7 million, adjusted to add back non-cash items such as stock-based compensation, depreciation, amortization, impairment charges, amortization of debt issue cost and debt discount and deferred income tax which totaled \$41.3 million; and cash used for working capital requirements of \$27.7 million.

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*Cash Flows from Investing Activities*

Net cash provided by investing activities in the three months ended July 1, 2018 was \$14.1 million compared to net cash used of \$268.1 million in the three months ended July 2, 2017. Net cash provided by investing activities in the three months ended July 1, 2018 was primarily due to \$26.8 million of proceeds from short term investments. Those were partly offset by \$3.5 million net purchases of short-term investments and \$9.2 million of expenditures to purchase capital equipment and intangible assets.

*Cash Flows from Financing Activities*

Net cash used by financing activities in the three months ended July 1, 2018 was \$45.6 million compared to net cash provided of \$161.9 million in the three months ended July 2, 2017. Cash provided by financing activities in the three months ended July 1, 2018 was primarily due to \$5.4 million of proceeds from exercise of employee stock options and the issuance of stock under our employee stock purchase plan. Those were partly offset by \$49.3 million of proceeds used in the repurchase of our common stock.

We anticipate capital expenditures of approximately \$30 million to \$40 million during the next 12 months to be financed through cash generated from operations and existing cash and investments.

In addition, as much of our revenues are generated outside the U.S., a significant portion of our cash and investment portfolio accumulates in the foreign countries in which we operate. As of July 1, 2018, we had cash, cash equivalents and investments of approximately \$213.5 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.

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 through at least the next 12 months. We may choose to investigate other financing alternatives to supplement U.S. liquidity; however, we cannot be certain that additional financing will be available on satisfactory terms.

**Off-Balance Sheet Arrangements**

As of July 1, 2018, we did not have any significant off-balance sheet arrangement, as defined under SEC Regulation S-K Item 303(a)(4)(ii), other than the items discussed and in "Note 13 - Commitments and Contingencies - Commitments" in Part I, Item 1 of this quarterly report on Form 10-Q.

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

Our interest rate risk relates primarily to our short-term investments of \$198.2 million and \$222.0 million as of July 1, 2018 and April 1, 2018, respectively. 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 July 1, 2018 and April 1, 2018, our cash, cash equivalents and investment portfolio was concentrated in securities with same day liquidity and a substantial majority of securities in our investment portfolio had maturities of less than two years. A hypothetical 10% change in interest rates would not have a material effect on the value of our investment portfolio as of July 1, 2018. We do not currently use derivative financial instruments in our investment portfolio.

As of July 1, 2018, we had an outstanding principal balance in our Term B-1 Loan of \$197.5 million. The interest rate of the Term B-1 Loan is based on adjusted LIBO rate which is equal to the LIBO rate for such interest period multiplied by statutory reserve rate, plus an applicable margin of 2.5%. As the applicable interest rate is based on a floating rate index, we are exposed to interest rate risk. A one hundred basis point change in the contractual interest rate would increase the interest expense for the next 12 months on our outstanding Term B-1 Loan by \$2.0 million.

At July 1, 2018 and April 1, 2018, we had an outstanding debt of \$373.8 million in the form of convertible note. The fair value of our Convertible Notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the Convertible Notes will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the Convertible Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The interest and market value changes affect the fair value of our Convertible Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation.

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 have foreign exchange facilities used for hedging arrangements with banks that allow us to enter into foreign exchange contracts totaling approximately \$32 million, all of which was available at July 1, 2018. As of July 1, 2018 and April 1, 2018, we had no material outstanding foreign exchange contracts.

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A substantial majority of our sales is denominated in U.S. dollars. We therefore do not have material foreign currency risk associated with sale of products. We performed a sensitivity analysis for the three months ended July 1, 2018 and July 2, 2017 and determined that, without hedging the exposure, a 10% change in foreign currency exchange rates would result in an approximate 0.6% and 0.8% impact on our revenues (as a percentage of revenue), respectively. For the three months ended July 1, 2018 and July 2, 2017, a 10% change in foreign currency exchange rates would result in an approximate 0.9% impact on gross profit margin percentage, respectively, as we operate manufacturing testing facilities in Malaysia and Germany. For the three months ended July 1, 2018 and July 2, 2017, a 10% change in foreign currency exchange rates would result in an approximate 0.7% and 0.5% impact to operating expenses (as a percentage of revenue), respectively, as we operate sales offices in Japan, Taiwan and South Korea and throughout Europe and design centers in China and Canada.

Additionally, a relatively small amount of our monetary assets and liabilities are denominated in foreign currencies. Fluctuations in these currencies relative to the United States dollar will result in transaction gains or losses included in net earnings. To date, foreign currency transaction gains or losses due to fluctuations in foreign currency exchange rates were not material.

We did not have any material currency exposure related to any outstanding capital purchases as of July 1, 2018 and April 1, 2018.

### **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.

As of July 1, 2018, the end of the quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure control and procedures were effective at a reasonable assurance level. There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

### **PART II. OTHER INFORMATION**

## ITEM 1. LEGAL PROCEEDINGS

### Litigation

On March 23, 2018, a complaint for patent infringement was served on the Company by DIFF Scale Operations Research, LLC (“DSOR”) in the Federal Court for the District of Delaware. DSOR alleged to be the owner of a certain collection of patents previously owned by ADC Communications, some of which were the subject of the litigation against the Company. This dispute between the parties has now been resolved, and the court case dismissed based on a joint stipulation of the parties on June 28, 2018, with no finding of infringement liability against IDT.

In January 2012, Maxim I Properties, a general partnership that had purchased a certain parcel of real property (the Property) in 2003, filed a complaint in the Northern District of California naming approximately 30 defendants, including the Company (“Defendants”), alleging various environmental violations of the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) and Resource Conservation and Recovery Act (RCRA), the California Hazardous Substance Account Act (HSAA), and other common law claims (the Complaint). The Complaint alleged that Defendants including the Company “...generated, transported, and/or arranged for the transport and/or disposal of hazardous waste to the Property.” On August 15, 2012, Maxim I Properties voluntarily dismissed its Complaint without prejudice. However, another defendant, Moyer Products, Inc., counter-claimed against the plaintiff, Maxim, and cross-claimed against the remaining co-Defendants, including the Company. Thus, the Company remains a cross-defendant in this action. In a related, but independent action, the California Department of Toxic Substances Control (DTSC) notified the Company in September 2012 that the Company, and more than 50 other entities, were being named as respondents to DTSC’s Enforcement Order, as “a generator of hazardous waste.” In April 2013, the Company, along with the other “respondent” parties, entered into a Corrective Action Consent Agreement (CACA) with the DTSC, agreeing to conduct the Property investigation and corrective action selection. The CACA supersedes the DTSC’s Enforcement Order. The District Court for the Northern District of California stayed the Maxim/Moyer litigation pending the Property investigation under the CACA and DTSC’s corrective action selection. Property investigation activity took place between April 2013 and June 2015. On June 23, 2015, the DTSC deemed the Property investigation complete. The DTSC continues to evaluate corrective action alternatives. The Company will continue to vigorously defend itself against the allegations in the Complaint and evaluate settlement options with Moyer upon notification from DTSC of its corrective action selection. No specific corrective action has been selected yet, and thus no specific monetary demands have been made.

The Company may also be a party to various other legal proceedings and claims arising in the normal course of business from time to time. With regard to the matters listed above, along with various other legal proceedings and claims and future matters that may arise, potential liability and probable losses or ranges of possible losses due to an unfavorable litigation outcome cannot be reasonably estimated at this time. Generally, litigation is subject to inherent uncertainties, and no assurance can be given that the Company will prevail in any particular lawsuit or claim. Pending lawsuits, claims as well as potential future litigation, could result in substantial costs and diversion of resources and could have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

### 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. These risk factors are intended to highlight certain factors that may affect our financial condition and results of operations and are not meant to be an exhaustive discussion of risks that we may face. Our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risk and uncertainties, both known and unknown, we may be unable to conduct our business as currently planned and our financial condition and operating results could be adversely impacted. In addition, the price of our securities is subject to volatility and could decline due to the occurrence of any of these risks, causing investors to lose all or part of their investment.*

**Our operating results can fluctuate dramatically.** Our operating results have fluctuated in the past and are likely to vary in the future. Past financial results may not be a reliable indicator of future performance. Fluctuations in operating results can result from a wide variety of factors, including:

- global economic conditions, including those related to the credit markets;
- the cyclical nature of the semiconductor industry;
- changes in the demand for and mix of products sold and in the markets we and our customers serve;
- the availability of industry-wide wafer processing capacity;
- the availability of industry-wide and package specific assembly subcontract capacity and related raw materials;
- competitive pricing pressures;
- the success and timing of new product and process technology announcements and introductions from us or our competitors;
- potential loss of market share among a concentrated group of customers;

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- 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;
- limited control over our manufacturing and product delivery as a result of our reliance on subcontractors, foundry and other manufacturing services;
- unrealized potential of acquired businesses and resulting assets impairment;
- availability and costs of raw materials from a limited number of suppliers;
- political, economic and health conditions in various geographic areas;
- trade-relations disputes and/or tariffs imposed by various countries;
- imposition and/or enforcement of U.S. export control restrictions or similar regulatory trade limitations;
- timing and execution of plans and programs subject to foreign labor law requirements, including consultation with work councils;
- reduced customer demand as a result of the impact from natural and/or man-made disasters which may adversely impact our customer's manufacturing capability or reduce our customer's ability to acquire critical materials or components to manufacture their end products;
- costs associated with other events, such as intellectual property disputes or other litigation; and
- legislative, tax, accounting, or regulatory changes or changes in their interpretation.

### ***Global economic and geo-political conditions may adversely affect our business and results of operations.***

We have and/or rely on facilities and operations in many countries throughout the world and some of our operations are concentrated in one or more geographic regions. A significant portion of our revenue comes from shipments to locations outside the United States. As a result of the breadth of our international operations, we are subject to the potential for substantial volatility in global capital markets and the global demand for semiconductor product. Our financial results and operations, including our ability to manufacture, assemble and test, design, develop and sell products, may be adversely affected by various global economic and geo-political conditions which can include:

- slow, uneven economic growth throughout the world;
- uncertainty regarding macroeconomic conditions and/or an institutional or economic collapse in a geographic region;
- geo-political events and security breaches throughout the world, such as armed conflict, civil or military unrest, political instability, terrorist activity, cyber attacks and data fraud or theft;
- natural disasters and public health issues including pandemics and outbreaks of infectious diseases;
- large scale disruptions in transportation, communications and information technology networks;
- disruption from trade-relations disputes and/or tariffs imposed by various countries; and
- imposition and/or enforcement of U.S. export control restrictions or similar regulatory trade limitations.

### ***The cyclicity of the semiconductor industry exacerbates the volatility of our operating results.***

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

### ***Our acquisitions and the integration of businesses, operations and employees with our own will involve risks and the failure to integrate successfully in the expected time frame may adversely affect our future results.***

Any failure to successfully integrate the business, operations and employees of acquired companies could harm our results of operations. Our ability to realize these benefits will depend, in part, on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between the companies and their personnel. Implementation and integration of acquired businesses will be complex and time-consuming, will involve additional expense and could disrupt our business and divert management's attention from ongoing business concerns. The challenges involved in integrating acquired businesses will include:

- preserving customer, supplier and other important relationships of the acquired companies and the Company;
- coordinating and integrating operations;
- integrating financial forecasting and controls, procedures and reporting cycles;
- combining and integrating information technology systems; and
- integrating employees and related human resources systems and benefits, maintaining employee morale and retaining key employees.



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The benefits we expect to realize from acquisitions are, necessarily, based on projections and assumptions about the combined businesses of the Company and the acquired businesses and assume, among other things, the successful integration of the acquired companies into our business and operations. We may not successfully integrate such acquired businesses and our operations in a timely manner, or at all. If we do not realize the anticipated benefits of such transaction, our growth strategy and future profitability could be affected. In addition, an acquisition could significantly increase the amount of our goodwill and other intangible assets, which could adversely affect our future results of operations.

***We have a substantial amount of indebtedness which could adversely affect our financial position and prevent us from implementing our strategy or fulfilling our contractual obligations.***

We borrowed \$198 million in a term loan facility (Term B-1 Loan) with a maturity date of April 4, 2024. In November 2015, we issued \$373.8 million of 0.875% Convertible Senior Notes due 2022 (Convertible Notes). Our substantial indebtedness may:

- limit our ability to use our cash flow or borrow additional funds for working capital, capital expenditures, acquisitions and general corporate and other purposes;
- make it difficult for us to satisfy our financial obligations;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Our Credit Agreement related to the Term B-1 Loan contains customary affirmative and negative covenants, including covenants that limit or restrict our and our subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends or make distributions and repurchase stock. Any of these factors could materially and adversely affect our business, financial condition and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

***The exercise of warrants issued to JPMorgan Chase Bank concurrently with our Convertible Notes would, and the conversion of our Conversion Notes could, dilute the ownership interest of our existing shareholders.***

If the market price per share of our common stock, as measured under the terms of the warrant transactions, exceeds the strike price of the warrants during the measurement period at the maturity of the warrants, we will owe JPMorgan Chase Bank a number of shares of our common stock in an amount based on the excess of such market price per share of our common stock over the strike price of the warrants. Any issuance by us of additional shares to JPMorgan Chase Bank upon exercise of the warrants will dilute the ownership interest of our existing shareholders. In addition, the conversion of our Convertible Notes will dilute the ownership interests of our existing shareholders and could have a dilutive effect on our net income per share to the extent that the price of our common stock exceeds the conversion price of the Convertible Notes. Any sales in the public market by JPMorgan Chase Bank of our common stock upon exercise of the warrants or sales in the public market of our common stock issuable upon conversion of the Convertible Notes could adversely affect prevailing market prices of our common stock.

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

Acquisitions and divestitures are commonplace in the semiconductor industry and we have acquired and divested, and may continue to acquire or divest, businesses and technologies. Mergers, acquisitions and divestitures include a number of risks and present financial, managerial and operational challenges. Acquisitions or divestitures could divert our management's attention and other resources from other business concerns. Integrating newly acquired businesses or technologies, or in the case of a divestiture, separating businesses or technologies, could put a strain on our resources, could be costly and time consuming, and might not be successful. In addition, we might lose key employees while integrating new organizations or might incur increased expenses, including but not limited to legal, administrative and compensation expenses, related to newly hired or terminated employees. Acquisitions and divestitures could also result in customer dissatisfaction, performance problems with an acquired company or technology, dilutive or potentially dilutive issuances of equity securities, the incurrence of debt, the assumption or incurrence of contingent liabilities, or other unanticipated events or circumstances, any of which could harm our business. Consequently, we might not be successful in acquiring or integrating any new businesses, products, or technologies, and might not achieve anticipated revenues and cost benefits. In addition, we might be unsuccessful in finding or completing acquisition or divestiture opportunities on acceptable terms in a timely manner. For all these reasons, our pursuit of an acquisition, investment, divestiture, merger or joint venture could cause our actual results to differ materially from those anticipated.

***Demand for our products depends primarily on demand in the communications, enterprise computing, consumer, automotive and industrial markets which can be significantly affected by concerns over macroeconomic issues.***

Our product portfolio consists predominantly of semiconductor solutions for the communications, computing, consumer, automotive and industrial markets. Our strategy and resources are directed at the development, production and marketing of products for these markets. The markets for our products will depend on continued and growing demand for communications equipment, servers, consumer electronics, and automotive and industrial solutions. These end-user markets may experience changes

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in demand that could adversely affect our business and could be greater in periods of economic uncertainty and contraction. To the extent demand or markets for our products do not grow, our business could be adversely affected.

### ***We rely upon subcontractors and third-party foundries.***

We are dependent on third-party subcontractors for all of our assembly operations. We are also dependent on third-party outside foundries for the manufacture of our silicon wafers. Our reliance on subcontractors and third-party foundries for our current products presents certain risks because we will have less control over manufacturing quality and delivery schedules, maintenance of sufficient capacity to meet our orders and maintaining in place the manufacturing processes we require. 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 build most of our products based on estimated demand forecasts.***

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

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

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

Our business strategy is based on our assumptions about the future demand for our current products and the new products and applications that we are developing and on our ability to produce our products profitably. We may not be successful in carrying out our business strategy. Further, some or all of our assumptions may be incorrect and our business strategy may not sustain or improve our results of operations. In particular, we may not be able to build our position in markets with high growth potential, increase our volume or revenue, rationalize our manufacturing operations or reduce our costs and expenses.

In addition, circumstances beyond our control and changes in our business or industry may require us to change our business strategy at any given time.

### ***We face significant competition.***

The semiconductor industry is highly competitive and subject to rapid market developments and changes in industry standards, trends and desirable technology. If we do not anticipate and respond to these developments, our competitive position may weaken and our products and/or technologies may become undesirable or obsolete. Further, the price and product development pressures that result from competition may lead to reduced profit margins and lost business opportunities in the event that we are unable to match the price decline or cost efficiencies or advancements of our competitors.

***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 affected. 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. Future success for certain new products will also depend on the development of product solutions for new emerging markets and new applications for existing markets. The success of such products is dependent on the ability of our customers and their customers to successfully develop new markets and gain market acceptance for new product solutions in those markets. Even if we are able to develop, produce and successfully market new products in a timely manner, such new products may not achieve market acceptance. The above described events could have a variety of negative effects on our competitive position and our financial results, such as reducing our revenue, increasing our costs, lowering our gross margin percentage, and ultimately leading to impairment of assets.

***The loss of the services of any key personnel may adversely affect our business and growth prospects.***

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

***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.

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

In addition, we utilize a relatively small number of global and regional distributors around the world, who buy product directly from us on behalf of their customers. If our business relationships with any of these distributors were to diminish or any of these distributors were to file for bankruptcy or otherwise experience significantly adverse financial conditions, our business could be adversely affected. Because we continue to be dependent on product demand from a small group of OEM end customers and global and regional distributors, any material delay, cancellation or reduction of orders from or loss of these or other major customers could cause our revenue to decline significantly.

***We face competitive pressures and unique requirements from our automotive business customers.***

Our automotive business is highly competitive and we may face significant pricing and price reduction pressures from our automotive business customers. Our automotive business results could be adversely impacted if we are unable to offset pricing reduction pressures by improving operating efficiencies and reducing expenditures. In addition to aggressive pricing and ongoing price reductions, our automotive business customers may require longer term product supply commitments and greater contractual penalties and/or liability terms than those of our non-automotive business customers. Our automotive business customers' products may also carry a risk of personal injury or property damage to end users in the event of a component failure and our participation in such business segment carries an increased risk that we will be required to respond to product liability and other similar types of claims.

***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 were not available, or if capacity were only available at unfavorable prices.

***Our operations and business could be significantly harmed by natural disasters or acts of terrorism.***

A majority of the third-party foundries and subcontractors we currently use are located in Malaysia, South Korea, the Philippines, Taiwan, Thailand, China, and Germany. In addition, we own test facilities in Malaysia and Germany. The risk of an earthquake or tsunami in these Pacific Rim locations is significant. The occurrence of an earthquake, drought, flood, fire, or other natural disaster near any of these locations could cause a significant reduction of end-customer demand and/or availability of materials, a disruption of the global supply chain, an increase in the cost of products that we purchase, and otherwise interfere with our ability to conduct business. In addition, public health issues, acts of terrorism, armed conflicts or other catastrophic events could significantly delay the production or shipment of our products. Although we maintain insurance for some of the damage that may be caused by natural disasters, our insurance coverage may not be sufficient to cover all of our potential losses and would not cover us for lost business. As a result, a natural disaster in one or more of these regions could have a material adverse effect on our financial condition and results of operations.

***We are exposed to risks related to cybersecurity threats and incidents.***

In the conduct of our business, we collect, use, transmit and store data on information technology systems. These data include confidential information belonging to us or our customers or other business partners, as well as personally-identifiable information of individuals. Unauthorized persons or employees may gain access to our facilities or information technology systems to steal trade secrets or other proprietary information, compromise confidential information, create system disruptions or cause shutdowns. These parties may also be able to develop and deploy viruses, worms, and other malicious software programs that disrupt our operations and create security vulnerabilities. We devote significant resources to network security, data encryption and other measures to protect our systems and data from unauthorized access or misuse. However, depending on their nature and scope, cybersecurity incidents could result in: business disruption; the misappropriation, corruption or loss of confidential information; reputational damage; litigation with third parties; data privacy issues; and increased cybersecurity protection and remediation costs. Attempted or successful attacks against our products and services could damage our reputation with customers or users and reduce demand for our products and services; which could have a material adverse effect on our business, financial condition and results of operation.

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

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

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

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

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

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

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

### ***We may be unable to enforce or protect our intellectual property rights.***

We rely on patents, copyrights, trade secrets, mask rights, and other intellectual property rights as well as confidentiality and licensing agreements to protect our intellectual property interests. Our ability to enforce these rights is subject to general litigation risks, as well as uncertainty as to the enforceability of these rights in various countries. Should we seek to enforce our intellectual property rights, we could be subject to claims that our intellectual property rights are invalid or otherwise not enforceable. Our assertion of our intellectual property rights may result in the other party seeking to assert claims against us, which could be disruptive to and/or harm our business. Our inability to enforce our intellectual property rights under any of these circumstances may hamper our competitive position and business.

### ***We rely on access to third-party intellectual property, which may not be available to us on commercially reasonable terms or at all.***

Some of our products include third-party intellectual property and/or implement industry standards, which may require licenses from third parties. Based on past experience and industry practice, we believe such licenses generally can be obtained on commercially reasonable terms. However, there is no assurance that the necessary licenses can be obtained on acceptable terms or at all. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude us from selling certain products or otherwise have a material adverse impact on our financial condition and operating results.

### ***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. In addition, any significant quality problems could damage our reputation with our customers and could take focus away from the development of new and enhanced products. These could have a significant negative impact on our financial results.

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

### ***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, primarily Malaysia, which has granted the Company significant reductions in tax rates. These lower tax rates allow us to record a relatively low tax expense on a worldwide basis.

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

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

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region in which we operate. We are subject to income taxes in the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities.

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On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The changes included in the TCJA are broad and complex. The final transition impacts of the TCJA may differ from the estimates provided elsewhere in our financial results, possibly materially, due to, among other things, changes in interpretations of the TCJA, any legislative action to address questions that arise because of the TCJA, any changes in accounting standards for income taxes or related interpretations in response to the TCJA, or any updates or changes to estimates we have utilized to calculate the transition impacts, including impacts from changes to post-1986 earnings and profits for our foreign entities and current year earnings estimates. Additionally, other countries where we do business have been considering changes in relevant tax laws applicable to multinational corporations such as ours. These potential changes could adversely affect our effective tax rate or result in higher cash tax liabilities.

Our effective tax rate could be adversely affected by changes in the mix of earnings between countries with differing statutory tax rates, by changes in the valuation of deferred tax assets, or by material audit assessments, which could affect our profitability. In particular, the carrying value of deferred tax assets, which are predominantly in the United States, is dependent upon our ability to generate future taxable income in the United States. Further, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority such as the Internal Revenue Service in the United States could have a material effect on our profitability.

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

We have been, and continue to be, involved in various legal proceedings from time to time, such as those described below in Part I, Item 3 "Legal Proceedings." We may face legal claims or regulatory matters involving stockholder, consumer, competition and other issues on a global basis. The costs associated with legal proceedings are typically high, relatively unpredictable, and are not completely within our control. The costs may be materially more than expected, which could adversely affect our operating results. Moreover, we may become involved in unexpected litigation with additional litigants at any time, which would increase our aggregate litigation costs, and could adversely affect our operating results. We are not able to predict the outcome of any legal action, and an adverse decision in any legal action could significantly harm our business and financial performance.

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

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

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

The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on our results of operations. Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations. In particular, the calculation of stock-based compensation expense under the authoritative guidance requires us to use valuation methodologies that were not developed for use in valuing employee stock options and make a number of assumptions, estimates, and conclusions regarding matters such as expected forfeitures, expected volatility of our share price and the exercise behavior of our employees. Changes in these variables could affect our stock-based compensation expense and have a significant and potentially adverse effect on our gross margins, research and development expense and selling, general and administrative expense. For more information, see "Critical Accounting Policies and Estimates" in Part II, Item 7 and "Note 1. Summary of Significant Accounting Policies" in Part II, Item 8 of this Form 10-K.

***International operations add increased volatility to our operating results.***

A substantial percentage of our total revenues are derived from international sales, based on the customers' shipment locations, as summarized below:

<i>(percentage of total revenues)</i>	<b>Three Months Ended</b>	
	<b>July 1, 2018</b>	<b>July 2, 2017</b>
Hong Kong	35%	32%
Korea	12%	9%
Rest of Asia Pacific	30%	33%
Americas	10%	13%
Europe	13%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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

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

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

Our international locations are subject to local labor laws, which are often significantly different from U.S. labor laws and which may under certain conditions result in large separation costs upon termination.

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 affected by currency controls, exchange rate fluctuations and currency devaluations. We sometimes hedge currency risk for currencies that are highly liquid and freely quoted, but may not enter into hedge contracts for currencies with limited trading volume. In addition, as much of our revenues are generated outside the United States, a significant portion of our cash and investment portfolio accumulates in the foreign countries in which we operate. As of July 1, 2018, we had cash, cash equivalents and investments of approximately \$213.5 million invested overseas in accounts belonging to our foreign subsidiaries. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies, and all offshore balances are exposed to local political, banking, currency control and other risks. In addition, these amounts may be subject to tax and other transfer restrictions.

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

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

***We are exposed to potential impairment charges on certain assets.***

Over the past several years, we have made several acquisitions. As a result of these acquisitions, we had \$420.1 million of goodwill and \$170.9 million of intangible assets on our Condensed Consolidated Balance Sheets as of July 1, 2018. In determining fair value, we consider various factors, including our market capitalization, forecasted revenue and costs, risk-adjusted discount rates, future economic and market conditions, determination of appropriate market comparables and expected periods over which our assets will be utilized and other variables. If our assumptions regarding forecasted cash flow, revenue and margin growth rates of certain long-lived asset groups and reporting units are not achieved, an impairment review may be triggered for the remaining balance of goodwill and long-lived assets prior to the next annual review in the fourth quarter of fiscal 2019, which could result in material charges that could impact our operating results and financial position.

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

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

***Our common stock may experience substantial price volatility.***

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

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

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

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

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

When the strategic objectives of an investment have been achieved, or if the investment or business diverges from our strategic objectives, we may decide to dispose of the investment. We may incur losses on the disposal of our non-marketable investments.

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

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



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

***Our operations could be affected by the complex laws, rules and regulations to which our business is subject.***

We are subject to complex laws, rules and regulations affecting our domestic and international operations relating to, for example, environmental, safety and health; exports and imports; International Traffic in Arms Regulations (ITAR), bribery and corruption; tax; data privacy; labor and employment; competition; and intellectual property ownership and infringement. Compliance with these laws, rules and regulations may be onerous and expensive, and if we fail to comply or if we become subject to enforcement activity, our ability to manufacture our products and operate our business could be restricted and we could be subject to fines, penalties or other legal liability. Furthermore, should these laws, rules and regulations be amended or expanded, or new ones enacted, we could incur materially greater compliance costs or restrictions on our ability to manufacture our products and operate our business.

In October 2015, the European Court of Justice invalidated the year 2000 “Safe Harbor” agreement between the European Union and the United States. Before this ruling, companies that complied with the Safe Harbor agreement were deemed to provide an adequate level of protection for European Union citizens’ personally identifiable information that was transferred to, and used in, the United States in the ordinary course of business. Since 2000, we have relied on the Safe Harbor agreement to ensure compliance with data privacy laws in Europe. In light of the October 2015 ruling invalidating the Safe Harbor agreement, we may incur fines, penalties, legal liability and/or additional material costs as we move forward to put in place policies, procedures and practices that ensure compliance with existing and evolving data privacy laws and requirements of the European Union and its member states.

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

The following table sets forth information with respect to repurchases of our common stock during the first quarter of fiscal 2019:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
April 2, 2018 - April 29, 2018	327,576	\$ 30.51	327,576	\$ 496,831,689
April 30, 2018 - May 27, 2018	747,110	\$ 30.58	747,110	\$ 473,977,418
May 28, 2018 - July 1, 2018	483,983	\$ 34.05	483,983	\$ 457,492,830
Total	<u>1,558,669</u>	<u>\$ 31.64</u>	<u>1,558,669</u>	

On April 24, 2018, the Company's Board of Directors approved an increase to the share repurchase authorization of \$400 million.

In the three months ended July 1, 2018, the Company repurchased 1.6 million shares for \$49.3 million. As of July 1, 2018, approximately \$457.5 million was available for future purchase under the new share repurchase program.

Share repurchases were recorded as treasury stock and resulted in a reduction of stockholders' equity. The programs are intended to reduce the number of outstanding shares of our common stock to offset dilution from employee equity grants and increase shareholder value.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

(a) The following exhibits are filed herewith:

<b>Exhibit Number</b>	<b>Exhibit Description</b>
<a href="#">3.1</a>	Restated Certificate of Incorporation, as amended to date. Incorporated by reference to Exhibit 3.1 to Form 10-K filed on May 21, 2012.
3.2	Certificate of Designations specifying the terms of the Series A Junior Participating Preferred Stock of Integrated Device Technology, Inc., as filed with the Secretary of State of the State of Delaware. Incorporated by reference to Exhibit 3.6 to Form 8-A filed on December 23, 1998.
<a href="#">3.3</a>	Amended and Restated Bylaws of the Company, as amended and restated. Incorporated by reference to Exhibit 3.3 to Form 10-Q filed on November 6, 2013.
<a href="#">4.1</a>	Indenture (including form of note), dated as of November 4, 2015, between Integrated Device Technology, Inc., and Wilmington Trust, National Association, as trustee. Incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 4, 2015.
<a href="#">10.1</a>	Amendment No. 1 dated as of May 29, 2018, by and among JPMorgan Chase Bank, N.A. (and the other lenders party thereto) and Integrated Device Technology, Inc.
<a href="#">10.2</a>	Credit Agreement, dated as of April 4, 2017, by and among JPMorgan Chase Bank, N.A. (and the other lenders party thereto) and Integrated Device Technology, Inc.
<a href="#">10.3</a>	Share Purchase and Transfer Agreement, dated October 23, 2015, between Global ASIC GmbH, ELBER GmbH, Freistaat Sachsen, Integrated Device Technology Bermuda Ltd. and Integrated Device Technology, Inc. Incorporated by reference to Exhibit 10.1 to Form 10-Q filed on October 29, 2015.
<a href="#">10.4</a>	Letter Agreement, dated October 29, 2015, between JPMorgan Chase Bank, National Association and Integrated Device Technology, Inc., regarding the Base Warrants. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 4, 2015.
<a href="#">10.5</a>	Letter Agreement, dated October 29, 2015, between JPMorgan Chase Bank, National Association and Integrated Device Technology, Inc., regarding the Base Call Option Transaction. Incorporated by reference to Exhibit 10.2 to Form 8-K filed on November 4, 2015.
<a href="#">10.6</a>	Letter Agreement, dated November 3, 2015, between JPMorgan Chase Bank, National Association and Integrated Device Technology, Inc., regarding the Additional Warrants. Incorporated by reference to Exhibit 10.3 to Form 8-K filed on November 4, 2015.
<a href="#">10.7</a>	Letter Agreement, dated November 3, 2015, between JPMorgan Chase Bank, National Association and Integrated Device Technology, Inc., regarding the Additional Call Option Transaction. Incorporated by reference to Exhibit 10.4 to Form 8-K filed on November 4, 2015.
<a href="#">10.8</a>	Master Confirmation—Uncollared Accelerated Share Repurchase dated November 2, 2015 between Integrated Device Technology, Inc. and JPMorgan Chase Bank, National Association. Incorporated by reference to Exhibit 10.5 to Form 8-K filed on November 4, 2015.
<a href="#">10.9</a>	Master Confirmation—Uncollared Accelerated Share Repurchase dated November 2, 2015 between Integrated Device Technology, Inc. and Bank of America, N.A. Incorporated by reference to Exhibit 10.6 to Form 8-K filed on November 4, 2015.
<a href="#">31.1</a>	Certification of Chief Executive Officer as required by Rule 13a-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934, as amended.
<a href="#">31.2</a>	Certification of Chief Financial Officer as required by Rule 13a-14(a) and 15(d)-14(a) of the Securities Exchange Act of 1934, as amended.
<a href="#">32.1*</a>	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.2*</a>	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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

**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.  
Registrant

August 7, 2018

By: /s/ Gregory L. Waters

Gregory L. Waters  
*President and Chief Executive Officer*

August 7, 2018

/s/ Brian C. White

Brian C. White  
*Senior Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)*

## Certification of Chief Executive Officer

I, Gregory L. Waters, certify that:

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

Date: August 7, 2018

By: /s/ Gregory L. Waters

Gregory L. Waters

*President and Chief Executive Officer*

## Certification of Chief Financial Officer

I, Brian C. White, certify that:

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

Date: August 7, 2018

By: /s/ Brian C. White

Brian C. White  
Senior Vice President, Chief Financial Officer  
(Principal Financial and Accounting Officer)

## Certification of Chief Executive Officer

I, Gregory L. Waters, of Integrated Device Technology, Inc. (the "Company"), pursuant to the requirement set forth in Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350, certify to my knowledge that:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended July 1, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

By: /s/ Gregory L. Waters

Gregory L. Waters  
*President and Chief Executive Officer*

A signed original of this written statement required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**Certification of Chief Financial Officer**

I, Brian C. White, of Integrated Device Technology, Inc. (the "Company"), pursuant to the requirement set forth in Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350, certify to my knowledge that:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended July 1, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 7, 2018

By: /s/ Brian C. White  
Brian C. White  
*Senior Vice President and Chief Financial Officer (Principal  
Financial and Accounting Officer)*

A signed original of this written statement required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. § 1350 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.



