

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2003.

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 Number **0-25699**



PLX TECHNOLOGY, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3008334
(I.R.S. Employer Identification No.)

870 Maude Avenue, Sunnyvale, CA 94085
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (408) 774-9060

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 4, 2003, there were 23,800,785 shares of common stock, par value \$0.001 per share, outstanding.

PLX TECHNOLOGY, INC.
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REPORT ON FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2003	December 31, 2002(1)
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 3,877	\$ 5,482
Short-term marketable securities.....	17,082	13,131
Accounts receivable, net.....	4,517	2,568
Inventories.....	2,467	1,003
Income tax receivable.....	--	3,635
Other current assets.....	1,513	1,793
Total current assets.....	29,456	27,612
Property and equipment, net.....	31,702	31,962
Long-term marketable securities.....	1,000	3,067
Goodwill.....	17,074	8,054
Other intangible assets.....	3,323	970
Other assets.....	382	310
Total assets.....	\$ 82,937	\$ 71,975
LIABILITIES		
Current liabilities:		
Accounts payable.....	\$ 2,721	\$ 1,582
Accrued compensation and benefits.....	1,228	932
Deferred revenues.....	927	613
Accrued commissions.....	217	201
Deferred tax liability.....	261	--
Other accrued expenses.....	1,607	683
Total current liabilities.....	6,961	4,011
Deferred tax liability.....	787	--
STOCKHOLDERS' EQUITY		
Common stock, par value.....	24	21
Additional paid-in capital.....	84,215	74,953
Deferred compensation.....	(185)	(900)
Notes receivable for employee stock purchases.....	(68)	(67)
Accumulated other comprehensive income.....	5	46
Accumulated deficit.....	(8,802)	(6,089)
Total stockholders' equity.....	75,189	67,964
Total liabilities and stockholders' equity.....	\$ 82,937	\$ 71,975

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net revenues.....	\$ 8,660	\$ 7,797	\$ 17,163	\$ 17,915
Cost of revenues.....	2,518	2,381	5,033	5,742
Gross margin.....	<u>6,142</u>	<u>5,416</u>	<u>12,130</u>	<u>12,173</u>
Operating expenses:				
Research and development.....	3,893	3,518	7,606	7,177
Selling, general and administrative.....	3,193	3,298	6,251	6,636
In-process research and development.....	875	--	875	--
Amortization of purchased intangible assets.....	204	133	337	266
Total operating expenses.....	<u>8,165</u>	<u>6,949</u>	<u>15,069</u>	<u>14,079</u>
Loss from operations.....	<u>(2,023)</u>	<u>(1,533)</u>	<u>(2,939)</u>	<u>(1,906)</u>
Interest income and other, net.....	102	255	210	486
Loss before provision (benefit) for income taxes.....	<u>(1,921)</u>	<u>(1,278)</u>	<u>(2,729)</u>	<u>(1,420)</u>
Provision (benefit) for income taxes.....	(24)	(118)	(16)	11
Net loss.....	<u>\$ (1,897)</u>	<u>\$ (1,160)</u>	<u>\$ (2,713)</u>	<u>\$ (1,431)</u>
Basic and diluted net loss per share.....	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.06)</u>
Shares used to compute basic and diluted per share amounts.....	<u>22,214</u>	<u>23,529</u>	<u>21,678</u>	<u>23,440</u>

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended	
	June 30,	
	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Net loss.....	\$ (2,713)	\$ (1,431)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation.....	1,142	1,310
Amortization of deferred compensation.....	825	1,201
Amortization of other purchased intangible assets.....	337	267
In process research and development.....	875	--
Other non-cash items.....	66	(2)
Changes in operating assets and liabilities:		
Accounts receivable.....	(1,359)	(18)
Inventories.....	(997)	1,680
Income tax receivable.....	3,635	195
Other current assets.....	442	(935)
Other assets.....	(73)	159
Accounts payable.....	540	(135)
Accrued compensation and benefits.....	180	46
Deferred tax liability.....	(28)	435
Deferred revenues.....	314	617
Other accrued expenses.....	(311)	189
Net cash provided by operating activities.....	<u>2,875</u>	<u>3,578</u>
Investing Activities		
Payment for the acquisition of HiNT, net of cash acquired.....	(704)	--
Purchases of marketable securities.....	(5,000)	(7,166)
Sales and maturities of marketable securities.....	3,000	2,000
Purchases of property and equipment.....	(871)	(497)
Net cash used in investing activities.....	<u>(3,575)</u>	<u>(5,663)</u>
Financing Activities		
Proceeds from sales of common stock.....	24	1,255
Repurchases of common stock.....	(922)	--
Net cash provided by financing activities.....	<u>(898)</u>	<u>1,255</u>
Effect of exchange rate fluctuations on cash and cash equivalents.....	<u>(7)</u>	<u>6</u>
Decrease in cash and cash equivalents.....	<u>(1,605)</u>	<u>(824)</u>
Cash and cash equivalents at beginning of year.....	5,482	9,631
Cash and cash equivalents at end of period.....	<u>\$ 3,877</u>	<u>\$ 8,807</u>

See accompanying notes to condensed consolidated financial statements.

PLX TECHNOLOGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PLX Technology, Inc. and its wholly-owned subsidiary (collectively, "PLX" or the "Company") as of June 30, 2003 and for the three and six-month periods ended June 30, 2003 and 2002 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) that management considers necessary for a fair presentation of our financial position, operating results and cash flows for the interim periods presented. Operating results and cash flows for interim periods are not necessarily indicative of results for the entire year.

This financial data should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Use of Estimates

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

Comprehensive Loss

The Company's comprehensive net loss for the three and six months ended June 30, 2003 and June 30, 2002 was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	(unaudited)		(unaudited)	
Net loss.....	\$ (1,897)	\$ (1,160)	\$ (2,713)	\$ (1,431)
Unrealized gain (loss) on marketable securities, net.....	(31)	96	(49)	46
Cumulative translation adjustments.....	3	--	8	(2)
Accumulated other comprehensive loss.....	\$ (1,925)	\$ (1,064)	\$ (2,754)	\$ (1,387)

Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." It requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Adoption of this statement did not have a material impact on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. The recognition provisions of FIN 45 were effective for any guarantees issued or modified after December 31, 2002. Adoption of FIN 45 did not have a material impact on the Company's financial position, results of operations or cash flows. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. As disclosed in the Company's Form 10-K for the year ended December 31, 2002, the Company's products are warranted to be free from defect for a period of one year, however, to date, the Company has experienced an immaterial amount of defective product returns. In addition, the Company generally indemnifies, under predetermined conditions, its customers for infringement of third party intellectual property rights by its products or services.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 requires an investor with a majority of the variable interests in a variable interest entity (VIE) to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A VIE is an entity in which the equity investors do not have a controlling interest, or the equity investment at risk is insufficient to finance the entity's activities without receiving additional subordinated financial support from the other parties. For arrangements entered into with VIEs created prior to January 31, 2003, the provisions of FIN 46 are required to be adopted at the beginning of the first interim or annual period beginning after June 15, 2003. The provisions of FIN 46 are effective immediately for all arrangements entered into with new VIEs created after January 31, 2003. Adoption of FIN 46 did not have a material impact on the Company's financial position, results of operations or cash flows.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current year presentation format with no impact on net loss.

2. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market (net realizable value). Inventories were as follows (in thousands):

	June 30, 2003	December 31, 2002
	(unaudited)	
Work in process.....	\$ 933	\$ 338
Finished goods.....	1,534	665
Total.....	<u>\$ 2,467</u>	<u>\$ 1,003</u>

3. Stock Based Compensation

The Company has elected to follow APB Opinion No. 25 and related interpretations in accounting for its stock options and grants since the alternative fair market value accounting provided for under Statement of Financial Accounting Standards (SFAS) No. 123 requires use of grant valuation models that were not developed for use in valuing employee stock options and grants. Under APB Opinion No. 25, if the exercise price of the Company's stock grants and options equals the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

If compensation expense for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, then the Company's net loss per share would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	(unaudited)		(unaudited)	
Net loss as reported.....	\$ (1,897)	\$ (1,160)	\$ (2,713)	\$ (1,431)
Add: Stock-based compensation included in reported net loss.....	367	549	825	1,201
Deduct: Stock-based compensation cost under SFAS 123.....	(1,163)	(2,610)	(3,049)	(5,420)
Pro forma net loss.....	<u>\$ (2,693)</u>	<u>\$ (3,221)</u>	<u>\$ (4,937)</u>	<u>\$ (5,650)</u>
Pro forma basic and diluted net loss per common share:				
Pro forma shares used in the calculation of pro forma net loss per common share - basic and diluted.....				
	<u>22,214</u>	<u>23,529</u>	<u>21,678</u>	<u>23,440</u>
Reported net loss per common share - basic and diluted.....	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.06)</u>
Pro forma net loss per common share - basic and diluted.....	<u>\$ (0.12)</u>	<u>\$ (0.14)</u>	<u>\$ (0.23)</u>	<u>\$ (0.24)</u>

4. Business Combination

On May 22, 2003, the Company purchased HiNT Corp., a fabless semiconductor supplier of Peripheral Component Interconnect (PCI) and PCI-X bridge chips, for an aggregate purchase price, including assumed liabilities, of \$15.6 million. We acquired HiNT Corp. in order to provide electronic-equipment suppliers with a single source for a wide selection of advanced interconnect chips and design support. The PCI, PCI-X, and HyperTransport™ standards are the architectural foundation for a broad range of communications, server, storage and embedded-control systems. The combined company will provide a wide selection of interconnect chips based on these standards. The transaction was accounted for using purchase accounting.

The financial results for the three months ended June 30, 2003 reflect the acquisition from the date the transaction was closed.

The purchase price of the HiNT Corp. acquisition is summarized below (in thousands):

Cash consideration.....	\$ 3,608
Fair value of common stock issued.....	9,595
Fair value of options and warrants assumed.....	457
Assumed liabilities.....	1,581
Acquisition costs.....	391
Total consideration.....	<u>\$ 15,632</u>

The Company issued an aggregate of 2,996,589 shares of its common stock valued at \$9.6 million and cash of \$3.6 million. The Company also assumed 267,920 stock options and 3,057 warrants with a total value of approximately \$0.5 million. The stock options and warrants were valued using the Black-Scholes valuation model. Additionally, the Company incurred \$0.4 million in professional fees, including legal, valuation and accounting fees related to the acquisition, which were included as part of the purchase price consideration for this transaction.

PLX recorded \$0.1 million in deferred compensation on the unvested options assumed in connection with the acquisition of HiNT Corp. Deferred compensation is being amortized over the remaining vesting period of these assumed options.

Additional consideration of PLX's common stock and cash with a maximum aggregate value of approximately \$2.3 million may be paid out in the event HiNT product sales meet certain performance milestones approximately one year following the close of the transaction.

The allocation of the Company's purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed is summarized below (in thousands). The allocation was based on an independent appraisal and estimate of fair value.

	June 30,
	2003
Tangible assets.....	\$ 4,123
Deferred tax liability.....	(1,076)
In-process technology.....	875
Goodwill and other intangible assets:	
Goodwill.....	9,020
Developed/Core Technology.....	1,828
Customer Base.....	862
	<u>11,710</u>
Net assets acquired.....	<u>\$ 15,632</u>

Tangible assets acquired were comprised primarily of cash, inventory and accounts receivables. The acquired in-process technology was written-off in the second quarter of 2003. The estimated weighted average useful life of the intangible assets for the developed/core technology and customer base created as a result of the acquisition of HiNT Corp. is approximately five and three years, respectively. The allocation of purchase price is subject to change pending completion of the final analysis of the total purchase price and fair value of the assets acquired and liabilities assumed.

The \$875,000 allocation of the purchase price to the acquired in-process technology was determined by identifying research projects in areas for which technological feasibility had not been established and no alternative future uses existed. PLX acquired technology consisting of PCI Bridge and PCI-X solutions. The value was determined by estimating the expected cash flows from the project once commercially viable, discounting the net cash flows to their present value, and then applying a percentage of completion to the calculated value as defined below.

Net Cash Flows. The net cash flows from the identified project utilized were based on estimates of revenues, cost of sales, research and development costs, selling, general and administrative costs, and income taxes from the project. These estimates were based on assumptions mentioned below. The research and development costs excluded costs to bring the acquired in-process project to technological feasibility. The estimated revenues were based on management projections of the acquired in-process project.

Discount Rate. Discounting the net cash flows back to their present value was based on the cost of capital for well-managed venture capital funds which typically have similar risks and returns on investments. The cost of capital used in discounting the net cash flows from acquired in-process technology was 25%.

Percentage of Completion. Percentage of completion was determined using costs incurred by HiNT Corp. prior to the acquisition date compared to the remaining research and development to be completed to bring the project to technological feasibility. As of the acquisition date, the Company estimated the project was approximately 80% complete.

The Company expects to complete the project within nine months from the acquisition date. However, development of this project remains a significant risk to the Company due to the remaining effort to achieve technical feasibility, integration of HiNT Corp. into the Company, employee retention, rapidly changing customer markets and significant competitive threats from numerous companies. Failure to bring these products to market in a timely manner could adversely impact sales and profitability of the Company in the future. Additionally, the value of the intangible assets acquired may become impaired.

Unaudited Pro Forma Financial Results

The unaudited pro forma financial information combines the historical statements of operations of the Company and Hint Corp. for the six-months ended June 30, 2003 and 2002 and gives effect to the transaction, including the amortization of goodwill and other intangible assets and the recognition of deferred

compensation, as if they occurred at the beginning of each period presented. The amount of the aggregate purchase price allocated to purchased in-process research and development has been excluded from the pro forma information, as it is a non-recurring item.

The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the transactions had been consummated at the dates indicated, nor is it necessarily indicative of future operating results of the combined companies and should not be construed as representative of these amounts for any future periods (in thousands, except per share data).

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net revenues.....	\$ 9,713	\$ 9,298	\$ 19,634	\$ 20,647
Net loss.....	\$ (941)	\$ (890)	\$ (1,648)	\$ (940)
Net loss per share, basic and diluted.....	\$ (0.04)	\$ (0.03)	\$ (0.07)	\$ (0.04)
Weighted average shares of common stock outstanding.....	23,894	26,526	24,013	26,437

5. Net Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net loss.....	\$ (1,897)	\$ (1,160)	\$ (2,713)	\$ (1,431)
Weighted average shares of common stock outstanding.....	<u>22,214</u>	<u>23,529</u>	<u>21,678</u>	<u>23,440</u>
Net loss per share - basic and diluted.....	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>	<u>\$ (0.13)</u>	<u>\$ (0.06)</u>

As the Company incurred a loss for the three and six month periods ended June 30, 2003 and 2002, the effect of dilutive securities, totaling 4.3 million and 3.5 million equivalent shares, respectively, have been excluded from the computation of diluted loss per share, as their impact would be anti-dilutive.

6. Segments of an Enterprise and Related Information

The Company has one operating segment, the sale of semiconductor devices. The President has been identified as the Chief Operating Decision Maker (CODM) because he has final authority over resource allocation decisions and performance assessment. The CODM does not receive discrete financial information about individual components of the Company's business.

Revenues by geographic region based on customer location were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Revenues:				
North America.....	\$ 3,398	\$ 3,153	\$ 7,005	\$ 7,574
Asia - excluding Taiwan.....	2,578	1,929	4,674	3,821
Europe - excluding France.....	1,185	1,025	2,332	2,516
France.....	649	987	1,579	2,378
Taiwan.....	850	703	1,573	1,626
Total.....	\$ 8,660	\$ 7,797	\$ 17,163	\$ 17,915

For the three months ended June 30, 2003 and 2002, 11% and 23% of net revenues were derived from sales to one and two significant distributors, respectively. For the six months ended June 30, 2003 and 2002, 10% and 25% of net revenues was derived from sales to one and two significant distributors, respectively. No other distributor represented greater than 10% of net revenues. For the three months ended June 30, 2003 a single end customer continues to be a significant customer compared to two end customers historically. The majority of our sales to this end customer is sold through both distributors and contract manufacturers.

7. Income Taxes

There was a \$16,000 income tax benefit for the six months ended June 30, 2003 on a pretax loss of \$2.7 million, compared to an \$11,000 income tax expense on a pretax loss of \$1.4 million for the six months ended June 30, 2002. Income tax benefit for the six months ended June 30, 2003 is due to a benefit of \$28,000 for amortization of the deferred tax liability associated with non-goodwill intangibles relating to the HiNT Corp. acquisition partially offset by \$12,000 of miscellaneous state and foreign income taxes currently payable. The current benefit differs from the expected benefit derived by applying the applicable U.S. federal statutory rate to the loss from operations primarily due to nondeductible acquisition-related items and losses that are not currently benefited.

Deferred tax assets are recognized when there is sufficient evidence that it is more likely than not that such deferred tax assets will be realized. The company has determined that such evidence does not currently exist. Therefore, a full valuation allowance has been established to reserve the Company's deferred tax asset.

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

This Report on Form 10-Q contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, including statements regarding our expectations, hopes, intentions, beliefs or strategies regarding the future. Such forward-looking statements include, but are not limited to, (i) fluctuation of our gross margins under the sub-heading "Overview," which is subject to the risk, among other risks, that there are changes in product and customer mix, the position of our products in their respective life cycles, and specific product manufacturing costs; (ii) the length of our sales cycle, under the sub-heading "Overview," which is subject to the risk, among other risks, that anticipated sales and shipments in any quarter do not occur when expected; (iii) our anticipated expense levels for amortization of purchased intangible assets and deferred compensation, under the sub-heading "Results of Operations," which is subject to various uncertainties, among them the impact of statements of financial accounting standards that we may be required to adopt in the future; and (iv) the sufficiency of our existing resources and cash generated from operations to meet our capital requirements under the sub-heading "Results of Operations," which is subject to the risk, among other risks, that a decrease in our inventory levels, an increase in our level of investment in new technologies or an increase in the levels of monthly expenses required to launch new products may require that we raise additional funds. Actual results could differ materially from those projected in any forward-looking statements for the reasons detailed above, as well as the reasons noted under the sub-heading "Certain Factors That May Affect Future Operating Results" and in other sections of this Report on Form 10-Q. All forward-looking statements included in this Form 10-Q are based on information available to us on the date of this Report on Form 10-Q, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. See "Certain Factors That May Affect Future Operating Results" below, as well as such other risks and uncertainties as are detailed in our Securities and Exchange Commission reports and filings for a discussion of the factors that could cause actual results to differ materially from the forward-looking statements.

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

OVERVIEW

PLX was founded in 1986, and since 1994 we have focused on development of I/O interface semiconductors and related software and development tools that are used in systems incorporating the PCI standard. In 1994 and 1995, a significant portion of our revenues were derived from the sale of semiconductor devices that perform similar functions as our current products, except they were based on a variety of industry standards. Our revenues since 1996 have been derived predominantly from the sale of semiconductor devices based on the PCI standard to a large number of customers in a variety of applications including networking and telecommunications, enterprise storage, imaging, industrial and other embedded applications as well as in related adapter cards. We generate less than 1% of our revenues from sales of our software and development tools.

In May of 2003, we acquired HiNT Corp. which markets and sells PCI Bridges and PCI-X products into a variety of applications including networking and telecommunications, personal computer peripheral, imaging, industrial and other embedded applications.

We utilize a "fables" semiconductor business model whereby we purchase packaged and tested semiconductor devices from independent manufacturing foundries. This approach allows us to focus on defining, developing, and marketing our products and eliminates the need for us to invest large amounts of capital in manufacturing facilities and work-in-process inventory.

We rely on a combination of direct sales personnel and distributors and manufacturers' representatives throughout the world to sell a significant portion of our products. We pay manufacturers' representatives a commission on sales while we sell products to distributors at a discount from the selling price. We generally recognize revenue at the time of title passage. Recognition of sales to distributors, including international distributors, is deferred until the product is resold by the distributors to end users. See "Certain Factors That May Affect Future Operating Results -- A Large Portion of Our Revenues Is Derived From Sales to Third-Party Distributors Who May Terminate Their Relationships with Us at Any Time."

Our gross margins have fluctuated in the past and are expected to fluctuate in the future due to changes in product and customer mix, write-downs and recoveries of excess or obsolete inventory, the position of our products in their respective life cycles, and specific product manufacturing costs.

The time period between initial customer evaluation and design completion can range from six to twelve months or more. Furthermore, there is typically an additional six to twelve month or greater period after design completion before a customer commences volume production of equipment incorporating our products. Due to these lengthy sales cycles, we may experience significant fluctuations in new orders from month to month. In addition, we typically make inventory purchases prior to receiving customer orders. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high, and our results for that quarter and potentially future quarters would be materially and adversely affected.

Our long-term success will depend on our ability to introduce new products. While new products typically generate little or no revenues during the first twelve months following their introduction, our revenues in subsequent periods depend upon these new products. Due to the lengthy sales cycle and additional time for customers to commence volume production, significant revenues from our new products typically occur twelve to twenty-four months after product introduction. As a result, revenues from newly introduced products have, in the past, produced a small percentage of our total revenues in the year the product was introduced. See "Certain Factors That May Affect Future Operating Results -- Our Lengthy Sales Cycle Can Result in Uncertainty and Delays with Regard to Our Expected Revenues."

RESULTS OF OPERATIONS

The following table summarizes historical results of operations as a percentage of net revenues for the periods shown.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net revenues.....	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues.....	29.1	30.5	29.3	32.0
Gross margin.....	70.9	69.5	70.7	68.0
Operating expenses:				
Research and development.....	45.0	45.1	44.3	40.1
Selling, general and administrative.....	36.9	42.3	36.4	37.0
In-process research and development.....	10.1	--	5.1	--
Amortization of purchased intangible assets.....	2.4	1.7	2.0	1.5
Total operating expenses.....	94.4	89.1	87.8	78.6
Loss from operations.....	(23.5)	(19.6)	(17.1)	(10.6)
Interest income and other, net.....	1.2	3.3	1.2	2.7
Loss before provision (benefit) for income taxes.....	(22.3)	(16.3)	(15.9)	(7.9)
Provision (benefit) for income taxes.....	(0.3)	(1.5)	(0.1)	0.1
Net loss.....	(22.0)%	(14.8)%	(15.8)%	(8.0)%

Net Revenues

Net revenues consist of product revenues generated principally by sales of our semiconductor devices. Net revenues for the three months ended June 30, 2003 were \$8.7 million, an increase of 11.1% from \$7.8 million for the three months ended June 30, 2002. The increase was primarily due to higher unit shipments as well as revenues generated from the PCI bridge product acquired as part of the HiNT Corp. acquisition. For the three months ended June 30, 2003 and 2002, 11% and 23% of net revenues were derived from sales of one and two significant distributors, respectively. No other distributor represented greater than 10% of net revenues. For the three months ended June 30, 2003 a single end customer continues to be a significant customer compared to two end customers historically. The majority of our sales to this end customer is sold through both distributors and contract manufacturers.

Net revenues for the six months ended June 30, 2003 were \$17.2 million, a decrease of 4.2% from \$17.9 million for the six months ended June 30, 2002. The decrease was primarily due to reduced demand from a significant customer, Prediwave, since the first quarter of 2002. For the six months ended June 30, 2003 and 2002, 10% and 25% of net revenues was derived from sales through one and two significant distributors, respectively. No other distributor represented greater than 10% of net revenues.

Gross Margin

Gross margin represents net revenues less the cost of revenues. Cost of revenues includes the cost of purchasing packaged semiconductor devices from our independent foundries and our operating costs associated with the procurement, storage, and shipment of products.

The increase in gross margin to 70.9% for the three months ended June 30, 2003 from 69.5% for the same period in 2002 was primarily related to a benefit of approximately \$0.1 million from selling previously written-down inventory. Excluding this benefit, gross margin remained relatively flat at 69.5% for the three months ended June 30, 2003 and 2002.

The increase in gross margin to 70.7% for the six months ended June 30, 2003 from 68.0% for the same period in 2002 was primarily related to a benefit of approximately \$0.3 million from selling previously written-down inventory. Excluding this benefit, gross margin increased to 68.8% for the six months ended June 30, 2003 from 68.0% for the same period in 2002. The increase in gross margins is primarily due to shifts in our product and customer mix.

Research and Development Expenses

Research and development (R&D) expenses consist primarily of salaries and related costs of employees engaged in research, design, and development activities. In addition, expenses for outside engineering consultants and non-recurring engineering at our independent foundries and deferred compensation are included in research and development expenses.

R&D as a percent of net revenues remained relatively flat at 45.0% for the three months ended June 30, 2003, as compared to 45.1% for the same period in 2002. In absolute dollars, R&D expenses increased to \$3.9 million for the three months ended June 30, 2003 from \$3.5 million for the same period in 2002. Excluding deferred compensation of \$0.4 million and \$0.5 million for the three months ended June 30, 2003 and 2002, respectively, R&D increased by \$0.5 million to \$3.5 million for the three months ended June 30, 2003 from \$3.0 million for the same period in 2002. The increase in R&D was primarily due to an increase in non-recurring engineering costs associated with the development of new products and enhancement of existing products as well as compensation expenses relating to the HiNT Corp. acquisition.

The increase in R&D as a percent of net revenues to 44.3% for the six months ended June 30, 2003, as compared to 40.1% for the same period in 2002 was due primarily to a decrease in revenues. In absolute dollars, R&D expenses increased to \$7.6 million for the six months ended June 30, 2003 from \$7.2 million for the same period in 2002. Excluding deferred compensation of \$0.8 million and \$1.2 million for the six months ended June 30, 2003 and 2002, R&D increased by \$0.8 million to \$6.8 million for the six months ended June 30, 2003 from \$6.0 million for the same period in 2002. The increase in R&D was primarily due to an increase in non-recurring engineering costs associated with the development of new products and enhancement of existing products as well as compensation expenses relating to the HiNT Corp. acquisition.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses consist primarily of employee-related expenses, professional fees, trade show and other promotional expenses, and sales commissions to manufacturers' representatives.

The decrease in SG&A as a percent of net revenues to 36.9% for the three months ended June 30, 2003, as compared to 42.3% for the same period in 2002 was due primarily to an increase in revenues. In absolute dollars, SG&A expenses decreased by \$0.1 million or 3.2% to \$3.2 million for the three months ended June 30, 2003 from \$3.3 million for the same period in 2002. The decrease was primarily due to lower headcount partially offset by increases in discretionary spending.

SG&A as a percent of net revenues decreased to 36.4% for the six months ended June 30, 2003, as compared to 37.0% for the same period in 2002. In absolute dollars, SG&A expenses decreased by \$0.4 million or 5.8% to \$6.3 million for the six months ended June 30, 2003 from \$6.6 million for the same period in 2002. The decrease was primarily due to lower headcount partially offset by increases in discretionary spending.

In-Process Research and Development

The amounts expended to in-process research and development in the three and six months ended June 30, 2003 related to the acquisition of HiNT Corp.

The acquired in-process research and development expense of \$0.9 million was determined by identifying research projects in areas for which technological feasibility had not been established and no alternative future uses existed. PLX acquired technology consisting of PCI Bridges and PCI-X solutions. The value was determined by estimating the expected cash flows from the project once commercially viable, discounting the net cash flows to their present value, and then applying a percentage of completion to the calculated value as defined below.

Net Cash Flows. The net cash flows from the identified project utilized were based on estimates of revenues, cost of sales, research and development costs, selling, general and administrative costs, and income taxes from the project. These estimates were based on assumptions mentioned below. The research and development costs excluded costs to bring the acquired in-process project to technological feasibility. The estimated revenues were based on management projections of the acquired in-process project.

Discount Rate. Discounting the net cash flows back to their present value was based on the cost of capital for well-managed venture capital funds which typically have similar risks and returns on investments. The cost of capital used in discounting the net cash flows from acquired in-process technology was 25%.

Percentage of Completion. Percentage of completion was determined using costs incurred by HiNT Corp. prior to the acquisition date compared to the remaining research and development to be completed to bring the project to technological feasibility. The Company estimated, as of the acquisition date, the project was approximately 80% complete.

The Company expects to complete the project within nine months from the acquisition date. However, development of this project remains a significant risk to the Company due to the remaining effort to achieve technical feasibility, integration of HiNT Corp. and the Company, employee retention, rapidly changing customer markets and significant competitive threats from numerous companies. Failure to bring these products to market in a timely manner could adversely impact sales and profitability of the Company in the future. Additionally, the value of the intangible assets acquired may become impaired.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets for the three months ended June 30, 2003 was \$0.2 million, an increase of 53% from \$0.1 million for the three months ended June 30, 2002. Amortization of purchased intangible assets for the six months ended June 30, 2003 was \$0.3 million, an increase of 27% from \$0.3 million for the six months ended June 30, 2002. The increase for the three and six months ended June 30, 2003 compared to June 30, 2002 is due to additional amortization expense from the newly acquired intangible assets as a result of the HiNT Corp. acquisition (see Note 4 to the condensed consolidated financial statements).

Deferred Compensation

We recorded deferred compensation of \$0.1 million related to unvested stock options assumed in connection with the acquisition of HiNT Corp in May 2003. In addition, we recorded deferred compensation of \$12.3 million related to stock options granted below fair market value to employees in relation to the acquisition of Sebring Systems in May 2000. Lastly, we recorded deferred compensation of \$3.5 million in connection with the grant of stock options below fair market value to our employees in September 2000. The amount of deferred compensation is presented as a reduction of stockholders' equity and amortized ratably over the vesting period of the applicable stock grants.

Amortization of deferred compensation decreased by \$0.2 million or 33.2% to \$0.4 million for the three months ended June 30, 2003 from \$0.5 million from the same period in 2002. Amortization of deferred compensation decreased by \$0.4 million or 31.3% to \$0.8 million for the six months ended June 30, 2003 from \$1.2 million for the same period in 2002. The decrease in deferred compensation for the three and six months ended June 30, 2003 is the result of certain stock options becoming fully vested. This decrease was partially offset by additional deferred compensation recorded from the HiNT Corp. acquisition. Substantially all of these amounts are included in research and development expenses.

We expect to record compensation expenses related to deferred compensation of approximately \$0.2 million for the three-months ending September 30, 2003.

Interest Income and Other, Net

Interest income reflects interest earned on average cash, cash equivalents and short-term and long-term marketable securities balances. Interest income and other decreased by \$0.2 million or 60.0% to \$0.1 million for the three months ended June 30, 2003 from \$0.3 million for the same period in 2002. Interest income and other decreased by \$0.3 million or 56.8% to \$0.2 million for the six months ended June 30, 2003 from \$0.5 million for the same period in 2002. The decrease for the three and six months ended June 30, 2003 compared to June 30, 2002 was due primarily to lower rental income as a result of the loss of a subtenant from our office facilities and lower interest earned on the decrease in interest rates.

Provision for Income Taxes

There was a \$16,000 income tax benefit for the six months ended June 30, 2003 on a pretax loss of \$2,729,000, compared to an \$11,000 income tax expense on a pretax loss of \$1,420,000 for the six months ended June 30, 2002. Income tax benefit for the six months ended June 30, 2003 is due to a benefit of \$28,000 for amortization of the deferred tax liability associated with non-goodwill intangibles relating to the HiNT Corp. acquisition partially offset by \$12,000 of miscellaneous state and foreign income taxes currently payable. The current benefit differs from the expected benefit derived by applying the applicable U.S. federal statutory rate to the loss from operations primarily due to nondeductible acquisition-related items and losses that are not currently benefited.

Deferred tax assets are recognized when there is sufficient evidence that it is more likely than not that such deferred tax assets will be realized. The company has determined that such evidence does not currently exist. Therefore, a full valuation allowance has been established to reserve the Company's deferred tax asset.

Liquidity and Capital Resources

Cash and cash equivalents and short and long-term marketable securities were \$22.0 million at June 30, 2003, an increase of \$0.3 million from \$21.7 million at December 31, 2002. The increase was primarily due to the following: (1) a net loss of \$2.7 million adjusted for non-cash expenses of \$3.2 million, (2) a decrease in income tax receivable of \$3.6 million, and (3) an increase in accounts payable of \$0.5 million. Such increases were partially offset by increases in accounts receivable and inventories of \$1.4 million and \$1.0 million, respectively, (2) net cash paid in connection with the HiNT acquisition of \$0.7 million, (3) capital expenditures of \$0.9 million, and (4) cash paid for stock repurchases totaling \$0.9 million.

As of June 30, 2003, there were no significant changes in purchase commitments outstanding.

We believe that our existing resources, together with cash generated from our operations will be sufficient to meet our capital requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including the inventory levels we maintain, the level of investment we make in new technologies and improvements to existing technologies and the levels of monthly expenses required to launch new products. From time to time, we may also evaluate potential acquisitions and equity investments complementary to our technologies and market strategies. To the extent that existing resources and future earnings are insufficient to fund our future activities, we may need to raise additional funds through public or private financings. Additional funds may not be available or, if available, we may not be able to obtain them on terms favorable to us and our stockholders.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies which involve the use of estimates, judgments and assumptions that are significant to understanding our results. Although we believe that our

estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

Inventory Write-downs. We evaluate the write-downs for inventory based on a combination of factors. Based on the life of the product, sales history, obsolescence, and sales forecast, we record write-downs ranging from 0% to 100%. Any adverse changes to our future product demand may result in increased write-downs, resulting in decreased gross margin. In addition, future sales on any of our previously written down inventory may result in increased gross margin.

Allowance for Doubtful Accounts. We evaluate the collectibility of our accounts receivable based on length of time the receivables are past due. We record reserves for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. We have certain customers with individually large amounts due at any given balance sheet date. Any unanticipated change in one of those customer's credit worthiness or other matters affecting the collectibility of amounts due from such customers could have a material affect on our results of operations in the period in which such changes or events occur.

Goodwill. We adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. This standard requires that goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but rather are reviewed for impairment annually, or more frequently if certain indicators arise. Although at June 30, 2003, no impairment of goodwill has been recognized, it is reasonably possible that assumptions upon which the recoverability of goodwill were based could differ in the future. In that event, impairment charges could be required.

Taxes. We account for income taxes using the liability method. Deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. As of June 30, 2003, we carried a valuation allowance for the entire deferred tax asset as a result of uncertainties regarding the realization of the asset balance. Future taxable income and/or tax planning strategies may eliminate all or a portion of the need for the valuation allowance. In the event we determine we are able to realize our deferred tax asset, an adjustment to the valuation allowance may increase income in the period such determination is made.

CERTAIN FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

This quarterly report on Form 10-Q contains forward-looking statements which involve risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking statements as a result of certain factors, including those set forth below.

Our Operating Results May Fluctuate Significantly Due To Factors Which Are Not Within Our Control

Our quarterly operating results have fluctuated significantly in the past and are expected to fluctuate significantly in the future based on a number of factors, many of which are not under our control. Our operating expenses, which include product development costs and selling, general and administrative expenses, are relatively fixed in the short-term. If our revenues are lower than we expect because we sell fewer semiconductor devices, delay the release of new products or the announcement of new features, or for other reasons, we may not be able to quickly reduce our spending in response.

Other circumstances that can affect our operating results include:

- the timing of significant orders, order cancellations and reschedulings,
- the loss of a significant customer(s),
- our significant customers could lose market share that may affect our business,
- general economic conditions,
- our ability to develop, introduce and market new products and technologies on a timely basis,

- changes in our pricing policies or those of our competitors or suppliers, including decreases in unit average selling prices of our products,
- introduction of products and technologies by our competitors,
- shifts in our product mix toward lower margin products,
- the availability of production capacity at the fabrication facilities that manufacture our products,
- the availability and cost of materials to our suppliers, and
- political climate.

These factors are difficult to forecast, and these or other factors could adversely affect our business. Any shortfall in our revenues would have a direct impact on our business. In addition, fluctuations in our quarterly results could adversely affect the market price of our common stock in a manner unrelated to our long-term operating performance.

Our Results Of Operations Have Been Adversely Affected By The Ongoing Slowdown In The Global Economy

Over the past year, the global economy has been experiencing a slowdown due to many factors, including decreased consumer confidence, unemployment, the ongoing threat and cost of terrorism and reduced corporate profits and capital spending. As a result of these unfavorable economic conditions, we continue to experience reduced customer order rates. If these economic conditions in the United States continue or worsen or if a wider or global economic slowdown occurs, our business, financial condition and results of operations may be materially and adversely affected.

We May Fail To Adequately Integrate Acquired Businesses

In May 2003, we acquired HiNT Corporation, a fabless semiconductor supplier of PCI and PCI-X chips, in a transaction accounted for as a purchase transaction. There can be no assurance that this acquisition will be effectively assimilated into our business. The integration of HiNT will place a burden on our management and infrastructure. Such integrations are subject to risks commonly encountered in making such acquisitions, including, among others, loss of key personnel of the acquired company, loss of key customers and business relationships of the acquired company, the difficulty associated with assimilating and integrating the personnel, operations and technologies of the acquired company, the potential disruption of our ongoing business, and the maintenance of uniform standards, controls, procedures, employees and clients. There can be no assurance that we will be successful in overcoming these risks or any other problems encountered in connections with our acquisition of HiNT.

Our Potential Future Acquisitions May Not Be Successful Because Of Our Limited Experience With Acquisitions In The Past

There have been a significant number of mergers and acquisitions in the semiconductor industry in the past. As part of our business strategy, we expect to review acquisition prospects that would complement our existing product offerings, improve market coverage or enhance our technological capabilities. Future acquisitions could result in any or all of the following:

- potentially dilutive issuances of equity securities,
- large one-time write-offs,
- the incurrence of debt and contingent liabilities or amortization expenses related to goodwill and other intangible assets,
- difficulties in the assimilation of operations, personnel, technologies, products and the information systems of the acquired companies,

- diversion of management’s attention from other business concerns,
- risks of entering geographic and business markets in which we have no or limited prior experience, and
- potential loss of key employees of acquired organizations.

We have had limited experience with acquisitions in the past and may not be able to successfully integrate any businesses, products, technologies or personnel that may be acquired in the future. Our failure to do so could have a material adverse effect on our business.

Because A Substantial Portion Of Our Net Sales Is Generated By A Small Number Of Large Customers, If Any Of These Customers Delays Or Reduces Its Orders, Our Net Revenues And Earnings Will Be Harmed

Historically, a relatively small number of customers have accounted for a significant portion of our net sales in any particular period. We have no long-term volume purchase commitments from any of our significant customers. We cannot be certain that our current customers will continue to place orders with us, that orders by existing customers will continue at the levels of previous periods or that we will be able to obtain orders from new customers. In addition, some of our customers supply products to end-market purchasers and any of these end-market purchasers could choose to reduce or eliminate orders for our customers’ products. This would in turn lower our customers’ orders for our products.

We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our net sales. Due to these factors, the following have in the past and may in the future reduce our net sales or earnings:

- the reduction, delay or cancellation of orders from one or more of our significant customers;
- the selection of competing products or in-house design by one or more of our current customers;
- the loss of one or more of our current customers; or
- a failure of one or more of our current customers to pay our invoices.

Our Lengthy Sales Cycle Can Result In Uncertainty And Delays With Regard To Our Expected Revenues

Our customers typically perform numerous tests and extensively evaluate our products before incorporating them into their systems. The time required for test, evaluation and design of our products into a customer’s equipment can range from six to twelve months or more. It can take an additional six to twelve months or more before a customer commences volume shipments of equipment that incorporates our products. Because of this lengthy sales cycle, we may experience a delay between the time when we increase expenses for research and development and sales and marketing efforts and the time when we generate higher revenues, if any, from these expenditures.

In addition, the delays inherent in our lengthy sales cycle raise additional risks of customer decisions to cancel or change product plans. When we achieve a design win, there can be no assurance that the customer will ultimately ship products incorporating our products. Our business could be materially adversely affected if a significant customer curtails, reduces or delays orders during our sales cycle or chooses not to release products incorporating our products.

Rapid Technological Change Could Make Our Products Obsolete

We operate in an industry that is subject to evolving industry standards, rapid technological changes, rapid changes in customer demands and the rapid introduction of new, higher performance products with shorter product life cycles. As a result, we expect to continue to make significant investments in research and development. However, we may not have adequate funds from operations or otherwise to devote to research and development, forcing us to reduce our research and development efforts. Also, we must manage product transitions successfully, since announcements or introductions of new products by us or our competitors could adversely affect sales of our existing

products because these existing products can become obsolete or unmarketable for specific purposes. There can be no assurance that we will be able to develop and introduce new products or enhancements to our existing products on a timely basis or in a manner which satisfies customer needs or achieves widespread market acceptance. Any significant delay in releasing new products could adversely affect our reputation, give a competitor a first-to-market advantage or allow a competitor to achieve greater market share. The failure to adjust to rapid technological change could harm our business, financial condition, results of operations and cash flows.

Failure Of Our Products To Gain Market Acceptance Would Adversely Affect Our Financial Condition

We believe that our growth prospects depend upon our ability to gain customer acceptance of our products and technology. Market acceptance of products depends upon numerous factors, including compatibility with existing manufacturing processes and products, perceived advantages over competing products and the level of customer service available to support such products. Moreover, manufacturers often rely on a limited number of equipment vendors to meet their manufacturing equipment needs. As a result, market acceptance of our products may be adversely affected to the extent potential customers utilize a competitor's manufacturing equipment. There can be no assurance that growth in sales of new products will continue or that we will be successful in obtaining broad market acceptance of our products and technology.

We expect to spend a significant amount of time and resources to develop new products and refine existing products. In light of the long product development cycles inherent in our industry, these expenditures will be made well in advance of the prospect of deriving revenues from the sale of any new products. Our ability to commercially introduce and successfully market any new products is subject to a wide variety of challenges during this development cycle, including start-up bugs, design defects and other matters that could delay introduction of these products to the marketplace. In addition, since our customers are not obligated by long-term contracts to purchase our products, our anticipated product orders may not materialize, or orders that do materialize may be cancelled. As a result, if we do not achieve market acceptance of new products, we may not be able to realize sufficient sales of our products in order to recoup research and development expenditures. The failure of any of our new products to achieve market acceptance would harm our business, financial condition, results of operation and cash flows.

We Must Make Significant Research And Development Expenditures Prior To Generating Revenues From Products

To establish market acceptance of a new semiconductor device, we must dedicate significant resources to research and development, production and sales and marketing. We incur substantial costs in developing, manufacturing and selling a new product, which often significantly precede meaningful revenues from the sale of this product. Consequently, new products can require significant time and investment to achieve profitability. Investors should note that our efforts to introduce new semiconductor devices or other products or services may not be successful or profitable. In addition, products or technologies developed by others may render our products or technologies obsolete or noncompetitive.

We record as expenses the costs related to the development of new semiconductor devices and other products as these expenses are incurred. As a result, our profitability from quarter to quarter and from year to year may be adversely affected by the number and timing of our new product launches in any period and the level of acceptance gained by these products.

Our Independent Manufacturers May Not Be Able To Meet Our Manufacturing Requirements

We do not manufacture any of our semiconductor devices. Therefore, we are referred to in the semiconductor industry as a "fabless" producer of semiconductors. Consequently, we depend upon third party manufacturers to produce semiconductors that meet our specifications. We currently have third party manufacturers that can produce semiconductors which meet our needs. However, as the semiconductor industry continues to progress towards smaller manufacturing and design geometries, the complexities of producing semiconductors will increase. Decreasing geometries may introduce new problems and delays that may affect product development and deliveries. Due to the nature of the semiconductor industry and our status as a "fabless" semiconductor company, we could encounter fabrication-related problems that may affect the availability of our semiconductor devices, delay our shipments or may increase our costs.

None of our semiconductor devices are currently manufactured by more than one supplier. We place our orders on a purchase order basis and do not have a long term purchase agreement with any of our existing suppliers. In the event that the supplier of a semiconductor device was unable or unwilling to continue to manufacture this product in the required volume, we would have to identify and qualify a substitute supplier. Introducing new products or transferring existing products to a new third party manufacturer or process may result in unforeseen device specification and operating problems. These problems may affect product shipments and may be costly to correct. Silicon fabrication capacity may also change, or the costs per silicon wafer may increase. Manufacturing-related problems may have a material adverse effect on our business.

Further, the spread of the Severe Acute Respiratory Syndrome (SARS) virus and the extent of local preventive measures could affect the production capabilities of our manufacturers, all of which are located in Asia. If this or any factor hinders our ability to obtain products from our manufacturers in a timely basis, there could be significant disruption in our business.

Intense Competition In The Markets In Which We Operate May Reduce The Demand For Or Prices Of Our Products

Competition in the semiconductor industry is intense. If our main target market, the embedded systems market, continues to grow, the number of competitors may increase significantly. In addition, new semiconductor technology may lead to new products that can perform similar functions as our products. Some of our competitors and other semiconductor companies may develop and introduce products that integrate into a single semiconductor device the functions performed by our semiconductor devices. This would eliminate the need for our products in some applications.

In addition, competition in our markets comes from companies of various sizes, many of which are significantly larger and have greater financial and other resources than we do and thus can better withstand adverse economic or market conditions. Also, as we start to sell our processor products, we will compete with established embedded microprocessor companies and others. Many of these indirect competitors and microprocessor companies have significantly greater financial, technical, marketing and other resources than PLX. Therefore, we cannot assure you that we will be able to compete successfully in the future against existing or new competitors, and increased competition may adversely affect our business. See "Business -- Competition," and "-- Products" in Part I of Item I of our Form 10-K for the year ended December 31, 2002.

Failure To Have Our Products Designed Into The Products Of Electronic Equipment Manufacturers Will Result In Reduced Sales

Our future success depends on electronic equipment manufacturers that design our semiconductor devices into their systems. We must anticipate market trends and the price, performance and functionality requirements of current and potential future electronic equipment manufacturers and must successfully develop and manufacture products that meet these requirements. In addition, we must meet the timing requirements of these electronic equipment manufacturers and must make products available to them in sufficient quantities. These electronic equipment manufacturers could develop products that provide the same or similar functionality as one or more of our products and render these products obsolete in their applications.

We do not have purchase agreements with our customers that contain minimum purchase requirements. Instead, electronic equipment manufacturers purchase our products pursuant to short-term purchase orders that may be canceled without charge. We believe that in order to obtain broad penetration in the markets for our products, we must maintain and cultivate relationships, directly or through our distributors, with electronic equipment manufacturers that are leaders in the embedded systems markets. Accordingly, we will incur significant expenditures in order to build relationships with electronic equipment manufacturers prior to volume sales of new products. If we fail to develop relationships with additional electronic equipment manufacturers to have our products designed into new embedded systems or to develop sufficient new products to replace products that have become obsolete, our business would be materially adversely affected.

Lower Demand For Our Customers' Products Will Result In Lower Demand For Our Products

Demand for our products depends in large part on the development and expansion of the high-performance embedded systems markets including networking and telecommunications, enterprise storage, imaging and industrial applications. The size and rate of growth of these embedded systems markets may in the future fluctuate significantly based on numerous factors. These factors include the adoption of alternative technologies, capital spending levels and general economic conditions. Demand for products that incorporate high-performance embedded systems may not grow.

Defects In Our Products Could Increase Our Costs And Delay Our Product Shipments

Our products are complex. While we test our products, these products may still have errors, defects or bugs that we find only after commercial production has begun. We have experienced errors, defects and bugs in the past in connection with new products.

Our customers may not purchase our products if the products have reliability, quality or compatibility problems. This delay in acceptance could make it more difficult to retain our existing customers and to attract new customers. Moreover, product errors, defects or bugs could result in additional development costs, diversion of technical and other resources from our other development efforts, claims by our customers or others against us, or the loss of credibility with our current and prospective customers. In the past, the additional time required to correct defects has caused delays in product shipments and resulted in lower revenues. We may have to spend significant amounts of capital and resources to address and fix problems in new products.

We must continuously develop our products using new process technology with smaller geometries to remain competitive on a cost and performance basis. Migrating to new technologies is a challenging task requiring new design skills, methods and tools and is difficult to achieve.

We Could Lose Key Personnel Due To Competitive Market Conditions And Attrition

Our success depends to a significant extent upon our senior management and key technical and sales personnel. The loss of one or more of these employees could have a material adverse effect on our business. We do not have employment contracts with any of our executive officers.

Our success also depends on our ability to attract and retain qualified technical, sales and marketing, customer support, financial and accounting, and managerial personnel. Competition for such personnel in the semiconductor industry is intense, and we may not be able to retain our key personnel or to attract, assimilate or retain other highly qualified personnel in the future. In addition, we may lose key personnel due to attrition, including health, family and other reasons. We have experienced, and may continue to experience, difficulty in hiring and retaining candidates with appropriate qualifications. If we do not succeed in hiring and retaining candidates with appropriate qualifications, our business could be materially adversely affected.

A Large Portion Of Our Revenues Is Derived From Sales To Third-Party Distributors Who May Terminate Their Relationships With Us At Any Time

We depend on distributors to sell a significant portion of our products. In the six months ended June 30, 2003 and 2002, net revenues through distributors accounted for approximately 54% and 53%, respectively, of our net revenues. Some of our distributors also market and sell competing products. Distributors may terminate their relationships with us at any time. Our future performance will depend in part on our ability to attract additional distributors that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. We may lose one or more of our current distributors or may not be able to recruit additional or replacement distributors. The loss of one or more of our major distributors could have a material adverse effect on our business, as we may not be successful in servicing our customers directly or through manufacturers' representatives.

The Demand For Our Products Depends Upon Our Ability To Support Evolving Industry Standards

Substantially all of our revenues are derived from sales of products, which rely on the PCI standard. If the embedded systems markets move away from this standard and begin using new standards, we may not be able to successfully design and manufacture new products that use these new standards. There is also the risk that new products we develop in response to new standards may not be accepted in the market. In addition, the PCI standard is continuously evolving, and we may not be able to modify our products to address new PCI specifications. Any of these events would have a material adverse effect on our business.

The Successful Marketing And Sales Of Our Products Depend Upon Our Third Party Relationships, Which Are Not Supported By Written Agreements

When marketing and selling our semiconductor devices, we believe we enjoy a competitive advantage based on the availability of development tools offered by third parties. These development tools are used principally for the design of other parts of the embedded system but also work with our products. We will lose this advantage if these third party tool vendors cease to provide these tools for existing products or do not offer them for our future products. This event could have a material adverse effect on our business. We have no written agreements with these third parties, and these parties could choose to stop providing these tools at any time.

Our Limited Ability To Protect Our Intellectual Property And Proprietary Rights Could Adversely Affect Our Competitive Position

Our future success and competitive position depend upon our ability to obtain and maintain proprietary technology used in our principal products. Currently, we have limited protection of our intellectual property in the form of patents and rely instead on trade secret protection. Our existing or future patents may be invalidated, circumvented, challenged or licensed to others. The rights granted thereunder may not provide competitive advantages to us. In addition, our future patent applications may not be issued with the scope of the claims sought by us, if at all. Furthermore, others may develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents owned or licensed by us. In addition, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in foreign countries where we may need protection. We cannot be sure that steps taken by us to protect our technology will prevent misappropriation of the technology.

We may from time to time receive notifications of claims that we may be infringing patents or other intellectual property rights owned by third parties. While there is currently no intellectual property litigation pending against us, litigation could result in significant expenses to us and adversely affect sales of the challenged product or technology. This litigation could also divert the efforts of our technical and management personnel, whether or not the litigation is determined in our favor. In addition, we may not be able to develop or acquire non-infringing technology or procure licenses to the infringing technology under reasonable terms. This could require expenditures by us of substantial time and other resources. Any of these developments would have a material adverse effect on our business.

The Cyclical Nature Of The Semiconductor Industry May Lead To Significant Variances In The Demand For Our Products

In the last few years, the semiconductor industry has been characterized by significant downturns and wide fluctuations in supply and demand. Also, during this time, the industry has experienced significant fluctuations in anticipation of changes in general economic conditions. This cyclical nature has led to significant variances in product demand and production capacity. It has also accelerated erosion of average selling prices per unit. We may experience periodic fluctuations in our future financial results because of industry-wide conditions.

Because We Sell Our Products To Customers Outside Of North America And Because Our Products Are Incorporated With Products Of Others That Are Sold Outside Of North America We Face Foreign Business, Political And Economic Risks

Sales outside of North America accounted for 59% of our revenues for the six months ended June 30, 2003. In 2002, 2001 and 2000, sales outside of North America accounted for 58%, 44% and 39% of our revenues, respectively. Sales outside of North America may fluctuate in future periods and may continue to account for a large portion of our revenues. In addition, equipment manufacturers who incorporate our products into their products sell their products outside of North America, thereby exposing us indirectly to foreign risks. Further, most of our semiconductor products are manufactured outside of North America. Accordingly, we are subject to international risks, including:

- difficulties in managing distributors,
- difficulties in staffing and managing foreign subsidiary and branch operations,

- political and economic instability,
- foreign currency exchange fluctuations,
- difficulties in accounts receivable collections,
- potentially adverse tax consequences,
- timing and availability of export licenses,
- changes in regulatory requirements, tariffs and other barriers,
- difficulties in obtaining governmental approvals for telecommunications and other products, and
- the burden of complying with complex foreign laws and treaties.

Because sales of our products have been denominated to date exclusively in United States dollars, increases in the value of the United States dollar will increase the price of our products so that they become relatively more expensive to customers in the local currency of a particular country, which could lead to a reduction in sales and profitability in that country.

Our Principal Stockholders Have Significant Voting Power And May Take Actions That May Not Be In The Best Interests Of Our Other Stockholders

Our executive officers, directors and other principal stockholders, in the aggregate, beneficially own a substantial amount of our outstanding common stock. Although these stockholders do not have majority control, they currently have, and likely will continue to have, significant influence with respect to the election of our directors and approval or disapproval of our significant corporate actions. This influence over our affairs might be adverse to the interests of other stockholders. In addition, the voting power of these stockholders could have the effect of delaying or preventing a change in control of PLX.

The Anti-Takeover Provisions In Our Certificate of Incorporation Could Adversely Affect The Rights Of The Holders Of Our Common Stock

Anti-takeover provisions of Delaware law and our Certificate of Incorporation may make a change in control of PLX more difficult, even if a change in control would be beneficial to the stockholders. These provisions may allow the Board of Directors to prevent changes in the management and control of PLX.

As part of our anti-takeover devices, our Board of Directors has the ability to determine the terms of preferred stock and issue preferred stock without the approval of the holders of the common stock. Our Certificate of Incorporation allows the issuance of up to 5,000,000 shares of preferred stock. There are no shares of preferred stock outstanding. However, because the rights and preferences of any series of preferred stock may be set by the Board of Directors in its sole discretion without approval of the holders of the common stock, the rights and preferences of this preferred stock may be superior to those of the common stock. Accordingly, the rights of the holders of common stock may be adversely affected. Consistent with Delaware law, our Board of Directors may adopt additional anti-takeover measures in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have an investment portfolio of fixed income securities, including those classified as cash equivalents, of approximately \$21.3 million at June 30, 2003. These securities are subject to interest rate fluctuations and will decrease in market value if interest rates increase.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. We invest primarily in high quality, short-term and long-term debt instruments. A hypothetical 100 basis point increase in interest rates would result in less than a \$0.1 million decrease (less than 1%) in the fair value of our available-for-sale securities.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in this report on Form 10-Q.

(b) Changes in internal controls.

There has been no significant change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In connection with the acquisition of HiNT Corporation on May 22, 2003, the Company exchanged approximately \$3.6 million in cash and 2,996,589 shares of its common stock, valued at \$9.6 million, to the former shareholders of HiNT Corporation. The shares were issued in reliance on Rule 506 of Regulation D under the Securities Act of 1933, as amended, and were registered for resale on a Form S-3 (File No. 333-105745) registration statement declared effective on June 11, 2003.

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

At the Company's Annual Meeting of Stockholders held on May 21, 2003, the following individuals were elected to the Board of Directors:

<u>Name</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Withheld</u>
Michael J. Salameh	18,675,481	127,513	2,337,892
D. James Guzy	18,587,609	215,385	2,337,892
Timothy Draper	18,675,599	127,395	2,337,892
Young K. Sohn	18,650,849	152,145	2,337,892
John H. Hart	18,649,649	153,345	2,337,892
Robert H. Smith	18,675,479	127,515	2,337,892

The following proposals were approved at the Company's Annual Meeting:

	<u>Affirmative Votes</u>	<u>Negative Votes</u>
1. Ratification of the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2003	18,446,764	352,620

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.2 (1)	Agreement and Plan of Reorganization by and among PLX Technology Inc., HT Acquisition Sub, LLC, HiNT Corporation, and Herbert Chang as Shareholders' agent.
10.1*	Sebring Systems, Inc. 1997 Stock Option/Stock Issuance Plan.
10.2*	HiNT Corporation 2000 Stock Plan.
31.1	Certification of President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of President Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

(1) Incorporated by reference to Exhibit 2.1 to Form 8-K as filed on May 27, 2003.

(b) Reports on Form 8-K

1. A report on Form 8-K was filed by the Company on May 27, 2003 relating to the acquisition of HiNT Corporation.
2. A report on Form 8-K was furnished by the Company on April 16, 2003 relating to a press release announcing the Company's preliminary earnings release for the quarter ended March 31, 2003.

SIGNATURE

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.

PLX TECHNOLOGY, INC.

Date: August 5, 2003

By /s/ Rafael Torres
Rafael Torres
Vice President, Finance and
Chief Financial Officer
*(Authorized Officer and
Principal Financial Officer)*

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