INTEGRATED DEVICE TECHNOLOGY INC

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

(Mark One)

/x/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 1, 2017 OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ______________.

Commission File No. 0-12695

INTEGRATED DEVICE TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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 ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company

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

The number of outstanding shares of the registrant's Common Stock, $.001 par value, as of February 3, 2017 was approximately 133,419,588 .

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

(Unaudited, in thousands)	January 1, 2017	April 3, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 117,325	$ 203,231
Short-term investments	277,139	151,233
Accounts receivable, net of allowances of $5,859 and $4,629	81,261	74,386
Inventories	45,058	54,243
Prepayments and other current assets	13,500	15,008
Total current assets	534,283	498,101
Property, plant and equipment, net	81,498	73,877
Goodwill	306,925	305,733
Other intangible assets, net	114,158	127,761
Deferred tax assets	83,578	60,929
Other assets	38,215	32,788
Total assets	$ 1,158,657	$ 1,099,189
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 40,592	$ 39,858
Accrued compensation and related expenses	23,734	45,269
Deferred income on shipments to distributors	5,539	7,006
Other accrued liabilities	24,099	14,974
Total current liabilities	93,964	107,107
Deferred tax liabilities	15,419	19,712
Convertible notes	282,149	272,221
Other long-term liabilities	18,731	23,454
Total liabilities	410,263	422,494
Commitments and contingencies (Note 16)		
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; 133,599 and 133,885 shares outstanding at January 1, 2017 and April 3, 2016, respectively	134	134
Additional paid-in capital	2,672,032	2,628,381
Treasury stock at cost: 121,166 shares and 117,720 shares at January 1, 2017 and April 3, 2016, respectively	(1,596,289)	(1,522,808)
Accumulated deficit	(319,227)	(425,298)
Accumulated other comprehensive loss	(8,256)	(3,714)
Total stockholders' equity	748,394	676,695
Total liabilities and stockholders' equity	$ 1,158,657	$ 1,099,189

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

INTEGRATED DEVICE TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)	Three Months Ended January 1, 2017	Three Months Ended January 3, 2016	Nine Months Ended January 1, 2017	Nine Months Ended January 3, 2016
Revenues	$ 176,358	$ 177,610	$ 552,545	$ 508,015
Cost of revenues	72,273	69,699	233,579	194,324
Gross profit	104,085	107,911	318,966	313,691
Operating expenses:				
Research and development	38,173	38,429	129,571	107,484
Selling, general and administrative	32,737	38,851	108,968	96,221
Total operating expenses	70,910	77,280	238,539	203,705
Operating income	33,175	30,631	80,427	109,986
Interest expense	(4,217)	(2,934)	(12,582)	(2,957)
Interest income and other, net	407	926	3,679	3,783
Income before income taxes from continuing operations	29,365	28,623	71,524	110,812
Income tax benefit	(4,072)	(3,922)	(7,451)	(2,876)
Net income (loss) from continuing operations	33,437	32,545	78,975	113,688
Discontinued operations:				
Gain from divestiture before income taxes	1,385	—	1,385	—
Loss from discontinued operations before income taxes	—	—	—	(547)
Income tax expense	87	—	87	15
Net income (loss) from discontinued operations	1,298	—	1,298	(562)
Net income	$ 34,735	$ 32,545	$ 80,273	$ 113,126
Basic net income per share - continuing operations	$ 0.25	$ 0.23	$ 0.59	$ 0.78
Basic net income per share - discontinued operations	0.01	—	0.01	—
Basic net income per share	$ 0.26	$ 0.23	$ 0.60	$ 0.78
Diluted net income per share - continuing operations	$ 0.24	$ 0.22	$ 0.57	$ 0.75
Diluted net loss per share - discontinued operations	0.01	—	0.01	—
Diluted net income per share	$ 0.25	$ 0.22	$ 0.58	$ 0.75
Weighted average shares:				
Basic	133,846	140,411	133,987	145,382
Diluted	137,167	145,705	137,581	150,614

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

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

(Unaudited, in thousands)	Three Months Ended January 1, 2017	Three Months Ended January 3, 2016	Nine Months Ended January 1, 2017	Nine Months Ended January 3, 2016
Net income	$ 34,735	$ 32,545	$ 80,273	$ 113,126
Other comprehensive income (loss), net of taxes:				
Currency translation adjustments, net of tax	(1,949)	(1,040)	(3,091)	(2,044)
Change in net unrealized gain (loss) on investments, net of tax	(1,418)	(731)	(1,451)	(1,409)
Change in unrealized loss on post-employment and post-retirement benefit plans, net of tax	—	(2)	—	(613)
Total other comprehensive loss	(3,367)	(1,773)	(4,542)	(4,066)
Comprehensive income	$ 31,368	$ 30,772	$ 75,731	$ 109,060

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

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

	Nine Months Ended	
(Unaudited, in thousands)	January 1, 2017	January 3, 2016
Cash flows from operating activities:		
Net income	$ 80,273	$ 113,126
Adjustments:		
Depreciation	14,940	13,056
Amortization of intangible assets	18,313	5,628
Amortization of debt issuance costs and debt discount	9,928	2,164
Assets impairment	2,180	—
Net gain from divestitures	(675)	—
Gain on sale of property, plant and equipment	—	(325)
Stock-based compensation expense, net of amounts capitalized in inventory	29,602	25,878
Deferred income tax and deferred tax charge	(7,297)	(4,147)
Changes in assets and liabilities, net of impact of acquisitions:		
Accounts receivable, net	(8,596)	8,319
Inventories	8,167	10,446
Prepayments and other assets	201	4,532
Accounts payable	2,092	(2,832)
Accrued compensation and related expenses	(21,535)	(5,427)
Deferred income on shipments to distributors	(1,467)	(7,171)
Income taxes payable and receivable	121	(70)
Other accrued liabilities and long-term liabilities	8,240	(4,079)
Net cash provided by operating activities	134,487	159,098
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(1,528)	(279,138)
Cash in escrow related to acquisitions	—	2,700
Net proceeds from divestitures	231	—
Investment in convertible note	(1,955)	(2,020)
Purchases of property, plant and equipment, net	(21,388)	(12,541)
Purchases of intangible assets	(4,896)	(10,800)
Purchases of short-term investments	(256,163)	(313,246)
Proceeds from sales of short-term investments	105,529	466,890
Proceeds from maturities of short-term investments	22,776	80,695
Net cash used in investing activities	(157,394)	(67,460)
Cash flows from financing activities:		
Proceeds from issuance of common stock	14,082	16,516
Prepayments for purchase of treasury stock	—	(45,000)
Proceeds from issuance of senior convertible notes, net of issuance costs	—	363,445
Purchase of convertible note hedge	—	(94,185)
Proceeds from issuance of warrants	—	56,847
Repurchase of common stock	(73,481)	(344,216)
Repayment of loans	—	(9,195)
Payment of capital lease obligations	(1,183)	—
Net cash used in financing activities	(60,582)	(55,788)
Effect of exchange rates on cash and cash equivalents	(2,417)	197

(Unaudited, in thousands)	Nine Months Ended January 1, 2017	Nine Months Ended January 3, 2016
Net increase (decrease) in cash and cash equivalents	(85,906)	36,047
Cash and cash equivalents at beginning of period	203,231	116,945
Cash and cash equivalents at end of period	$ 117,325	$ 152,992
Noncash investing activities:		
Additions to property, plant and equipment included in accounts payable	$ 3,030	$ 321
Conversion of investment in convertible note to ordinary shares of stock	$ (1,955)	$ (2,020)

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

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 and second quarters of fiscal 2017 and fiscal 2016 were 13 week periods, the third quarter of fiscal 2017 was 13 weeks, and the third quarter of fiscal 2016 was 14 weeks.

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 3, 2016. There have been no material changes to the Company's significant accounting policies since the filing of the annual report on Form 10-K.

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

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, amending the existing accounting standards for stock-based compensation. The amendments impact several aspects of accounting for stock-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for reporting periods in fiscal years beginning after December 15, 2016, including interim periods within those years, with early adoption permitted. The Company early adopted the standard prospectively in the first quarter of fiscal 2017. In the first quarter of fiscal year 2017, stock-based compensation excess tax benefits or deficiencies are reflected in the Condensed Consolidated Statements of Operations as a component of the provision for income taxes, whereas they previously were recognized in equity. As there will no longer be excess tax benefits recognized in equity, when applying the treasury stock method in computing diluted earnings per share, the assumed proceeds will not include any windfall tax benefits. Additionally, the Company's Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity prospectively. The Company recorded a cumulative-effect adjustment to its opening accumulated deficit on April 4, 2016 of $25.8 million to recognize deferred tax assets associated with excess tax benefits not previously recognized. The Company has elected to continue to estimate forfeitures that are expected to occur when estimating the amount of compensation expense to record in each period.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying Accounting for Measurement Period Adjustments, which provides that an acquirer should recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Under this guidance, the acquirer is required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. It is also required to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is applied prospectively and was effective for the Company in the first quarter of fiscal 2017. There was no impact to the period of adoption.

In April 2015, the FASB issued ASU 2015-05 - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides additional guidance to customers about whether a cloud computing arrangement includes a software license. Under ASU 2015-05, if a cloud computing arrangement contains a software license, customers should account for the license element of the arrangement in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, customers should account for the arrangement as a service contract. ASU 2015-05 also removes the requirement to analogize to ASC 840-10 - Leases, to determine the asset acquired in a software licensing arrangement. The Company adopted the new guidance prospectively in the first quarter of fiscal 2017. There was no material impact to the period of adoption.

Accounting Pronouncements Not Yet Effective for Fiscal 2017

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 new standard will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted. Upon adoption, companies must apply a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is evaluating whether to adopt the new guidance early. As of January 1, 2017, the Company has a deferred tax charge of $5.2 million recorded in prepayments and other current assets and other assets, which represents the tax expense that was deferred in accordance with current GAAP. At adoption, the Company will recognize the unamortized portion of the deferred tax charge through a cumulative-effect adjustment to retained earnings. Additionally, a deferred tax asset will be recognized, through a cumulative-effect adjustment to retained earnings, for the unamortized tax basis in the assets, which as of January 1, 2017 would have been $0.8 million .

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments, which clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard will be effective for the Company starting in the first quarter of fiscal 2018. Early adoption is permitted. The Company does not believe that the adoption of this new accounting guidance will have any material impact on its condensed consolidated financial statements.

In June 2016, the FASB issued new guidance that 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 condensed consolidated financial statements as well as whether to adopt the new guidance early.

In February 2016, the FASB issued an ASU 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an 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. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The Company is currently evaluating the impact the pronouncement will have on the Company’s condensed consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose 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. The guidance simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. The guidance eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The guidance also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. Separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements is required under this guidance. 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 guidance is applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption and is effective for the Company in its first quarter of fiscal 2018. Early adoption is permitted only if certain criteria is met. The

Company does not believe that the adoption of this new accounting guidance will have any material impact on its condensed consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which provides the guidance applying to inventory measured using any other method other than last-in, last-out method. Under this guidance, inventory is measured at the lower of cost and net realizable value. The net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is applied prospectively and is effective for the Company in its first quarter of fiscal 2018. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's condensed consolidated financial statements and related disclosures.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. On July 9, 2015, the FASB decided to delay the effective date by one year to December 15, 2017 for annual periods beginning after that date. The FASB also decided to allow early adoption of the standard, but not before the original effective date of December 15, 2016. In March, April and May 2016, the FASB issued additional updates to the new revenue standard relating to reporting revenue on a gross versus net basis, identifying performance obligations and licensing arrangements, and narrow-scope improvements and practical expedients, respectively. The new standard will be effective for the Company beginning April 1, 2018. The Company has elected to use the modified retrospective method as its transition method in adoption of the new revenue standard. The Company continues to make progress in assessing all potential impacts of the standard, including any impacts from recently issued amendments and the guidance issued by the FASB Transition Resource Group.

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 and restricted 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 from continuing operations:

	Three Months Ended		Nine Months Ended	
(in thousands, except per share amounts)	**January 1, 2017**	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Numerator (basic and diluted):				
Net income from continuing operations	$ 33,437	$ 32,545	$ 78,975	$ 113,688
Denominator:				
Weighted average common shares outstanding, basic	133,846	140,411	133,987	145,382
Dilutive effect of employee stock options, restricted stock units and performance stock units	3,321	5,294	3,594	5,232
Weighted average common shares outstanding, diluted	137,167	145,705	137,581	150,614
Basic net income per share from continuing operations	$ 0.25	$ 0.23	$ 0.59	$ 0.78
Diluted net income per share from continuing operations	$ 0.24	$ 0.22	$ 0.57	$ 0.75

Potential dilutive common shares of 0.4 million pertaining to employee stock options and restricted stock units were excluded from the calculation of diluted earnings per share for each of the three months ended January 1, 2017 and January 3, 2016 , respectively, because the effect would have been anti-dilutive. Potential dilutive common shares of 0.5 million and 0.4 million pertaining to employee stock options and restricted stock units were excluded from the calculation of diluted earnings per share for the nine months ended January 1, 2017 and January 3, 2016 , because the effect would have been anti-dilutive.

The denominator for diluted net income per share for the three and nine months ended January 1, 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 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 three and nine months ended January 1, 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 18 for further discussion regarding the Convertible Notes.

Note 3. Business Combination

Acquisition of Synkera Technologies, Inc.

On July 22, 2016, IDT purchased substantially all of the assets and liabilities of Synkera Technologies, Inc. (Synkera), a company engaged in developing and marketing metal oxide gas sensor technology, 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 contingent cash consideration will be paid based upon the achievement of certain milestones to be completed within 3.5 years.

Pro forma results of operations for this acquisition have not been presented because the effect of the acquisition was not material to the Company's financial results.

Acquisition of Zentrum Mikroelektronik Dresden AG

On December 7, 2015, the Company completed its purchase all of the outstanding no-par-value shares of Zentrum Mikroelektronik Dresden AG (ZMDI), a privately-held company mainly operating in Germany, in an all-cash transaction for approximately $307.0 million . ZMDI is a global supplier of sensing products for mobile, automotive and industrial solutions. The acquisition provides the Company a significant new growth opportunity in the automotive and industrial business.

Total consideration consisted of the following:

(in thousands)		
Cash paid to ZMDI shareholders	$	307,030
Less: cash acquired		(27,892)
Total purchase price, net of cash acquired	$	279,138

The total cash consideration paid includes a Euro-equivalent of $20.0 million which is maintained in an escrow account and will be released to the selling shareholders upon meeting of certain conditions in accordance with the escrow agreement.

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 cash, 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 input from third-party valuation specialist. The fair values of certain other liabilities were determined internally using historical carrying values and estimates made by management.

The financial results of the ZMDI have been included in the Company’s Condensed Consolidated Statements of Operations from December 7, 2015, the closing date of the acquisition. The ZMDI business is primarily included in the Company's Computing, Consumer and Industrial reportable segment. Goodwill is primarily attributable to the assembled workforce of ZMDI, expected synergies and economies of scale expected from the operations of the combined company.

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

(in thousands)		Estimated Fair Value
Cash	$	27,892
Accounts receivable		10,618
Inventories		19,892
Other current assets		1,551
Property, plant and equipment		9,287
Other non-current assets		2,003
Intangible assets		126,200
Goodwill		170,089
Accounts payable		(5,633)
Accrued and other current liabilities		(19,141)
Loans payable		(9,437)
Deferred tax liability		(23,467)
Other long term liabilities		(2,824)
Total purchase price	$	307,030

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

(in thousands)		Estimated Fair Value	Estimated Useful Life (in years)
Developed technology	$	75,600	7
Customer relationships		44,000	7
Backlog		5,800	1
Trademarks		800	1
Total	$	126,200	

Pro Forma Financial Information (unaudited):

The following unaudited pro forma financial information present combined results of operations for each of the periods presented, as if ZMDI had been acquired as of the beginning of fiscal year 2016. The pro forma financial information include the business combination effect of the amortization charges from acquired intangible assets, the amortization of fair market value inventory write-up and acquisition-related costs. The pro forma data is for informational purposes only and is not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2016 or of the results of future operations of the combined business. Consequently, actual results will differ from the unaudited pro forma information presented below:

	Three Months Ended				Nine Months Ended				
(Unaudited in thousands, except per share data)		January 1, 2017		January 3, 2016		January 1, 2017		January 3, 2016	
Revenues	$	176,358	$	191,959	$	552,545	$	570,967	*
Net income	$	34,978	$	26,928	$	84,055	$	94,821	
Basic net income per share - continuing operations	$	0.26	$	0.19	$	0.63	$	0.65	
Diluted net income per share - continuing operations	$	0.25	$	0.18	$	0.61	$	0.63	

* Includes one-time revenue of approximately $10.3 million related to an intellectual property licensing agreement with a customer for nine months ended January 3, 2016.

Note 4. Discontinued Operations

High-Speed Converter ("HSC") Business

On April 27, 2015, the Company completed the sale of the remaining HSC business to eSilicon, for $1.5 million which was to be paid on or before April 27, 2017. In connection with the sale, the Company entered into an Exclusive Intellectual Property License Agreement with eSilicon, whereby the Company provided an exclusive license to eSilicon to develop, manufacture, sell and maintain HSC products. In connection with the sale, the Company and eSilicon also entered into a Transition Services Agreement, whereby the Company will provide certain transition services over a specific period from the effective date of the sale. The transition services do not represent significant continuing involvement of the Company in the HSC business.

During the third quarter of fiscal 2017, the Company collected the receivable of $1.5 million and recognized gain from discontinued operations of $1.4 million , which represents the excess of sale price of $1.5 million over the carrying value of assets sold of $0.1 million .

The HSC business was included in the Company's Communications reportable segment. For financial statements purposes, the results of operations for the HSC business have been segregated from those of the continuing operations and are presented in the Company's condensed consolidated financial statements as discontinued operations.

Note 5. Other Divestitures (not accounted for as discontinued operations)

Fox Enterprises, Inc.

In the first quarter of fiscal 2017, the Company reclassified certain assets and liabilities of its wholly-owned subsidiary Fox Enterprises, Inc. (the disposal group) as held for sale. As a result, the long-lived assets (comprised of goodwill, intangible assets and fixed assets) included in the disposal group were fully impaired and the Company recorded total impairment charge of $0.8 million in the first quarter of fiscal 2017.

On October 3, 2016, the Company completed the sale of the disposal group for approximately $1.2 million and recorded a loss on divestiture (included in interest income and other, net in the condensed Consolidated Statement of Operations) of approximately $0.7 million in the third quarter of fiscal 2017.

Note 6. Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of January 1, 2017 :

	Fair Value at Reporting Date Using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash Equivalents and Short-Term Investments:				
US government treasuries and agencies securities	$ 79,337	$ —	$ —	$ 79,337
Money market funds	35,461	—	—	35,461
Asset-backed securities	—	11,492	—	11,492
Corporate bonds		147,371	—	147,371
International government bonds	—	4,828	—	4,828
Corporate commercial paper	—	22,704	—	22,704
Bank deposits	—	11,407	—	11,407
Repurchase agreement	—	441	—	441
Total assets measured at fair value	$ 114,798	$ 198,243	$ —	$ 313,041

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of April 3, 2016 :

	Fair Value at Reporting Date Using			
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Cash Equivalents and Short-Term Investments:				
US government treasuries and agencies securities	$ 32,519	$ —	$ —	$ 32,519
Money market funds	124,504	—	—	124,504
Asset-backed securities	—	10,515	—	10,515
Corporate bonds	—	91,388	—	91,388
International government bonds	—	2,208	—	2,208
Corporate commercial paper	—	1,992	—	1,992
Bank deposits	—	11,711	—	11,711
Repurchase agreements	—	114	—	114
Municipal bonds	—	900	—	900
Total assets measured at fair value	$ 157,023	$ 118,828	$ —	$ 275,851

The deferred compensation plan assets of $15.5 million and $14.6 million as of January 1, 2017 and April 3, 2016 , 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 17 for additional information on the Employee Benefit Plans.

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 costs. The Convertible Notes are not marked to fair value at the end of each reporting period. The fair value of Convertible Notes was $390.7 million and $351.5 million as of January 1, 2017 and April 3, 2016 , 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 18 for additional information on the Convertible Notes.
U.S. government treasuries and U.S. government agency securities as of January 1, 2017 and April 3, 2016 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.

In connection with the acquisition of Synkera, 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. The fair value of the of the liability measured using significant unobservable inputs (Level 3) was approximately $1.3 million as of January 1, 2017 and July 22, 2016 (acquisition date).

All of the Company's available-for-sale investments are subject to a periodic impairment review. Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Company did not record any impairment charges related to its available-for-sale investments in the three and nine months ended January 1, 2017 and January 3, 2016 .

Note 7. Investments

Available-for-Sale Securities

Available-for-sale investments at January 1, 2017 were as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries and agencies securities	$ 79,898	$ 17	$ (578)	$ 79,337
Money market funds	35,461	—	—	35,461
Asset-backed securities	11,497	5	(10)	11,492
Corporate bonds	147,964	91	(684)	147,371
International government bonds	4,845	—	(17)	4,828
Corporate commercial paper	22,757	—	(53)	22,704
Bank deposits	11,407	—	—	11,407
Repurchase agreements	441	—	—	441
Total available-for-sale investments	314,270	113	(1,342)	313,041
Less amounts classified as cash equivalents	(35,902)	—	—	(35,902)
Short-term investments	$ 278,368	$ 113	$ (1,342)	$ 277,139

Available-for-sale investments at April 3, 2016 were as follows:

(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government treasuries and agencies securities	$ 32,374	$ 146	$ (1)	$ 32,519
Money market funds	124,504	—	—	124,504
Asset-backed securities	10,518	4	(7)	10,515
Corporate bonds	91,321	246	(179)	91,388
International government bonds	2,195	13	—	2,208
Corporate commercial paper	1,992	—	—	1,992
Bank deposits	11,711	—	—	11,711
Repurchase agreements	114	—	—	114
Municipal bonds	900	—	—	900
Total available-for-sale investments	275,629	409	(187)	275,851
Less amounts classified as cash equivalents	(124,618)	—	—	(124,618)
Short-term investments	$ 151,011	$ 409	$ (187)	$ 151,233

The cost and estimated fair value of available-for-sale securities at January 1, 2017 , by contractual maturity, were as follows:

(*in thousands*)	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 104,085	$ 104,012
Due in 1-2 years	94,096	93,938
Due in 2-5 years	116,089	115,091
Total investments in available-for-sale securities	$ 314,270	$ 313,041

The following table shows the gross unrealized losses and fair value of the Company’s investments with unrealized losses as of January 1, 2017 , aggregated by investment category and length of time that individual securities have been in a continuous loss position.

	Less Than 12 Months		12 Months or Greater		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ 120,575	$ (684)	$ —	$ —	$ 120,575	$ (684)
Asset-backed securities	3,561	(10)	—	—	3,561	(10)
U.S. government treasuries and agencies securities	68,369	(578)	—	—	68,369	(578)
International govt bonds	4,828	(17)			4,828	(17)
Corporate commercial paper	6,948	(53)	—	—	6,948	(53)
Total	$ 204,281	$ (1,342)	$ —	$ —	$ 204,281	$ (1,342)

The following table shows the gross unrealized losses and fair value of the Company’s investments with unrealized losses, as of April 3, 2016 , aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less Than 12 Months		12 Months or Greater		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ 33,407	$ (179)	$ —	$ —	$ 33,407	$ (179)
Asset-backed securities	4,979	(7)	—	—	4,979	(7)
U.S. government treasuries and agencies securities	6,097	(1)	—	—	6,097	(1)
Total	$ 44,483	$ (187)	$ —	$ —	$ 44,483	$ (187)

Currently, a significant portion of the Company’s available-for-sale investments that it holds are high grade instruments. As of January 1, 2017 , 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 may be maturity, the Company did not consider these investments to be other-than-temporarily impaired at January 1, 2017 and April 3, 2016 .

Non-marketable Equity Securities

As of January 1, 2017 and April 3, 2016 , the Company holds capital stock of privately-held companies with total amount of $12.0 million and $10.0 million , respectively. These investments in stocks (included under 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 did not record any impairment charge for these investments during the three and nine months ended January 1, 2017 and January 3, 2016 .

On October 31, 2016, the total principal including accrued interests of the Company's investment in convertible note of a privately-held company automatically converted into shares of common stock for a total amount of approximately $2.0 million .

Note 8. Accounts Receivable

The Company assumed an agreement with a financial institution to sell certain of its trade receivables from customers with limited, non-credit-related recourse provisions as part of an acquisition during the quarter ended January 3, 2016. The agreement was subsequently terminated on September 30, 2016. Total receivables sold under the factoring facility during the three and nine months ended January 1, 2017 was zero and $26.2 million , respectively. Total collections from sale of receivables and from deferred purchase payment during the quarter ended January 1, 2017 were zero as the result of terminating the agreement. Total collections from sale of receivables and from deferred purchase payment during the nine months ended January 1, 2017 were $33.3 million and $3.4 million , respectively. Under the terms of the factoring agreement, the total available amount of the factoring facility as of April 3, 2016 was $1.9 million . The sales of accounts receivable in accordance with the factoring agreement are reflected as a reduction of Accounts Receivable, net in the Condensed Consolidated Balance Sheets as they meet the applicable criteria of ASC 860, Transfers and Servicing. Collections of deferred purchase payment are included in the change in accounts receivable under the operating activities section of the Condensed Consolidated Statements of Cash Flows. The amount due from the factoring institution was $0.8 million as of April 3, 2016, and was shown in Prepayments and Other Current Assets in the Condensed Consolidated Balance Sheets. As the result of terminating the agreement, the total available amount of the factoring facility and the amount due from the factoring institution were zero as of January 1, 2017.

Note 9. Stock-Based Employee Compensation

Equity Incentive Programs

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

2004 Equity Plan (2004 Plan)

Options granted by the Company under the 2004 Plan generally expire seven years from the date of grant and generally vest over a four -year period from the date of grant, with one-quarter of the shares of common stock vesting on the first year anniversary of the grant date and the remaining shares vesting monthly for the 36 months thereafter. The exercise price of the options granted by the Company under the 2004 Plan shall not be less than 100% of the fair market value for a common share subject to such option on the date the option is granted. Full value awards made under the 2004 Plan shall become vested over a period of not less than 3 years (or, if vesting is performance-based, over a period of not less than one year) following the date such award is made; provided, however, that full value awards that result in the issuance of an aggregate of up to 5% of common stock available under the 2004 Plan may be granted to any one or more participants without respect to such minimum vesting provisions. As of January 1, 2017 , there were 5.2 million shares available for future grant under the 2004 Plan.

Compensation Expense

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

	Three Months Ended		Nine Months Ended	
(in thousands)	**January 1, 2017**	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Cost of revenue	$ 689	$ 666	$ 2,270	$ 1,993
Research and development	4,342	4,433	11,841	11,608
Selling, general and administrative	4,875	4,363	15,491	12,309
Discontinued operations	—	—	—	(32)
Total stock-based compensation expense	$ 9,906	$ 9,462	$ 29,602	$ 25,878

The amount of stock-based compensation expense that was capitalized during the periods presented above was not material.

Stock Options

The following is a summary of the Company's stock option activity and related weighted average exercise prices for each category:

	Nine Months Ended January 1, 2017	
(shares in thousands)	**Shares**	**Price**
Beginning stock options outstanding	2,594	$ 10.47
Exercised (1)	(950)	7.32
Canceled	(88)	14.21
Ending stock options outstanding	1,556	$ 12.18
Ending stock options exercisable	1,113	$ 10.40

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

As of January 1, 2017 , the unrecognized compensation cost related to non-vested stock options, net of estimated forfeitures, was $0.7 million and will be recognized over a weighted-average period of approximately 0.87 year.

As of January 1, 2017 , stock options vested and expected to vest totaled approximately 1.5 million with a weighted-average exercise price of $11.97 and a weighted-average remaining contractual life of 3.63 years. The aggregate intrinsic value was approximately $17.5 million .

As of January 1, 2017 , fully vested stock options totaled approximately 1.1 million with a weighted-average exercise price of $10.40 and a weighted-average remaining contractual life of 3.24 years. The aggregate intrinsic value was approximately $14.7 million .

Restricted Stock Units

Restricted stock units granted by the Company under the 2004 Plan generally vest over at least a three -year period from the grant date with one-third of restricted stock units vesting on each one-year anniversary. As of January 1, 2017 , 3.9 million restricted stock unit awards were outstanding under the 2004 Plan.

The following table summarizes the Company's restricted stock unit activity and related weighted-average exercise prices for each category for the nine months ended January 1, 2017 :

	Nine Months Ended January 1, 2017	
(shares in thousands)	**Shares**	**Weighted-average grant date fair value per share**
Beginning RSUs outstanding	3,693	$ 16.09
Granted	1,830	20.50
Released	(1,206)	13.88
Forfeited	(395)	17.68
Ending RSUs outstanding	3,922	$ 18.66

As of January 1, 2017 , restricted stock units expected to vest totaled approximately 3.4 million with a weighted-average remaining contract life of 1.37 years. The aggregate intrinsic value was approximately $79.0 million .

As of January 1, 2017 , the unrecognized compensation cost related to restricted stock units granted under the Company's equity incentive plan was approximately $31.9 million , net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.49 years.

Performance-Based Stock Units

In fiscal 2013, the Compensation Committee of the Board of Directors of IDT approved the Company's Key Talent Incentive Plan (Incentive Plan). The Incentive Plan provides for the grant of performance-based stock units under the 2004 Plan which vest and convert into one share of the Company's common stock based on the level of achievement of pre-established performance goals during a specified performance period. The initial performance period under the Incentive Plan is the Company's fourth quarter of fiscal 2013 through the fourth quarter of fiscal 2016 for which performance goals relate to cumulative revenue targets for a specific product group. The performance-based stock units that were granted under the Incentive Plan have vested in the first quarter of fiscal 2017 based on actual achievement of the performance goals, and the expense associated with that had been fully recognized as of July 3, 2016.

	Nine Months Ended January 1, 2017	
(shares in thousands)	**Shares**	**Weighted-average grant date fair value per share**
Beginning PSUs outstanding	204	$ 9.04
Released	(78)	7.85
Forfeited	(126)	7.74
Ending PSUs outstanding	—	$ —

Market-Based Stock Units

In June 2016, under the 2004 Plan, the Company granted approximately 0.3 million shares of restricted stock units with a market-based condition to a group of executive-level employees. These equity awards vest and convert into shares of the Company's common stock based on the achievement of the Company's relative total shareholder return over the performance period of 2 years. The earned market-based stock units will vest in two equal installments, with the first installment of vesting to occur on June 15, 2018, and the second to occur on June 15, 2019.

In June 2015, under the 2004 Plan, the Company granted approximately 0.2 million shares of restricted stock units with a market-based condition to a group of executive-level employees. These equity awards vest and convert into shares of the Company's common stock based on the achievement of the Company's relative total shareholder return over the performance period of 2 years. The earned market-based stock units will vest in two equal installments, with the first installment of vesting to occur on June 15, 2017, and the second to occur on June 15, 2018.

In June 2014, under the 2004 Plan, the Company granted approximately 0.5 million shares of restricted stock units with a market-based condition to a group of executive-level employees. These equity awards vest and convert into shares of the Company's common stock based on the achievement of the Company's relative total shareholder return over the performance period of 2 years. The earned market-based stock units will vest in two equal installments, with the first installment of vesting occurred on June 15, 2016, and the second to occur on June 15, 2017.

The fair value of each market-based stock unit award was estimated on the date of grant using a Monte Carlo simulation model that uses the assumptions noted in the table below. The Company uses historical data to estimate employee termination within the valuation model. The expected term of 1.80 years was derived from the output of the valuation model and represents the period of time that restricted stock units granted are expected to be outstanding.

The following weighted average assumptions were used to calculate the fair value of the market-based equity award using a Monte Carlo simulation model:

	June 15, 2016	June 15, 2015	June 15, 2014
Estimated fair value	$ 28.01	$ 33.08	$ 21.00
Expected volatility	46.90%	41.22%	34.60%
Expected term (in years)	1.80	1.80	1.80
Risk-free interest rate	0.70%	0.65%	0.38%
Dividend yield	—%	—%	—%

As of January 1, 2017 , the total market-based stock units outstanding were approximately 0.8 million .

As of January 1, 2017 , market-based stock units vested and expected to vest totaled approximately 0.7 million with a weighted-average remaining contract life of 1.14 years. The aggregate intrinsic value was approximately $15.7 million .

As of January 1, 2017 , the unrecognized compensation cost related to market-based stock units granted under the Company's equity incentive plans was approximately $8.4 million , net of estimated forfeitures, and is expected to be recognized over a weighted-average period of 1.21 years.

2009 Employee Stock Purchase Plan (2009 ESPP)

On June 18, 2009, the Board approved implementation of the 2009 Employee Stock Purchase Plan (2009 ESPP) and authorized the reservation and issuance of up to 9.0 million shares of the Company's common stock, subject to stockholder approval. On September 17, 2009, the Company's stockholders approved the plan at the 2009 Annual Meeting of Stockholders. The 2009 ESPP is intended to be implemented in successive quarterly purchase periods commencing on the first day of each fiscal quarter of the Company. In order to maintain its qualified status under Section 423 of the Internal Revenue Code, the 2009 ESPP imposes certain restrictions, including the limitation that no employee is permitted to participate in the 2009 ESPP if the rights of such employee to purchase common stock of the Company under the 2009 ESPP and all similar purchase plans of the Company or its subsidiaries would accrue at a rate which exceeds $25,000 of the fair market value of such stock (determined at the time the right is granted) for each calendar year. At the 2012 annual meeting of stockholders on September 13, 2012, the Company's stockholders approved an additional 5.0 million . The number of shares of common stock reserved for issuance thereunder increased from 9.0 million shares to 14.0 million shares.

Activity under the Company's ESPP for the nine months ended January 1, 2017 is summarized in the following table:

(in thousands, except per share amounts)	
Number of shares issued	403
Average issuance price	$ 17.78
Number of shares available at January 1, 2017	3,369

Note 10. Stockholders' Equity

Stock Repurchase Program. In April 2015, the Company's Board of Directors approved a new share repurchase program authorization for $300 million . In October 2015, the Company's Board of Directors approved an increase in the share repurchase authorization by another $300 million . In the three and nine months ended January 1, 2017 , the Company repurchased 0.8 million shares for $19.1 million and 3.4 million shares for $73.5 million , respectively. As of January 1, 2017 , approximately $112.2 million was available for future purchase under the new share repurchase program. Shares repurchased were recorded as treasury stock and resulted in a reduction of stockholder's equity.

Note 11. Balance Sheet Detail

(in thousands)	**January 1, 2017**	**April 3, 2016**
Inventories, net		
Raw materials	$ 1,817	$ 3,251
Work-in-process	29,023	29,408
Finished goods	14,218	21,584
Total inventories, net	$ 45,058	$ 54,243
Property, plant and equipment, net		
Land	$ 11,535	$ 11,535
Machinery and equipment	263,915	250,628
Building and leasehold improvements	49,106	49,015
Total property, plant and equipment, gross	324,556	311,178
Less: accumulated depreciation (1)	(243,058)	(237,301)
Total property, plant and equipment, net	$ 81,498	$ 73,877
Other accrued liabilities		
Accrued restructuring costs (2)	$ 11,165	$ 2,641
Other (3)	12,934	12,333
Total other accrued liabilities	$ 24,099	$ 14,974
Other long-term liabilities		
Deferred compensation related liabilities	$ 14,987	$ 13,052
Other (4)	3,744	10,402
Total other long-term liabilities	$ 18,731	$ 23,454

(1) Depreciation expense was $4.7 million and $4.4 million for the three months ended January 1, 2017 and January 3, 2016 , respectively. Depreciation expense was $14.9 million and $13.1 million for the nine months ended January 1, 2017 and January 3, 2016 .

(2) Includes accrued severance costs related to integration and other restructuring actions. Refer to Note 15.

(3) Other current liabilities consist primarily of accrued royalties and outside commissions, current portion of supplier obligations, current portion of capital lease payable, and other accrued unbilled expenses.

(4) Other long-term liabilities consist primarily of non-current income tax payable and other long-term accrued liabilities.

Note 12. Deferred Income on Shipments to Distributors

Included in the caption “Deferred income on shipments to distributors” on the Condensed Consolidated Balance Sheets are amounts related to shipments to certain distributors for which revenue is not recognized until the Company's product has been sold by the distributor to an end customer . The components of deferred income on shipments to distributors as of January 1, 2017 and April 3, 2016 are as follows:

(in thousands)	January 1, 2017	April 3, 2016
Gross deferred revenue	$ 9,416	$ 9,460
Gross deferred costs	(3,877)	(2,454)
Deferred income on shipments to distributors	$ 5,539	$ 7,006

The gross deferred revenue represents the gross value of shipments to distributors at the list price billed to the distributor less any price protection credits provided to them in connection with reductions in list price while the products remain in their inventory. The amount ultimately recognized as revenue will be lower than this amount as a result of ship from stock pricing credits which are issued in connection with the sell through of the Company's products to end customers. Based on the last four quarters, this amount has ranged from an average of approximately 23% to 34% of the list price billed to the customer. The gross deferred costs represent the standard costs (which approximate actual costs) of products the Company sells to the distributors. Although the Company monitors the levels and quality of inventory in the distribution channel, the Company's experience is that products returned from these distributors may be sold to a different distributor or in a different region of the world. As such, inventory write-downs for products in the distribution channel have not been significant.

Note 13. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component, net of tax, for the nine months ended January 1, 2017 consisted of the following:

(in thousands)	Cumulative translation adjustments	Unrealized gain (loss) on available-for-sale investments	Pension adjustments	Total
Balance, April 3, 2016	$ (4,001)	$ 222	$ 65	$ (3,714)
Other comprehensive loss before reclassifications	(3,091)	(1,793)	—	(4,884)
Amounts reclassified out of accumulated other comprehensive loss	—	342	—	342
Net current-period other comprehensive loss	(3,091)	(1,451)	—	(4,542)
Balance as of January 1, 2017	$ (7,092)	$ (1,229)	$ 65	$ (8,256)

Comprehensive loss components consisted of:

(in thousands)	Nine Months Ended January 1, 2017	Location
Amounts reclassified out of accumulated other comprehensive loss	$ 342	interest and other, net

Note 14. Goodwill and Intangible Assets, Net

Goodwill balances by reportable segment as of January 1, 2017 and April 3, 2016 are as follows:

	Reportable Segments		
(in thousands)	Communications	Computing, Consumer and Industrial	Total
Balance as of April 3, 2016	$ 122,848	$ 182,885	$ 305,733
Impairment - the Disposal Group (see Note 5)	(161)	—	(161)
Additions - Synkera acquisition (see Note 3)	—	1,353	1,353
Balance as of January 1, 2017	$ 122,687	$ 184,238	$ 306,925

Goodwill balances as of January 1, 2017 and April 3, 2016 are net of $920.5 million and $920.3 million , respectively, in accumulated impairment losses.

Intangible asset balances as of January 1, 2017 and April 3, 2016 are summarized as follows:

	January 1, 2017			
(in thousands)	Gross Assets	Impairment	Accumulated Amortization	Net Assets
Purchased intangible assets:				
Developed technology	$ 278,767	—	$ (213,337)	$ 65,430
Trademarks	5,081	—	(4,991)	90
Customer relationships	172,685	—	(135,188)	37,497
Intellectual property licenses	16,196	(1,310)	(3,745)	11,141
Total purchased intangible assets	$ 472,729	(1,310)	$ (357,261)	$ 114,158

	April 3, 2016		
(in thousands)	Gross Assets	Accumulated Amortization	Net Assets
Purchased intangible assets:			
Developed technology	$ 279,514	$ (205,307)	$ 74,207
Trademarks	5,211	(4,576)	635
Customer relationships	172,787	(130,745)	42,042
Intellectual property licenses	11,400	(1,819)	9,581
Order backlog	5,800	(4,504)	1,296
Total purchased intangible assets	$ 474,712	$ (346,951)	$ 127,761

During the third quarter of fiscal 2017, the Company purchased an intangible asset with a cost of $4.6 million with an estimated useful life of 7 years. This intangible asset pertains to an intellectual property license that is being used by the Company in the development, manufacture and sale of certain products.

As a result of the acquisition of Synkera, the Company recognized additional intangible assets with total original value of $1.4 million during the three months ended October 2, 2016 (see Note 3).

Amortization expense for the three months ended January 1, 2017 and January 3, 2016 was $6.5 million and $3.2 million , respectively. Amortization expense for the nine months ended January 1, 2017 and January 3, 2016 was $18.3 million and $5.6 million respectively.

During the third quarter of fiscal 2017, the Company recorded an impairment charge of $1.3 million in the carrying value of an intangible asset as a result of change in future estimated cash flows related to the intangible asset.

During the first quarter of fiscal 2017, the Company recorded an impairment charge of $0.2 million and $0.3 million in the carrying value of goodwill and intangible assets, respectively, as a result of reclassifying a disposal group as held for sale. Refer to Note 5 for additional information.

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

Based on the intangible assets recorded at January 1, 2017 , and assuming no subsequent additions to or impairment of the underlying assets, the remaining estimated amortization expense is expected to be as follows (in thousands):

Fiscal Year	Amount
2017 (Remaining 3 months)	$ 5,340
2018	19,998
2019	19,884
2020	19,657
2021 and thereafter	49,279
Total purchased intangible assets	$ 114,158

Note 15. Restructuring

The following table shows the provision of the restructuring charges and the liability remaining as of January 1, 2017 :

(in thousands)	Continuing Operations	Discontinued Operations (HSC)	Total
Balance as of April 3, 2016	$ 1,282	$ 1,534	$ 2,816
Provision	17,898	—	17,898
Payments and other adjustments	(9,441)	(108)	(9,549)
Balance as of January 1, 2017	$ 9,739	$ 1,426	$ 11,165

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.

Integration-related Restructuring Plan

In the first quarter of fiscal 2017, the Company prepared a workforce-reduction plan with respect to employees of its Automotive and Industrial business (formerly ZMDI) in Germany. The plan which required consultation with the German Works Council was approved by the German Works Council as of July 3, 2016. Also, the details of the plan were communicated to the affected employees as of July 3, 2016. The plan identified the number of employees to be terminated, their job classification or function, their location and the date that the plan is expected to be completed. The plan also established the terms of the benefit arrangement in sufficient details to enable the employees to determine the type and amount of benefits that they would receive if terminated. In addition, the actions required to complete the plan indicated that it was unlikely that substantial changes to the plan would be made after communication of the employees. Accordingly, the Company accrued restructuring charges in accordance with ASC 420, Exit and Disposal Cost Obligations. The restructuring charges recorded in the Condensed Consolidated Statements of Operations, in connection with the workforce-reduction plan, were approximately $6.4 million for nine months ended January 1, 2017 , for a total 49 employees. During nine months ended January 3, 2016 , the Company paid $3.1 million related to these actions. The Company expects to complete these actions by the fourth quarter of fiscal 2017.

During fiscal 2016, the Company began the implementation of planned cost reduction and restructuring activities in connection with the acquisition of ZMDI. The Company recorded charges of approximately $6.9 million of employee termination cost for two former executives of ZMDI and 36 employees for the fiscal year ended April 3, 2016. During nine months ended January 3, 2016 , the Company paid $1.1 million related to these actions, which reduced the total accrual balance to zero.

Radio Frequency Business

In the first quarter of fiscal 2017, the Company prepared a workforce-reduction plan with respect to employees of its Radio Frequency business in France. The plan sets forth the general parameters, terms and benefits for employee dismissals. The plan which required consultation with the French Works Council has been submitted to the French Works Council in June 2016. The Company determined that an ongoing benefit arrangement existed as the affected employees are being protected under the provisions of prior plan and the minimum statutory requirement. Accordingly, the Company recorded employee severance costs associated with these activities in accordance with ASC 712, Compensation - Nonretirement Post Employment Benefits. In the third quarter of fiscal 2017, the Company and the affected employees signed agreements with regards to the timing and payment of severance benefits. There was no significant incremental benefit amount from previously recognized severance benefits during the first and second quarters of fiscal 2017. During the nine months ended January 1, 2017 , the Company recorded in the Condensed Consolidated Statement of Operations, approximately $7.5 million of severance benefits, for a total of 13 employees. During the three months and nine months ended January 1, 2017, the Company paid $2.9 million and $3.2 million related to this action. As of January 1, 2017, the total accrued balance for employee severance costs related to this action was $4.3 million . The Company expects to complete this action by December 31, 2017.

HSC Business

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 expects to complete the action by December 2017.

Other

During the nine months ended January 1, 2017, the Company recorded charges of $2.8 million and reduced headcount by 57 employees. During the three months and nine months ended January 1, 2017, the Company paid $0.9 million and $1.0 million related to these actions. As of January 1, 2017 , the total accrued balance for employee severance costs related to these actions was $1.8 million . The Company expects to complete these actions by the first quarter of fiscal 2018.

During the three months ended July 3, 2016, the Company recorded charges of $1.2 million as a result of reducing headcount. During the nine months ended January 1, 2017 , the Company paid $1.0 million related to these actions. As of January 1, 2017 , the total accrued balance for employee severance costs related to these actions was $0.2 million . The Company expects to complete these actions by the end of fiscal 2017.

Note 16. Commitments and Contingencies

Warranty

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 January 1, 2017 and April 3, 2016 , respectively.

Litigation

In November 2016, North Star Innovations, Inc. (“NSI”), an IP licensing non-practicing entity and subsidiary of Wi-Lan, Inc., filed a complaint against the Company in the federal courts of the Central District of California, alleging the Company infringed three U.S. patents assigned to and owned by NSI. The Company has never filed an Answer or other responsive pleading in this litigation. On or about January 13, 2017, RPX Corporation, a membership-based defensive patent aggregator, entered a license agreement with NSI, to which the Company is a beneficiary based on the Company’s membership in RPX. Based on this license, the Company and NSI signed a Release Agreement effective January 31, 2017, releasing the Company from liability under the claims for infringement of the three asserted patents. On January 31, 2017, the court ordered the litigation against IDT to be formally dismissed.

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 Northern District of California federal court 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.

As of January 1, 2017 , the Company is also a party to various other legal proceedings and claims arising in the normal course of business. With regard to these or future litigation 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 the Maxim lawsuit or any other 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 17. 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 $ 2.0 million and $ 1.9 million in matching contributions under the plan during the nine months ended January 1, 2017 and January 3, 2016 , 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 January 1, 2017 and April 3, 2016 , obligations under the plan totaled approximately $15.0 million and $13.1 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 January 1, 2017 and April 3, 2016 , the deferred compensation plan assets were approximately $15.5 million and $14.6 million respectively.

International Employee Benefit Plans

The Company sponsors defined-benefit pension plans, defined-contribution plans, multi-employer plans and other post-employment benefit plans covering employees in certain of the Company's international locations. As of January 1, 2017 and April 3, 2016, the net liability for all of these international benefit plans totaled $ 0.7 million and $0.8 million , respectively.

Note 18. 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 January 1, 2017 , 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, consist of the following (in thousands):

		November 3, 2015
Liability component		
Principal	$	274,435
Less: Issuance costs		(7,568)
Net carrying amount		266,867
Equity component *		
Allocated amount		99,316
Less: Issuance costs		(2,738)
Net carrying amount		96,578
Convertible Notes, net	$	363,445

* Recorded in the consolidated balance sheet within additional paid-in capital.

The following table includes total interest expense recognized related to the Convertible Notes during the three and nine months period ended January 1, 2017 and January 3, 2016 (in thousands):

	Three Months Ended				Nine Months Ended			
	January 1, 2017		January 3, 2016		January 1, 2017		January 3, 2016	
Contractual interest expense	$	836	$	545	$	2,480	$	545
Amortization of debt issuance costs		270		180		810		180
Amortization of debt discount		3,080		1,984		9,118		1,984
	$	4,186	$	2,709	$	12,408	$	2,709

The net liability component of Convertible Notes is comprised of the following as of January 1, 2017 and April 3, 2016 (in thousands):

	January 1, 2017		April 3, 2016	
Net carrying amount at beginning of the period	$	272,221	$	266,867
Amortization of debt issuance costs during the period		810		450
Amortization of debt discount during the period		9,118		4,904
	$	282,149	$	272,221

During the three and nine months ended January 1, 2017 , the Company paid contractual interest on the Convertible Note of approximately $1.6 million and $3.4 million , respectively.

See Note 6 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.

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. As of January 1, 2017 , no warrants have been exercised.

Note 19. Income Taxes

During the three and nine months ended January 1, 2017, the Company recorded an income tax benefit of $4.1 million and $7.5 million , respectively. The Company recorded an income tax benefit of $3.9 million and $2.9 million in the three and nine months ended January 3, 2016, respectively.

The Company’s effective tax rate was significantly less than the U.S. federal statutory rate of 35% 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.

The income tax benefit recorded in the nine months ended January 1, 2017 was primarily due to the tax benefit recorded on the loss in jurisdictions where no valuation allowance is in place. The loss was primarily attributable to the amortization of acquired intangible assets for the three and nine months ended January 1, 2017 as well as severance costs for the nine months ended January 1, 2017. Additionally, stock-based compensation excess tax benefits of $0.4 million and $2.2 million for the three and nine months ended January 1, 2017, respectively, were reflected in the Condensed Consolidated Statements of Operations as a component of the income tax benefit as a result of the early adoption of ASU 2016-09. Refer to Note 1 for more details regarding the adoption of ASU 2016-09. The income tax benefit recorded in the three and nine months ended January 3, 2016 was primarily due to the tax benefit on the amortization of acquired intangible assets and severance costs in jurisdictions where no valuation allowance is in place.

During the quarter ended January 1, 2017, the Company recorded a deferred tax charge of $5.2 million in prepayments and other current assets and other assets, which represents the tax expense that was deferred, in accordance with ASC 740-10-25-3, on the intercompany transfer of intangible assets in connection with a change to the Company’s corporate structure. The deferred tax charge is being amortized over the tax life of the intangible assets.

On January 16, 2017, the Malaysia Finance Act of 2017 (the “Act”) was enacted. The Act contains a number of provisions including, most notably, the re-imposition of withholding tax on offshore services provided to Malaysian entities and is effective prospectively from the date of enactment. The Company is currently working with Malaysian officials to understand how this will apply to the Company and its intercompany activities. If it is determined that the withholding tax will apply to some or all of the Company’s intercompany activities there could be material adverse effects on the Company’s results of operations and cash flows. The Act had no impact to the current or historical period consolidated financial statements. The Company is currently evaluating the effect that the Act will have on its consolidated financial statements.

From the fourth quarter of fiscal 2003 to the third quarter of fiscal 2016, the Company maintained a full valuation allowance against the Company's deferred tax assets as there was insufficient positive evidence to overcome the significant negative evidence to conclude that it was more likely than not that the deferred tax assets would be realized. The Company reached this decision based on judgment, which included consideration of historical U.S. operating results, projections of future U.S. profits, and a history of expiring tax attributes. In the fourth quarter of fiscal 2016, the Company generated a substantial amount of U.S. profit, utilizing the Company's remaining U.S. federal net operating loss carryovers available as well as a significant amount of U.S. tax credit carryforwards. In addition, in the fourth quarter of fiscal 2016, the Company completed its business plan for fiscal 2017, and validated its mid-term business plan. The Company also considered forecasts of future taxable income and evaluated the utilization of its remaining tax credit carryforwards prior to their date of expiration. All of these were significant positive factors that overcame prior negative evidence and the Company concluded that it was appropriate to release the valuation allowance against the Company's deferred tax assets, with the exception of deferred tax assets related to certain foreign and state jurisdictions.

As of January 1, 2017, 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.

In fiscal year 2016, after examination of the Company's projected offshore cash flows, and global cash requirements, the Company determined that it would no longer require 100% of its future foreign generated cash to support its foreign operations. The Company plans to continue to repatriate a portion of its offshore earnings generated after March 29, 2015 to the U.S. for domestic operations, and has accrued for the related tax impacts accordingly. For earnings accumulated as of March 29, 2015, the Company continues to indefinitely reinvest such amounts in its foreign jurisdictions, except to the extent there is any previously taxed income which is expected to be repatriated. If circumstances change and it becomes apparent that some or all of those undistributed earnings of the Company's offshore subsidiary will be remitted in the foreseeable future but income taxes have not been recognized, the Company will accrue income taxes attributable to that remittance.

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.

During the quarter ended October 2, 2016, the Company closed out all positions as part of the examination of the Company's Singapore income tax returns for the fiscal years 2009 through 2012. The outcome did not have a material effect on the Company's financial position, cash flows or results of operations.

As of January 1, 2017, the Company is under examination in Germany for calendar years 2012 through 2014, in Malaysia for fiscal year 2013 and 2014, and in India for fiscal year 2015. 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 2014 and later years. In addition, the Company is effectively subject to federal tax examination adjustments for tax years ended on or after fiscal year 1999, 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 2008 and later.

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

Note 20. Segment Information

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

The Company's reportable segments include the following:

- Communications segment: includes clock and timing solutions, flow-control management devices including Serial RapidIO ® switching solutions, multi-port products, telecommunications products, high-speed static random access memory, first in and first out, digital logic, radio frequency, and frequency control solutions.
- Computing, Consumer and Industrial segment: includes clock generation and distribution products, high-performance server memory interfaces, PCI Express switching solutions, power management solutions, signal integrity products, and sensing products for mobile, automotive and industrial solutions.

The tables below provide information about these segments:

Revenues by segment	**Three Months Ended**		**Nine Months Ended**	
(in thousands)	**January 1, 2017**	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Communications	$ 65,978	$ 85,502	$ 210,172	$ 222,688
Computing, Consumer and Industrial	110,380	92,108	342,373	285,327
Total revenues	$ 176,358	$ 177,610	$ 552,545	$ 508,015

Income by segment from continuing operations	Three Months Ended		Nine Months Ended	
(in thousands)	**January 1, 2017**	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Communications	$ 28,054	$ 35,238	$ 77,226	$ 85,588
Computing, Consumer and Industrial	21,395	17,248	71,835	66,934
Unallocated expenses:				
Amortization of intangible assets	(5,557)	(2,732)	(16,578)	(4,315)
Inventory fair market value adjustment	(757)	(890)	(3,672)	(890)
(Loss) gain from divestiture	(710)	—	(710)	—
Assets impairment and recoveries	—	—	(870)	(119)
Stock-based compensation expense	(9,906)	(9,462)	(29,602)	(25,878)
Severance and facility closure costs	216	(6,092)	(16,722)	(9,060)
Acquisition-related costs and other	—	(2,649)	(72)	(2,649)
Deferred compensation plan income, net	(13)	(3)	(42)	—
Interest and other income (expense), net	(3,357)	(2,035)	(9,269)	1,201
Income from continuing operations, before income taxes	$ 29,365	$ 28,623	$ 71,524	$ 110,812

The Company does not allocate goodwill and intangible assets impairment charge, severance and retention costs, 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:

	Three Months Ended		Nine Months Ended	
(in thousands)	**January 1, 2017**	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Hong Kong	$ 62,565	$ 74,966	198,215	$ 222,717
Korea	17,061	19,858	52,576	57,451
Rest of Asia Pacific	51,456	45,342	172,581	125,689
Americas (1)	20,752	18,779	58,392	57,474
Europe	24,524	18,665	70,781	44,684
Total revenues	$ 176,358	$ 177,610	$ 552,545	$ 508,015

(1) The revenues from the customers in the U.S. were $19.4 million and $18.0 million in the three months ended January 1, 2017 and January 3, 2016 , respectively. The revenue from the customers in U.S. was $53.6 million and $54.3 million in the nine months ended January 1, 2017 and January 3, 2016 .

The Company utilizes global and regional distributors around the world, that buy products directly from the Company on behalf of their customers. Two distributors, Uniquest and Avnet and its affiliates accounted for 10% and 11% , respectively, of the Company's revenues in the three months ended January 1, 2017 . Two distributors, Uniquest and Avnet and its affiliates, each accounted for 11% , and 10% , of the Company's revenues in the nine months ended January 1, 2017 . Two distributors, Uniquest and Avnet and its affiliates accounted for 14% and 13% , respectively, of the Company's revenues in the three months ended January 3, 2016 . Two distributors, Uniquest and Avnet and its affiliates accounted for 17% and 13% in the nine months ended January 3, 2016 . One direct customer, SK Hynix and its affiliates accounted for 10% of the Company’s revenues in the three months ended January 1, 2017. One direct customer, SK Hynix and its affiliates accounted for 13% of the Company’s revenues in each of the three and nine month periods ended January 3, 2016.

At January 1, 2017 , three distributors represented approximately 12% , 11% , and 10% respectively of the Company’s gross accounts receivable. At April 3, 2016 , two distributors represented approximately 12% and 10% , respectively, of the Company’s gross accounts receivable.

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

(in thousands)	January 1, 2017	April 3, 2016
United States	$ 38,363	$ 38,735
Malaysia	25,476	20,150
Germany	11,570	9,235
Canada	3,463	3,781
All other countries	2,626	1,976
Total property, plant and equipment, net	$ 81,498	$ 73,877

Note 21. Interest Income and Other, Net

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

	Three Months Ended		Nine Months Ended	
(in thousands)	January 1, 2017	January 3, 2016	January 1, 2017	January 3, 2016
Interest income	$ 746	$ 827	$ 2,119	$ 2,916
Other income (expense), net	(339)	99	1,560	867
Interest income and other, net	$ 407	$ 926	$ 3,679	$ 3,783

Interest income is derived from earnings on cash and short term investments. Other income, net primarily consists of gains or losses in the fair 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 3, 2016 filed with the SEC on May 20, 2016. Operating results for the three and nine months ended January 1, 2017 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.

For a discussion of our critical accounting policies, see Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended April 3, 2016 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 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 January 1, 2017 to the items that we disclosed as our critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended April 3, 2016 .

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, wireless power transfer, serial switching, interfaces and sensing solutions 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 infrastructure, network communications, cloud datacenters 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. Through system-level analog and digital innovation, we consistently deliver extraordinary value to our customers.

For more information on our business, please see Part I, Item 1, “Business,” in our Annual Report on Form 10-K for the fiscal year ended April 3, 2016 .

Recent developments

Divestiture of Fox's Organic Business

On October 3, 2016, we completed the sale of Fox's organic business (the disposal group) for approximately $1.2 million and recorded a loss on divestiture (included in interest income and other in the condensed Consolidated Statement of Operations) of approximately $0.7 million in the third quarter of fiscal 2017. See Note 5 for details.

Acquisition of Synkera Technologies, Inc.

On July 22, 2016, we purchased substantially all of the assets and liabilities of Synkera Technologies, Inc., a company engaged in developing and marketing metal oxide gas sensor technology, 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 contingent cash consideration will be paid based upon the achievement of certain milestones to be completed within 3.5 years.

Acquisition of Zentrum Mikroelektonik Dresden AG

On December 7, 2015, we completed the acquisition of all of the outstanding no-par-value shares of Zentrum Mikroelektronik Dresden AG (ZMDI), a privately-held company mainly operating in Germany, in an all-cash transaction for approximately $307 million. ZMDI is a global supplier of sensing and digital power semiconductor solutions for automotive, industrial, mobile sensing and other consumer applications. The acquisition provides the Company a significant new growth opportunity in the automotive and industrial business. As a result of this acquisition, we recorded amortizable intangible assets of $126.2 million and goodwill of $170.1 million during the third quarter of fiscal 2016. In addition, we recorded approximately $2.5 million of acquisition related costs in fiscal 2016, which were included in selling, general and administrative expenses. See Note 3 for details.

Convertible Notes Offering

On November 3, 2015, we issued $373.8 million aggregate principal amount of 0.875% Convertible Senior Notes (the Convertible Notes) due 2022. The net proceeds from this offering were approximately $363.4 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses. The net proceeds were primarily used in the purchase of note hedges and repurchases of our common stock. We used the remainder of the net proceeds for working capital and general corporate purposes. Refer to Note 18 for details.

Convertible Note Hedge and Warrant Transactions

In connection with the convertible notes offering, we also entered into two other separate transactions which involved purchase of a note hedge for $94.2 million and issuance of warrants for $56.8 million. We used $37.4 million of the net proceeds from the convertible notes offering to pay for the cost of the note hedge, after such cost was partially offset by the proceeds we received from the issuance of warrants. Refer to Note 18 for details.

Accelerated Share Repurchase

On November 2, 2015, we separately entered into an accelerated share repurchase agreement (the ASR Agreements) with each of JPMorgan Chase Bank and Bank of America (the Dealers) to repurchase a total of $225 million of our common stock. We received approximately 7.0 million shares of our common stock at $25.69 per share representing approximately $180 million on November 5, 2015. Subsequently the remaining prepayment amount of $45 million was settled in January 2016 resulting in the repurchase of 1.6 million of the Company's common stock at an average price per share of $28.32.

Discontinued Operations

High-Speed Converter ("HSC") Business

On April 27, 2015, we completed the sale of the remaining HSC business to eSilicon Corporation ("eSilicon"), for $1.5 million which was to be paid on or before April 27, 2017. In connection with the sale, we entered into an Exclusive Intellectual Property License Agreement with eSilicon, whereby we provided an exclusive license to eSilicon to develop, manufacture, sell and maintain HSC products. In connection with the sale, the Company and eSilicon also entered into a Transition Services Agreement, whereby we will provide certain transition services over a specific period from the effective date of the sale. The transition services do not represent significant continuing involvement of the Company in the HSC business.

During the third quarter of fiscal 2017, we collected the receivable of $1.5 million and recognized gain from discontinued operations of $1.4 million .

The HSC business was included in the Communications reportable segment. For financial statements purposes, the results of operations for the HSC business have been segregated from those of the continuing operations and are presented in the condensed consolidated financial statements as discontinued operations.

Overview

The following table and discussion provide an overview of our operating results from continuing operations for three and nine months ended January 1, 2017 and January 3, 2016 :

	Three Months Ended		Nine Months Ended	
(in thousands, except for percentage)	**January 1, 2017**	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Revenues	$ 176,358	$ 177,610	$ 552,545	$ 508,015
Gross profit	$ 104,085	$ 107,911	$ 318,966	$ 313,691
As a % of revenues	59%	61%	58%	62%
Operating income	$ 33,175	$ 30,631	$ 80,427	$ 109,986
As a % of revenues	19%	17%	15%	22%
Net income from continuing operations	$ 33,437	$ 32,545	$ 78,975	$ 113,688
As a % of revenues	19%	18%	14%	22%

Our revenues decreased by $1.3 million , or 1% , to $176.4 million in the quarter ended January 1, 2017 compared to the quarter ended January 3, 2016 . The decrease was primarily due to lower demand for our memory interface, communications timing and RapidIO switching solutions products. These decreases were partly offset by revenue contribution from our automotive/industrial/sensing products, and higher revenue from consumer and computing timing products. Gross profit percentage decreased for the three months ended January 1, 2017 compared to the same period in fiscal 2016 primarily due to product mix and certain costs related to the acquisition of ZMDI such as amortization of intangibles, amortization of fair value markup on inventory and severance expense.

Results of Continuing Operations

Revenues

Revenues by segment:	Three Months Ended		Nine Months Ended	
(in thousands)	January 1, 2017	January 3, 2016	January 1, 2017	January 3, 2016
Communications	$ 65,978	$ 85,502	$ 210,172	$ 222,688
Computing, Consumer and Industrial	110,380	92,108	342,373	285,327
Total revenues	$ 176,358	$ 177,610	$ 552,545	$ 508,015

Product groups representing greater than 10% of net revenues:	Three Months Ended		Nine Months Ended	
As a percentage of net revenues	January 1, 2017	January 3, 2016	January 1, 2017	January 3, 2016
		(a)		*(a)*
Communications:				
Communications timing products	10%	12%	10%	13%
Serial RapidIO products	*	14%	10%	12%
All others less than 10% individually	27%	17%	18%	19%
Total communications	37%	43%	38%	44%
Computing, Consumer and Industrial:				
Memory interface products	25%	35%	26%	35%
Wireless power products	*	*	10%	*
Automotive/industrial/sensing products	15%	*	14%	*
All others less than 10% individually	23%	22%	12%	21%
Total computing and consumer	63%	57%	62%	56%
Total	100%	100%	100%	100%

** Represent less than 10% of net revenues*

(a) Prior period numbers have been adjusted to conform to our current organizational structure.

Communications Segment

Revenues in our Communications segment decreased $19.5 million, or 23%, to $66.0 million in the quarter ended January 1, 2017 as compared to the quarter ended January 3, 2016. The decrease was primarily due to a decrease in shipments of our RapidIO switching solutions products and a decrease in our communications timing products as a result of divestiture of Fox's Organic business.

Revenues in our Communications segment decreased $12.5 million, or 5.6%, to $210.2 million in the nine months ended January 1, 2017 as compared to the nine months ended January 3, 2016. The decrease was primarily due to a decrease in our communications timing products as a result of divestiture of Fox's Organic business and a decrease in shipments of our RapidIO switching solutions products.

Computing, Consumer and Industrial Segment

Revenues in our Computing, Consumer and Industrial segment increased $18.3 million, or 19.8% to $110.4 million in the quarter ended January 1, 2017 as compared to the quarter ended January 3, 2016. The increase was primarily due to revenue contribution from our automotive/industrial/sensing products as full quarter of revenue was included in fiscal 2017 while less than a month of revenue was included in fiscal 2016. This increase was offset in part by a decrease in memory interface product revenues as a result of weaker demand.

Revenues in our Computing, Consumer and Industrial segment increased $57.0 million, or 20%, to $342.4 million in the nine months ended January 1, 2017 as compared to the nine months ended January 3, 2016. The increase was primarily due to revenue contribution from our automotive/industrial/sensing products as nine months of revenue was included in fiscal 2017 while less than a month of revenue was included in fiscal 2016. This increase was offset in part by a decrease in memory interface product revenues as a result of weaker demand.

Revenues by Region

Revenues, based on shipped to locations, in Hong Kong, Korea, rest of APAC, Americas and Europe accounted for 35% , 10% , 29% , 12% and 14% , respectively, of consolidated revenues in the quarter ended January 1, 2017 compared to 42% , 11% , 26% , 11% and 10% , respectively, of our consolidated revenues in the quarter ended January 3, 2016 . The APAC region continues to be our largest region, as many of our customers utilize manufacturers in that region.

Revenues in the nine months ended January 1, 2017 increased primarily in APAC (excluding Hong Kong and Korea) as compared to the nine months ended January 3, 2016 . Revenues in Hong Kong, Korea, rest of APAC, Americas, and Europe accounted for 36% , 10% , 31% , 11% and 12% , respectively, of consolidated revenues in the nine months ended January 1, 2017 compared to 44% , 11% , 25% , 11% and 9% of our consolidated revenues in the nine months ended January 3, 2016 . The APAC region continues to be our strongest region, as many of our largest customers utilize manufacturers in that region.

Gross Profit

	Three Months Ended		Nine Months Ended	
	January 1, 2017	**January 3, 2016**	**January 1, 2017**	**January 3, 2016**
Gross Profit (in thousands)	$ 104,085	$ 107,911	$ 318,966	$ 313,691
Gross Profit Percentage	59.0%	60.8%	57.7%	61.7%

Gross profit decreased $3.8 million in the three months ended January 1, 2017 compared to the three months ended January 3, 2016 primarily due to certain costs related to the acquisition of ZMDI such as amortization of intangibles, amortization of fair value markup on inventory and severance expense. Gross profit increased $5.3 million in the nine months ended January 1, 2017 compared to the nine months ended January 3, 2016 , as a result mainly of increased revenues. Gross profit as a percentage of revenues decreased 1.8% and 4.0% in the three and nine months ended January 1, 2017 compared to the three and nine months ended January 3, 2016. Gross profit percentage declined primarily due to product mix and to certain costs related to the acquisition of ZMDI.

Operating Expenses

The following table presents our operating expenses for the three and nine months ended January 1, 2017 and January 3, 2016 :

	Three Months Ended				Nine Months Ended			
	January 1, 2017		**January 3, 2016**		**January 1, 2017**		**January 3, 2016**	
(in thousands, except for percentages)	**Dollar Amount**	**% of Net Revenue**	**Dollar Amount**	**% of Net Revenue**	**Dollar Amount**	**% of Net Revenues**	**Dollar Amount**	**% of Net Revenues**
Research and development	$ 38,173	22%	$ 38,429	22%	$ 129,571	23%	$ 107,484	21%
Selling, general and administrative	$ 32,737	19%	$ 38,851	22%	$ 108,968	20%	$ 96,221	19%

Research and Development (R&D)

R&D expense decreased $0.3 million , or 0.7% , to $38.2 million in the quarter ended January 1, 2017 compared to the quarter ended January 3, 2016 . The decrease was primarily driven by lower R&D labor and benefit related costs and consulting expense, which were partly offset by an increase in various R&D expenses as a result of the acquisition of ZMDI.

R&D expense increased $22.1 million , or 20.5% , to $129.6 million in the nine months ended January 1, 2017 compared to the nine months ended January 3, 2016 . The increase was primarily driven by $15.9 million increase in various R&D expenses as a result of the acquisition of ZMDI and a $9.4 million increase in severance costs mainly coming from our France and Germany locations. These increases were partly offset by lower R&D labor and benefit related costs.

Selling, General and Administrative (SG&A)

SG&A expense decreased $6.1 million , or 15.7% , to $32.7 million in the quarter ended January 1, 2017 as compared to the quarter ended January 3, 2016 . The decrease was primarily driven by $2.1 million of acquisition-related costs and $6.0 million of severance costs incurred in the same period last year, coupled with $2.4 million decrease in SG&A labor and benefit related costs. These decreases were partly offset by an increase in various SG&A expenses as a result of the acquisition of ZMDI.

SG&A expense increased $12.7 million , or 13.2% , to $109.0 million in the nine months ended January 1, 2017 as compared to the nine months ended January 3, 2016 . The increase was primarily driven by a $13.6 million increase in various SG&A expenses as a result of the acquisition of ZMDI, a $5.4 million increase in amortization of intangibles as a result of new intangibles recognized from such acquisition, a $3.2 million increase in stock-based compensation. These increases were partly offset by acquisition-related costs incurred in the same period last year, decrease in severance costs and decrease in SG&A labor and benefit related costs.

Interest Expense

The components of interest expense for the three and nine months ended January 1, 2017 are summarized as follows (in thousands):

	January 1, 2017		January 3, 2016	
(in thousands)	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
Accretion of debt discount	$ 3,080	$ 9,118	$ 1,984	$ 1,984
Amortization of debt issuance costs	270	810	180	180
Contractual interest expense	836	2,480	545	545
Other	31	174	225	248
Total interest expense	$ 4,217	$ 12,582	$ 2,934	$ 2,957

Interest expense for the three and nine months ended January 1, 2017 and January 3, 2016 were primarily related to the Convertible Notes we issued in November 2015.

Interest Income and Other, Net

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

	Three Months Ended		Nine Months Ended	
(in thousands)	January 1, 2017	January 3, 2016	January 1, 2017	January 3, 2016
Interest income	$ 746	$ 827	$ 2,119	$ 2,916
Other income (expense), net	(339)	99	1,560	867
Interest income and other, net	$ 407	$ 926	$ 3,679	$ 3,783

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 decrease in interest income in the three and nine months ended January 1, 2017 as compared to the same periods in prior year was primarily attributable to lower average level of short-term investments. The increase in other income in the nine months ended January 1, 2017 as compared to the same period in prior year was primarily due to increase in value of the underlying investments of the deferred compensation plan and favorable impact of foreign currency fluctuations.

Income Tax Expense (Benefit)

During the three and nine months ended January 1, 2017, we recorded an income tax benefit from continuing operations of $4.1 million and $7.5 million, respectively. We recorded an income tax benefit of $3.9 million and $2.9 million in the three and nine months ended January 3, 2016, respectively.

Our effective tax rate was significantly less than the U.S. federal statutory rate of 35% 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.

The income tax benefit recorded in the three and nine months ended January 1, 2017 was primarily due to the tax benefit recorded on the loss in jurisdictions where no valuation allowance is in place. The loss was primarily attributable to the amortization of acquired intangible assets for the three and nine months ended January 1, 2017 as well as severance costs for the nine months ended January 1, 2017. Additionally, stock-based compensation excess tax benefits of $0.4 million and $2.2 million for the three and nine months ended January 1, 2017, respectively, were reflected in the Condensed Consolidated Statements of Operations as a component of the income tax benefit as a result of the early adoption of ASU 2016-09. Refer to Note 1 for more details regarding the adoption of ASU 2016-09. The income tax benefit recorded in the three and nine months ended January 3, 2016 was primarily due to the tax benefit on the amortization of acquired intangible assets and severance costs in jurisdictions where no valuation allowance is in place.

During the quarter ended January 1, 2017, we recorded a deferred tax charge of $5.2 million in prepayments and other current assets and other assets, which represents the tax expense that was deferred, in accordance with ASC 740-10-25-3, on the intercompany transfer of intangible assets in connection with a change to our corporate structure. The deferred tax charge is being amortized over the tax life of the intangible assets.

On January 16, 2017, the Malaysia Finance Act of 2017 (the "Act") was enacted. The Act contains a number of provisions including, most notably, the re-imposition of withholding tax on offshore services provided to Malaysian entities and is effective prospectively from the date of enactment. We are currently working with Malaysian officials to understand how this will apply to us and our intercompany activities. If it is determined that the withholding tax will apply to some or all of our intercompany activities, there could be material adverse effects on our results of operations and cash flows. We are currently evaluating the effect that the Act will have on our consolidated financial statements.

From the fourth quarter of fiscal 2003 to the third quarter of fiscal 2016, we maintained a full valuation allowance against our deferred tax assets as there was insufficient positive evidence to overcome the significant negative evidence to conclude that it was more likely than not that the deferred tax assets would be realized. We reached this decision based on judgment, which included consideration of historical U.S. operating results, projections of future U.S. profits, and a history of expiring tax attributes. In the fourth quarter of fiscal 2016, we generated a substantial amount of U.S. profit, utilizing our remaining U.S. federal net operating loss carryovers available as well as a significant amount of U.S. tax credit carryforwards. In addition, in the fourth quarter of fiscal 2016, we completed our business plan for fiscal 2017, and validated our mid-term business plan. We also considered forecasts of future taxable income and evaluated the utilization of our remaining tax credit carryforwards prior to their date of expiration. All of these were significant positive factors that overcame prior negative evidence and we concluded that it was appropriate to release the valuation allowance against our deferred tax assets, with the exception of deferred tax assets related to certain foreign and state jurisdictions.

As of January 1, 2017, 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 2016 after examination of our projected offshore cash flows, and global cash requirements, we determined that we would no longer require 100% of our future foreign generated cash to support our foreign operations. We plan to continue to repatriate a portion of our offshore earnings, generated after March 29, 2015, to the U.S. for domestic operations, and have accrued for the related tax impacts accordingly. For earnings accumulated as of March 29, 2015, we continue to indefinitely reinvest such amounts in our foreign jurisdictions, except to the extent there is any previously taxed income which is expected to be repatriated. If circumstances change and it becomes apparent that some or all of those undistributed earnings of our offshore subsidiary will be remitted in the foreseeable future but income taxes have not been recognized, we will accrue income taxes attributable to that remittance.

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.

During the quarter ended October 2, 2016, we closed out all positions as part of the examination of our Singapore income tax returns for the fiscal years 2009 through 2012. The outcome did not have a material effect on our financial position, cash flows or results of operations.

As of January 1, 2017, we were under examination in Germany for calendar years 2012 through 2014, in Malaysia for fiscal year 2013 and 2014, and in India for fiscal year 2015. 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 our financial position, cash flows or results of operations.

Our open years in the U.S. federal jurisdiction are fiscal 2014 and later years. In addition, we are effectively subject to federal tax examination adjustments for tax years ended on or after fiscal year 1999, 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 2008 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 $394.5 million at January 1, 2017 , an increase of $40.0 million compared to April 3, 2016 .

We had outstanding debt in the form of convertible notes amounting to $373.8 million at January 1, 2017 and April 3, 2016 .

Cash Flows from Operating Activities

Net cash provided by operating activities totaled $134.5 million in the nine months ended January 1, 2017 compared to $159.1 million in the nine months ended January 3, 2016 . Cash provided by operating activities in the nine months ended January 1, 2017 consisted of our net income of $80.3 million , adjusted to add back non-cash items such as stock-based compensation, depreciation, amortization, impairment charges, amortization of debt issuance costs and debt discount and deferred income tax which totaled $ 67.0 million ; and cash provided by working capital requirements.

Cash Flows from Investing Activities

Net cash used in investing activities in the nine months ended January 1, 2017 was $157.4 million compared to net cash used of $67.5 million in the nine months ended January 3, 2016 . Net cash used in investing activities in the nine months ended January 1, 2017 was primarily due to $127.9 million for the net purchases of short-term investments, $21.4 million of expenditures to purchase capital equipment, $ 4.9 million paid for intangible assets, $2.0 million of investment in a private company, and $1.5 million paid for an acquisition.

Cash Flows from Financing Activities

Net cash used in financing activities was $60.6 million in the nine months ended January 1, 2017 as compared to net cash used of $55.8 million in the nine months ended January 3, 2016 . Cash used in financing activities in the nine months ended January 1, 2017 was primarily due to $73.5 million in stock buyback. This was offset in part by $14.1 million of proceeds from exercise of stock options and the issuance of stock under our employee stock purchase plan.

We anticipate capital expenditures of approximately $15 million to $25 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. At January 1, 2017 , we had cash, cash equivalents and investments of approximately $204.9 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

The Company assumed an agreement with a financial institution to sell certain of its trade receivables from customers with limited, non-credit-related recourse provisions as part of an acquisition during the quarter ended January 3, 2016. The agreement was subsequently terminated on September 30, 2016. Total receivables sold under the factoring facility during the three and nine months ended January 1, 2017 was zero and $26.2 million , respectively. Total collections from sale of receivables and from deferred purchase payment during the quarter ended January 1, 2017 were zero as the result of terminating the agreement. Total collections from sale of receivables and from deferred purchase payment during the nine months ended January 1, 2017 were $33.3 million and $3.4 million , respectively. Under the terms of the factoring agreement, the total available amount of the factoring facility as of April 3, 2016 was $1.9 million . The sales of accounts receivable in accordance with the factoring agreement are reflected as a reduction of Accounts Receivable, net in the Condensed Consolidated Balance Sheets as they meet the applicable criteria of ASC 860, Transfers and Servicing. Collections of deferred purchase payment are included in the change in accounts receivable under the operating activities section of the Condensed Consolidated Statements of Cash Flows. The amount due from the factoring institution was $0.8 million as of April 3, 2016, and was shown in Prepayments and Other Current Assets in the Condensed Consolidated Balance Sheets. As the result of terminating the agreement, the total available amount of the factoring facility and the amount due from the factoring institution were zero as of January 1, 2017. The Company paid factoring fees associated with the sale of receivables based on the value of the receivables sold.

As of January 1, 2017, 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 above and in "Note 16 - Commitments and Contingencies - Commitments" in Part I, Item 1 of this quarterly report on Form 10Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our interest rate risk relates primarily to our short-term investments of $277.1 million and $151.2 million as of January 1, 2017 and April 3, 2016 , 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 January 1, 2017 and April 3, 2016 , the Company's 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 January 1, 2017 . We do not currently use derivative financial instruments in our investment portfolio.

At January 1, 2017 and April 3, 2016, we had an outstanding debt of $373.8 million in the form of a 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 the Company to enter into foreign exchange contracts totaling approximately $32.0 million , all of which was available at January 1, 2017 . We performed a sensitivity analysis as of January 1, 2017 and April 3, 2016 and determined that, without hedging the exposure, a 10% change in the value of the U.S. dollar would result in an approximate 0.2% and 0.5% impact on gross profit margin percentage, respectively, as we operate a manufacturing testing facility in Malaysia and Germany, and an approximate 0.7 % 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. At January 1, 2017 and April 3, 2016 , we had no material outstanding foreign exchange contracts.

We did not have any material currency exposure related to any outstanding capital purchases as of January 1, 2017 and April 3, 2016 .

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

At January 1, 2017 , 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

In November 2016, North Star Innovations, Inc. ("NSI"), an IP licensing non-practicing entity and subsidiary of Wi-Lan, Inc., filed a complaint against the Company in the federal courts of the Central District of California, alleging the Company infringed three U.S. patents assigned to and owned by NSI. The Company has never filed an Answer or other responsive pleading in this litigation. On or about January 13, 2017, RPX Corporation, a membership-based defensive patent aggregator, entered a license agreement with NSI, to which the Company is a beneficiary based on the Company's membership in RPX. Based on this license, the Company and NSI signed a Release Agreement effective January 31, 2017, releasing the Company from liability under the claims for infringement of the three asserted patents. On January 31, 2017, the court ordered the litigation against IDT to be formally dismissed.

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, we remain 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 Northern District of California federal court 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.

As of January 1, 2017 , the Company is also a party to various other legal proceedings and claims arising in the normal course of business. With regard to these or future litigation 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 the Maxim lawsuit or any other 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 cyclicality 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;
- 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;
- 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. 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; and
- large scale disruptions in transportation, communications and information technology networks.

The cyclicality 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 acquisition of ZMDI and the integration of its business, 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 ZMDI 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 two companies and their personnel. Implementation and integration of the ZMDI business 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 ZMDI will include:

- preserving customer, supplier and other important relationships of both ZMDI and the Company;
- coordinating and integrating operations in Germany;
- 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.

The benefits we expect to realize from the acquisition of ZMDI are, necessarily, based on projections and assumptions about the combined businesses of the Company and ZMDI and assume, among other things, the successful integration of ZMDI into our business and operations. We may not successfully integrate ZMDI and our operations in a timely manner, or at all. If we do not realize the anticipated benefits of this transaction, our growth strategy and future profitability could be affected. In addition, the acquisition significantly increased 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 .

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.

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

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

Our product portfolio consists predominantly of semiconductor solutions for the communications, computing, and consumer markets. Our strategy and resources are directed at the development, production and marketing of products for these markets. The markets for our products will depend on continued and growing demand for communications equipment, servers, PCs and consumer electronics. These end-user markets may experience changes in demand that could adversely affect our business and could be greater in periods of economic uncertainty and contraction. To the extent demand or markets for our products 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. During the fourth quarter of fiscal 2012, we completed the transfer of our internal wafer fabrication production to outside foundries. 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 customer

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 or 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 a test facility in Malaysia. 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.

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

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

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

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

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.

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 harm 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. If U.S. corporate income tax laws were to change regarding deferral of U.S. income tax on foreign earnings or other matters impacting our operating structure, this would have a significant impact to our financial results.

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 Malaysia Industrial Development Board (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 when it expires or 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. The United States and 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. In addition, 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. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority such as the Internal Revenue Service in the United States could have a material effect on our profitability.

Also, we have not made a provision for U.S. income tax on the portion of our undistributed earnings of our non-US subsidiaries that is considered permanently reinvested outside the U.S. If in the future we repatriate any of these foreign earnings, we might incur incremental U.S. income tax, which could affect our results of operations.

On January 16, 2017, the Malaysia Finance Act of 2017 (the “Act”) was enacted. The Act contains a number of provisions including, most notably, the re-imposition of withholding tax on offshore services provided to Malaysian entities and is effective prospectively from the date of enactment. We are currently working with Malaysian officials to understand how this will apply to us and our intercompany activities. If it is determined that the withholding tax will apply to some or all of our intercompany activities, there could be material adverse effects on our results of operations and cash flows. We are currently evaluating the effect that the Act will have on our consolidated financial statements.

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, 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.

International operations add increased volatility to our operating results.

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

(percentage of total revenues)	**First Nine Months of Fiscal 2017**	**Fiscal 2016**
Hong Kong	36%	44%
Rest of Asia Pacific	31%	25%
Korea	10%	11%
Americas	11%	11%
Europe	12%	9%
Total	**100%**	**100%**

In addition, our test facility in Malaysia and Germany, our design centers in Canada and 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. On January 1, 2017 , we had cash, cash equivalents and investments of approximately $204.9 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 $ 306.9 million of goodwill and $ 114.2 million of intangible assets on our Condensed Consolidated Balance Sheet as of January 1, 2017 . 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 2017, 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.

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; 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 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 third quarter of fiscal 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 3, 2016 - October 30, 2016	126,357	$ 22.37	126,357	$ 2,828,868
October 31, 2016 - November 27, 2016	253,500	$ 23.38	253,500	$ 5,931,224
November 28, 2016 - January 1, 2017	427,200	$ 24.18	427,200	$ 10,335,441
Total	807,057	$ 23.65	807,057	

In April 2015, Our Board of Directors approved a new share repurchase program authorization for $300 million . In October 2015, our Board of Directors approved an increase in the share repurchase authorization by another $300 million . In the three and nine months ended January 1, 2017 , the Company repurchased 0.8 million shares for $19.1 million and 3.4 million shares for $73.5 million . As of January 1, 2017 , approximately $112.2 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.

ITEM 6. EXHIBITS

(a) The following exhibits are filed herewith:

Exhibit Number	Exhibit Description
3.1	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.
3.3	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.
4.1	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.
10.1	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.
10.2	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.
10.3	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.
10.4	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.
10.5	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.
10.6	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.
10.7	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.
31.1	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.
31.2	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.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	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	
	By:	/s/ Gregory L. Waters
February 7, 2017		Gregory L. Waters *President and Chief Executive Officer*
		/s/ Brian C. White
February 7, 2017		Brian C. White *Vice President, Chief Financial Officer* *(Principal Financial and Accounting Officer)*

Exhibit 31.1

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.

		By:	/s/ Gregory L. Waters
Date:	February 7, 2017		Gregory L. Waters *President and Chief Executive Officer*

Exhibit 31.2

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.

By: /s/ Brian C. White

Date: February 7, 2017

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

Exhibit 32.1

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 January 1, 2017 (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.

		By:	/s/ Gregory L. Waters
Date:	February 7, 2017		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.

Exhibit 32.2

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 January 1, 2017 (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:	February 7, 2017	By:	/s/ Brian C. White
			Brian C. White
			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.