

MICROSEMI CORP  
Form 10-Q  
August 05, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarterly Period Ended July 3, 2011

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. 0-08866

**MICROSEMI CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-2110371**  
(I.R.S. Employer  
Identification No.)

**2381 Morse Avenue, Irvine, California**  
(Address of principal executive offices)

**92614**  
(Zip Code)

**(949) 221-7100**

(Registrant's telephone number, including area code)

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 twelve 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 website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the issuer's Common Stock, \$0.20 par value, outstanding on July 25, 2011 was 86,698,255.

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**THIS QUARTERLY REPORT ON FORM 10-Q MUST BE READ IN ITS ENTIRETY AND IN CONJUNCTION**

**WITH THE ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED OCTOBER 3, 2010**

**IMPORTANT FACTORS RELATED TO FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as can, may, will, could, should, project, believe, anticipate, expect, plan, estimate, intend, maintain, continue and variations of these words and comparable words. In addition, all of the information herein that does not state a historical fact is forward-looking, including any statement or implication about an estimate or a judgment, or an expectation as to a future time, future result or other future circumstance. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, statements concerning:

expectations that plant consolidations will result in anticipated cost savings without unanticipated costs or expenses;

expectations that we will be able to successfully integrate acquired companies and personnel with our existing operations;

demand, growth and sales expectations for our products;

expectations regarding tax exposures and future tax rates and ability to realize deferred tax assets;

expectations regarding competitive conditions;

new market opportunities and emerging applications for our products;

the uncertainty of litigation, the costs and expenses of litigation, and the potential material adverse effect litigation could have on our business and results of operations;

beliefs that our customers will not cancel orders or terminate or renegotiate their purchasing relationships with us;

expectation that we will not suffer production delays as a result of a supplier's inability to supply parts;

beliefs that we stock adequate supplies of all materials;

beliefs that we will be able to successfully resolve any disputes and other business matters as anticipated;

beliefs that we will be able to meet our operating cash and capital commitment requirements in the foreseeable future;

critical accounting estimates;

expectations regarding our financial and operating results;

expectations regarding our performance and competitive position in future periods; and

expectations regarding our outlook for our end markets.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results that the forward-looking statements suggest. You are urged to carefully review the disclosures we make in this report concerning risks and other factors that may affect our business and operating results, including those made under the heading "Item 1A. RISK FACTORS" included below in this Quarterly Report on Form 10-Q, as well as in our other reports filed with the Securities and Exchange Commission ( "SEC" ). Forward-looking statements are not a guarantee of future performance and should not be regarded as a representation by us or any other person that all of our estimates will necessarily prove correct or that all of our objectives or plans will necessarily be achieved. You are cautioned, therefore, not to place undue reliance on these forward-looking statements, which are made only as of the date of this report. We do not intend, and undertake no obligation, to update or revise the forward-looking statements to reflect events or circumstances after the date of this report, whether as a result of new information, future events or otherwise.

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**PART I FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

The unaudited consolidated income statements for the quarter and nine months ended July 3, 2011 of Microsemi Corporation and its subsidiaries (which we herein sometimes refer to collectively as Microsemi, the Company, we, our, ours or us ), the unaudited consolidated statement flows for the nine months ended July 3, 2011, and the comparative unaudited consolidated financial information for the corresponding periods of the prior year, together with the unaudited balance sheets as of July 3, 2011 and October 3, 2010, are included herein.

**Table of Contents****MICROSEMI CORPORATION AND SUBSIDIARIES****Unaudited Consolidated Balance Sheets**

(amounts in thousands, except per share data)

	<b>July 3, 2011</b>	<b>October 3, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 246,246	\$ 199,950
Accounts receivable, net of allowance for doubtful accounts of \$2,197 and \$1,978 at July 3, 2011 and October 3, 2010, respectively	98,066	78,722
Inventories	145,352	126,151
Deferred income taxes	14,984	12,620
Other current assets	31,082	14,726
<b>Total current assets</b>	<b>535,730</b>	<b>432,169</b>
Property and equipment, net	89,899	75,913
Goodwill	543,286	270,832
Other intangible assets, net	290,160	92,343
Other assets	25,946	8,629
<b>TOTAL ASSETS</b>	<b>\$ 1,485,021</b>	<b>\$ 879,886</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 40,063	\$ 33,827
Accrued liabilities	81,390	37,052
Current maturity of long-term liabilities	4,220	444
<b>Total current liabilities</b>	<b>125,673</b>	<b>71,323</b>
Credit facility	368,452	
Deferred income taxes	116,021	19,513
Other long term liabilities	33,656	22,607
Stockholders' equity:		
Preferred stock, \$1.00 par value; authorized 1,000 shares; none issued		
Common stock, \$0.20 par value; authorized 250,000; issued and outstanding 86,673 and 83,240 at July 3, 2011 and October 3, 2010, respectively	17,335	16,648
Capital in excess of par value of common stock	604,638	543,628
Retained earnings	218,075	205,713
Accumulated other comprehensive income	1,171	454
<b>Total stockholders' equity</b>	<b>841,219</b>	<b>766,443</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 1,485,021</b>	<b>\$ 879,886</b>

The accompanying notes are an integral part of these statements.





**Table of Contents****MICROSEMI CORPORATION AND SUBSIDIARIES****Unaudited Consolidated Income Statements**

(amounts in thousands, except per share data)

	Quarter Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Net sales	\$ 216,722	\$ 136,017	\$ 608,563	\$ 367,067
Cost of sales	93,091	70,245	297,267	193,026
<b>Gross profit</b>	123,631	65,772	311,296	174,041
Operating expenses:				
Selling, general and administrative	48,396	30,028	138,302	80,982
Research and development	29,559	14,842	81,712	38,701
Amortization of intangible assets	16,766	5,917	44,783	13,684
Restructuring and severance charges	651	1,125	20,271	1,670
<b>Total operating expenses</b>	95,372	51,912	285,068	135,037
<b>Operating income</b>	28,259	13,860	26,228	39,004
Other income (expense):				
Interest income	83	120	274	266
Interest (expense)	(4,270)	(154)	(12,357)	(375)
Other income (expense), net	4,720	(124)	(14,232)	(371)
<b>Total other income (expense)</b>	533	(158)	(26,315)	(480)
Income (loss) before income taxes	28,792	13,702	(87)	38,524
Benefit for income taxes	(1,810)	(19,330)	(12,449)	(13,954)
<b>NET INCOME</b>	\$ 30,602	\$ 33,032	\$ 12,362	\$ 52,478
Earnings per share:				
Basic	\$ 0.36	\$ 0.40	\$ 0.15	\$ 0.65
Diluted	\$ 0.35	\$ 0.40	\$ 0.15	\$ 0.64
Common and common equivalent shares outstanding:				
Basic	84,263	81,717	82,317	81,166
Diluted	86,208	82,569	84,297	81,911

The accompanying notes are an integral part of these statements.

**Table of Contents****MICROSEMI CORPORATION AND SUBSIDIARIES****Unaudited Consolidated Statements of Cash Flows**

(amounts in thousands)

	<b>Nine Months Ended</b>	
	<b>July 3, 2011</b>	<b>June 27, 2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,362	\$ 52,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,186	27,494
Provision for doubtful accounts	219	287
Gain on disposition of assets	(113)	
Stock-based compensation	21,165	18,936
Excess tax benefit stock awards	(3,574)	
Effect of fair value option on credit facility issuance and refinancing costs	14,218	
Changes in operating assets and liabilities, net of the effects of acquisitions:		
Accounts receivable	20,782	(5,325)
Inventories	9,283	(13,172)
Other current assets	(10,720)	16,199
Other assets	10,162	(717)
Deferred income taxes	(1,558)	(17,278)
Accounts payable and accrued liabilities	(38,801)	3,973
Income taxes payable	(1,893)	
Other long term liabilities	(11,706)	(391)
Net cash provided by operating activities	87,012	82,484
<b>Cash flows from investing activities:</b>		
Proceeds from redemption of available for sale auction rate securities		46,550
Purchases of property and equipment	(19,367)	(9,347)
Changes in other assets		(310)
Proceeds from the sales of assets	2,157	
Payments for acquisitions, net of cash acquired	(411,038)	(103,707)
Net cash used in investing activities	(428,248)	(66,814)
<b>Cash flows from financing activities:</b>		
Repayments of auction rate securities credit facility		(46,550)
Repayments of credit facility	(51,876)	
Borrowings on credit facility	425,000	
Credit facility issuance and refinancing costs	(14,218)	
Repayment of note payable		(981)
Excess tax benefit stock awards	3,574	205
Stock settled tax withholdings	(1,533)	
Proceeds from exercise of stock options	26,585	3,113
Net cash provided by (used in) financing activities	387,532	(44,213)
Net increase (decrease) in cash and cash equivalents	46,296	(28,543)
Cash and cash equivalents at beginning of period	199,950	216,742

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**Cash and cash equivalents at end of period**

\$ 246,246    \$ 188,199

The accompanying notes are an integral part of these statements.

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**MICROSEMI CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**July 3, 2011**

**1. PRESENTATION OF FINANCIAL INFORMATION**

The unaudited consolidated financial statements include the accounts of Microsemi Corporation and its subsidiaries. Intercompany transactions have been eliminated in consolidation.

The consolidated financial information furnished herein is unaudited, but in the opinion of our management, includes all adjustments (all of which are normal or recurring adjustments) necessary for a fair statement of the results of operations for the periods indicated. The results of operations for the most recently reported quarter of the current fiscal year are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore do not include all information and note disclosures necessary for a fair presentation of consolidated financial position, results of operations and cash flows in conformity with United States generally accepted accounting principles. The unaudited consolidated financial statements and notes must be read in conjunction with the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended October 3, 2010.

The unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, which require us to make estimates and assumptions that may materially affect the reported amounts of assets and liabilities at the date of the unaudited consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ materially from those estimates. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results and require subjective or complex judgments is contained in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended October 3, 2010.

*Fair Value of Financial Assets and Liabilities*

Accounting Standards Codification 825 ( ASC 825 ) permits entities to elect the fair value option for certain financial assets and financial liabilities. For financial assets or financial liabilities for which an entity elects the fair value option, ASC 825 requires that the entity record the financial asset or financial liability at fair value rather than at historical cost with changes in fair value recorded in the income statement. ASC 825-25-3 requires that upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. As further discussed in Note 14, we elected the fair value option in accounting for the term loan balance currently outstanding under our credit facility.

**2. ACQUISITIONS**

For the acquisitions we completed during the current fiscal year, the fair value of the identified intangible assets was estimated by performing a discounted cash flow analysis using the income approach. This method includes a forecast of direct revenues and costs associated with the respective intangible assets and charges for economic returns on tangible and intangible assets utilized in cash flow generation. Net cash flows attributable to the identified intangible assets were discounted to their present value at a rate commensurate with the perceived risk. The projected cash flow assumptions considered contractual relationships, customer attrition, eventual development of new technologies and market competition.

The useful lives of completed technology rights are based on the number of years in which net cash flows have been projected. The useful life of backlog is estimated based upon the fulfillment period. The useful lives of customer relationships are estimated based upon the length of the relationships currently in place, historical attrition patterns and natural growth and diversification of other potential customers. The useful life of the trade name was estimated based on the period in which a benefit could be ascribed to the identified trade names.

Assumptions used in forecasting cash flows for each of the identified intangible assets included consideration of the following:

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Historical performance including sales and profitability.

Business prospects and industry expectations.

Estimated economic life of asset.

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Development of new technologies.

Acquisition of new customers.

Attrition of existing customers.

Obsolescence of technology over time.

Generally, the allocation of purchase prices resulted in an allocation to goodwill. Depending on the tax treatment of a particular acquisition, goodwill and identifiable intangible assets may not be deductible for tax purposes. The factors that contributed to a purchase price resulting in the recognition of goodwill include:

The premium paid over market capitalization immediately prior to the merger announcement.

Our belief that the merger will create a more diverse semiconductor company with expansive offerings which will enable us to expand our product offerings.

Our belief that both companies are committed to improving cost structures and that our combined efforts after the merger should result in a realization of cost savings and an improvement of overall efficiencies.

*Actel Corporation*

During the quarter ended January 2, 2011, we completed our acquisition of Actel Corporation ( Actel ) for \$20.88 per share in cash. Actel is the leading supplier of low-power field-programmable gate arrays ( FPGAs ), mixed-signal FPGAs, and system-critical FPGAs. Delivering the lowest power consumption of any comparably sized FPGAs at both the chip and the system level, Actel's flash- and antifuse-based FPGA solutions enable power-efficient design. We sometimes refer to this division herein as Microsemi SoC.

The total consideration as shown in the table below is allocated to Actel's tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The consideration is allocated as follows (in thousands):

**Calculation of consideration:**

Cash consideration to Actel shareholders	\$ 548,759
Change in control obligations	17,298
Fair value of vested stock awards assumed by Microsemi	15,294
 Total consideration	 \$ 581,351

**Allocation of consideration:**

Book value of Actel's net assets	182,245
Adjustments to historical net book value:	
Inventories	5,494
Identifiable intangible assets	232,600
Deferred tax liability	(95,238)
 Adjustment to goodwill	 \$ 256,250



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Identifiable intangible assets and their estimated useful lives are as follows (amounts in thousands):

	<b>Asset Amount</b>	<b>Weighted Average Useful Life (Years)</b>
Completed technology	\$ 147,000	8
Customer relationships	68,000	7
Backlog	13,600	1
Trade name	4,000	3
	<b>\$ 232,600</b>	

We utilized the straight line method of amortization for completed technology, customer relationships and trade name and the estimated fulfillment period for backlog. This allocation is preliminary with respect to certain tax matters and is based on our estimates. The amount ultimately allocated to goodwill and identifiable intangible assets is not expected to change materially from this allocation.

*AML Communications, Inc.*

During the quarter ended July 3, 2011, we completed our acquisition of AML Communications, Inc. ( AML ), for \$2.50 per share in cash. AML is a designer, manufacturer, and marketer of microelectronic assemblies for the defense industry.

The total consideration as shown in the table below is allocated to AML's tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The consideration is allocated as follows (in thousands):

**Calculation of consideration:**

Cash consideration to AML share- and option-holders	\$ 31,264
Change in control obligations	1,956
Total consideration	<b>\$ 33,220</b>

**Allocation of consideration:**

Book value of AML's net assets	\$ 11,726
Adjustments to historical net book value:	
Inventories	304
Identifiable intangible assets	10,000
Deferred tax liability	(4,122)
Adjustment to goodwill	<b>\$ 15,312</b>

Identifiable intangible assets and their estimated useful lives are as follows (amounts in thousands):

	<b>Asset Amount</b>	<b>Weighted Average Useful Life (Years)</b>
Completed technology	\$ 4,200	6
Customer relationships	4,600	5
Backlog	1,100	2



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Trade name

100

2

\$ 10,000

10

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We utilized the straight line method of amortization for completed technology, customer relationships and trade name and the estimated fulfillment period for backlog. This allocation is preliminary and is based on our estimates. The amount ultimately allocated to goodwill and identifiable intangible assets is not expected to change materially from this allocation.

*Brijot Imaging Systems, Inc.*

During the quarter ended July 3, 2011, we acquired substantially all the assets of Brijot Imaging Systems, Inc. and its passive millimeter wave imaging solutions technology. Total consideration, including cash and assumed liabilities, was approximately \$2.7 million.

*Supplemental pro forma data*

The following supplemental pro forma data summarizes the results of operations for the nine months ended July 3, 2011 and June 27, 2010, as if the three acquisitions noted above and three acquisitions we completed in our fiscal year 2010 (White Electronic Designs Corporation, VT Silicon and Arxan Defense Systems, Inc.) had occurred on September 27, 2009. The supplemental pro forma information presented is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the transactions had been completed on the dates indicated, nor is it indicative of future operating results or financial position. Net sales and earnings for the acquisitions on a standalone basis since their acquisition dates are impracticable to determine as on the acquisition date, we began to immediately integrate these acquisitions into existing operations, engineering groups, sales distribution networks and management structure. The pro forma adjustments are based upon currently available information and certain assumptions that we believe are reasonable under the circumstances.

The supplemental pro forma data reports actual operating results, adjusted to include the pro forma effect of, among others, the impact in cost of goods sold from manufacturing profit in acquired inventory, amortization expense of identified intangible assets, timing of the impact of restructuring expenses, timing of credit facility issuance costs, foregone interest income, incremental interest expense and the related tax effect of these items. Supplemental pro forma earnings for the nine months ended July 3, 2011 were adjusted to exclude \$5.5 million in cost of goods sold from manufacturing profit in acquired inventory, \$8.6 million in acquisition costs, \$14.2 million in credit facility issuance costs, and \$12.1 million in non-cash benefits of valuation allowance releases and supplemental pro forma earnings for the nine months ended June 27, 2010 were adjusted to include these items. Supplemental pro forma data is as follows (amounts in thousands, except per share data):

	<b>Nine Months Ended</b>	
	<b>July 3, 2011</b>	<b>June 27, 2010</b>
Net sales	\$ 636,370	\$ 569,876
Net income (loss)	\$ 26,952	\$ (64,352)
Net income (loss) per share		
Basic	\$ 0.33	\$ (0.79)
Diluted	\$ 0.32	\$ (0.79)

**3. INVENTORIES**

Inventories were as follows (amounts in thousands):

	<b>July 3, 2011</b>	<b>October 3, 2010</b>
Raw materials	\$ 41,171	\$ 38,135
Work in progress	67,719	55,375
Finished goods	36,462	32,641
	\$ 145,352	\$ 126,151

**4. GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

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Goodwill and other intangible assets, net, were as follows (amounts in thousands):

	<b>July 3, 2011</b>	<b>October 3, 2010</b>
Goodwill	\$ 543,286	\$ 270,832
Other intangible assets, net		
Completed technology	\$ 182,923	\$ 53,110
Customer relationships	95,707	33,784
Backlog	7,209	3,851
Other	4,321	1,598
	\$ 290,160	\$ 92,343

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The following table summarizes our estimated amortization expense by period (amounts in thousands):

	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>Thereafter</b>
Amortization expense	\$ 82,145	\$ 52,551	\$ 36,751	\$ 30,688	\$ 88,025

**5. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following components (amounts in thousands):

	<b>July 3, 2011</b>	<b>October 3, 2010</b>
Payroll, bonus, vacation, sick and other employee benefits	\$ 33,892	\$ 18,021
Restructuring and severance	10,831	5,832
Outside services	9,587	6,173
Licenses	7,707	27
Warranties	3,597	1,094
Commissions	3,181	2,106
Other	12,595	3,799
	<b>\$ 81,390</b>	<b>\$ 37,052</b>

**6. COMMITMENTS AND CONTINGENCIES**

In Broomfield, Colorado, the owner of a property located adjacent to a manufacturing facility owned by one of our subsidiaries, Microsemi Corp. Colorado had notified the subsidiary and other parties of a claim that contaminants migrated to his property, thereby diminishing its value. In August 1995, the subsidiary, together with Coors Porcelain Company, FMC Corporation and Siemens Microelectronics, Inc. (former owners of the manufacturing facility), agreed to settle the claim and to indemnify the owner of the adjacent property for remediation costs. Although trichlorethylene and other contaminants previously used by former owners at the facility are present in soil and groundwater on the subsidiary's property, we vigorously contest any assertion that our subsidiary caused the contamination. In November 1998, we signed an agreement with the three former owners of this facility whereby they have 1) reimbursed us for \$0.5 million of past costs, 2) assumed responsibility for 90% of all future clean-up costs, and 3) promised to indemnify and protect us against any and all third-party claims relating to the contamination of the facility. An Integrated Corrective Action Plan was submitted to the State of Colorado. Sampling and management plans were prepared for the Colorado Department of Public Health & Environment. State and local agencies in Colorado are reviewing current data and considering study and cleanup options. The most recent forecast estimated that the total project cost, up to the year 2020, would be approximately \$5.3 million; accordingly, we recorded a one-time charge of \$0.5 million for this project in 2003. There has not been any significant development since September 28, 2003.

On December 8, 2010, Intellectual Ventures I LLC and Intellectual Ventures II LLC filed a complaint in the United States District Court for the District of Delaware (the Complaint) against Altera Corporation, Microsemi, and Lattice Semiconductor Corporation. The complaint alleges, inter alia, that programmable logic devices manufactured and sold by our subsidiary Microsemi SoC infringe United States Patent Numbers 5,687,325, 6,260,087 and 6,272,646 assigned to Intellectual Ventures II LLC, and seeks damages and other relief at law or in equity as the court deems appropriate. We have responded to the Complaint. Given the early stages of this matter, we cannot determine the likelihood of an unfavorable outcome.

We are also involved in other pending litigation matters arising out of the normal conduct of our business, including litigation relating to acquisitions, employment matters, commercial transactions, contracts, environmental matters and matters related to compliance with governmental regulations. The ultimate aggregate amount of monetary liability or financial impact

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with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance. In the opinion of management, the final outcome of these matters, if they are adverse, will not have a material adverse effect on our financial position, results of operations or cash flows. However, there can be no assurance with respect to such result, and monetary liability or financial impact on us from these litigation matters could differ materially from those projected.

**7. COMPREHENSIVE INCOME**

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during the period from transactions and other events and circumstances from non-owner sources. Our comprehensive income consisted of net income and the change of the cumulative foreign currency translation. Accumulated other comprehensive income consisted of the cumulative foreign currency translation adjustment.

Total comprehensive income was calculated as follows (amounts in thousands):

	Quarter Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Net income	\$ 30,602	\$ 33,032	\$ 12,362	\$ 52,478
Translation adjustment	228	(372)	713	(813)
Comprehensive income	\$ 30,830	\$ 32,660	\$ 13,075	\$ 51,665

**8. EARNINGS PER SHARE**

Basic earnings per share have been computed based upon the weighted average number of common shares outstanding during the respective periods. Diluted earnings per share have been computed, when the result is dilutive, using the treasury stock method for stock awards outstanding during the respective periods. Earnings per share ( EPS ) for the respective periods were calculated as follows (amounts in thousands, except per share data):

	Quarter Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
<b>BASIC</b>				
Net income	\$ 30,602	\$ 33,032	\$ 12,362	\$ 52,478
Weighted-average common shares outstanding for basic	84,263	81,717	82,317	81,166
Basic earnings per share	\$ 0.36	\$ 0.40	\$ 0.15	\$ 0.65
<b>DILUTED</b>				
Net income	\$ 30,602	\$ 33,032	\$ 12,362	\$ 52,478
Weighted-average common shares outstanding for basic	84,263	81,717	82,317	81,166
Dilutive effect of stock awards	1,945	852	1,980	745
Weighted-average common shares outstanding on a diluted basis	86,208	82,569	84,297	81,911
Diluted earnings per share	\$ 0.35	\$ 0.40	\$ 0.15	\$ 0.64

For the quarter and nine months ended July 3, 2011, approximately 4,562,000 and 4,573,000 stock awards, respectively, were excluded in the computation of diluted EPS as these stock awards would have been anti-dilutive. For the quarter and nine months ended June 27, 2010, approximately 7,251,000 and 7,492,000 stock awards, respectively, were excluded in the computation of diluted EPS as these stock awards

would have been anti-dilutive.

**9. RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2009, the FASB issued ASU No. 2009-13, which eliminates the criterion for objective and reliable evidence of fair value for undelivered products or services. Instead, revenue arrangements with multiple deliverables should be divided into separate units of accounting provided the deliverables meet certain criteria. ASU No. 2009-13 provides a hierarchy for estimating the selling price for each of the deliverables. ASU No. 2009-13 eliminates the use of the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all

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deliverables based on their relative selling price. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (our fiscal year 2011). The adoption of this standard did not result in a material impact on our consolidated financial position, results of operations or cash flows but may do so in the future depending on the terms included in revenue arrangements we enter into prospectively.

In January 2010, the FASB issued ASU No. 2010-06, which requires new fair value disclosures pertaining to significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers and activity. For Level 3 fair value measurements, purchases, sales, issuances and settlements must be reported on a gross basis. Further, additional disclosures are required by class of assets or liabilities, as well as inputs used to measure fair value and valuation techniques. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009 (our second quarter of fiscal year 2010), except for the disclosures about purchases, sales, issuances and settlements on a gross basis, which is effective for fiscal years beginning after December 15, 2010 (our fiscal year 2012). The adoption of the effective portions of this ASU did not result in a material impact on our consolidated financial position, results of operations or cash flows. We do not anticipate that the adoption of the remaining portions of this ASU will result in a material impact on our consolidated financial position, results of operations or cash flows.

In December 2010, the FASB issued ASU No. 2010-29, which updates requirements on the disclosure of pro forma revenue and earnings following a business combination or series of business combinations that are material on an individual or aggregate basis. This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this ASU also expand the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU No. 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 (our fiscal year 2012). Early adoption is permitted and we have elected to adopt the provisions of this ASU. The adoption of this standard did not result in a material impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, which updates the presentation of comprehensive income such that an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 (the second quarter of our fiscal year 2012). The provisions of this standard only affect the presentation of comprehensive income and will not materially impact our consolidated financial position, results of operations or cash flows.

**10. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS**

In February 2008, our stockholders approved the Microsemi Corporation 2008 Performance Incentive Plan (the 2008 Plan ). The 2008 Plan replaced the 1987 Stock Plan, as amended, previously approved by our stockholders. The 2008 Plan includes a share limit of approximately 4.1 million shares of the Company's common stock for delivery under awards that have been and may be granted under the 2008 Plan. Awards authorized by the 2008 Plan include options, stock appreciation rights, restricted stock, stock bonuses, stock units, performance share awards, and other cash or share-based awards (each an Award ). The shares of common stock delivered under the 2008 Plan may be newly-issued shares or shares held by the Company as treasury stock.

The share limit under the 2008 Plan increases on the first day of each year for the first five consecutive years by an amount equal to the lowest of (i) three percent of the total number of shares of common stock issued and outstanding on the last day of the immediately preceding fiscal year, (ii) 7.5 million shares of common stock or (iii) such number of shares of common stock as may be established by the Board of Directors. Shares issued in respect of any Full-Value Award granted under the 2008 Plan shall be counted against the share limit as 2.25 shares for every one share actually issued in connection with such award. Full-Value Award means any award under the 2008 Plan that is not a stock option grant or a stock appreciation right grant. The maximum term of a stock option grant or a stock appreciation right grant is six years.

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Awards granted or assumed, weighted-average exercise price, weighted-average fair value and weighted-average assumptions used in the calculation of compensation expense are as follows:

Nine-Months Ended	# of Awards	Per Award		Risk Free Rate	Expected Dividend Yield	Expected Life (Years)	Expected Volatility
		Exercise Price	Fair Value				
July 3, 2011							
Restricted stock awards and units	1,774,313		\$ 20.95				
Stock options and share appreciation rights	3,024,480	\$ 13.92	\$ 7.12	0.2%	0.0%	1.1	41.9%
June 27, 2010							
Restricted stock awards and units	1,365,789		\$ 14.99				
Stock options	27,601	\$ 13.87	\$ 5.25	0.2%	0.0%	0.5	34.3%

In connection with the acquisition of Actel, we assumed Actel stock awards and converted them to Microsemi awards in accordance with the merger agreement with Actel. For the quarter and nine months ended July 3, 2011, equity-based compensation expense decreased operating income by \$6.8 million and \$21.2 million, respectively. For the quarter and nine months ended June 27, 2010, equity-based compensation expense decreased operating income by \$6.0 million and \$18.9 million, respectively. Compensation expense for stock options and stock appreciation rights was calculated based on the grant or assumption date using the Black-Scholes pricing model. All stock appreciation rights we have issued are stock-settled. Stock options and stock appreciation rights are granted at exercise prices equal to the closing price of our common stock on the date of grant. Assumed stock options and stock appreciation rights are granted at exercise prices determined in accordance with the acquisition agreement. Expected life was estimated based on historical exercise data that was stratified between members of the Board of Directors, executive employees and all other recipients. Expected volatility was estimated based on historical volatility using equally weighted daily price observations over a period approximately equal to the expected life of each option. The risk free interest rate is based on the implied yield currently available on U.S. Treasury securities with an equivalent remaining term. No dividends are expected to be paid. Restricted stock awards and units are granted to employees with compensation expense determined based on the closing price of our common stock on the date of grant. Stock awards are subject to forfeiture if length of service requirements are unmet.

**11. SEGMENT INFORMATION**

We manage our business on the basis of one reportable segment, as a manufacturer of semiconductors in different geographic areas, including the United States, Europe and Asia. We derive revenue from sales of our high-performance analog/mixed-signal integrated circuits and power and high-reliability individual component semiconductors. These products include individual components as well as integrated circuit solutions that enhance customer designs by improving performance, reliability and battery optimization, reducing size or protecting circuits. The principal markets that we serve include Defense & Security, Aerospace, Enterprise & Communications and Industrial & Alternative Energy. We evaluate sales by end-market based on our understanding of end market uses of our products.

Net sales by the originating geographic area and by estimated end market are as follows (amounts in thousands):

	Quarter Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
United States	\$ 138,995	\$ 66,747	\$ 385,298	\$ 167,603
Europe	35,200	28,834	98,305	91,490
Asia	42,527	40,436	124,960	107,974
Total	\$ 216,722	\$ 136,017	\$ 608,563	\$ 367,067
Defense & Security	76,642	54,634	219,521	142,772
Aerospace	55,467	27,028	154,071	77,962
Enterprise & Communications	35,495	31,275	105,649	85,045
Industrial & Alternative Energy	49,118	23,080	129,322	61,288
Total	\$ 216,722	\$ 136,017	\$ 608,563	\$ 367,067





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Tangible long lived assets by geographic area are as follows (amounts in thousands):

	<b>July 3, 2011</b>	<b>October 3, 2010</b>
United States	\$ 68,575	\$ 55,737
Europe	13,525	14,212
Asia	7,799	5,964
 Total	 \$ 89,899	 \$ 75,913

**12. INCOME TAXES**

For the quarter and nine months ended July 3, 2011, we recorded an income tax benefit of \$1.8 million on \$28.8 million of pre-tax income and an income tax benefit of \$12.4 million on \$0.1 million of pre-tax loss, respectively. For the quarter and nine months ended June 27, 2010, we recorded an income tax benefit of \$19.3 million on \$13.7 million of pre-tax income and an income tax benefit of \$14.0 million on \$38.5 million of pre-tax income, respectively. The income tax benefits recorded during the nine months ended July 3, 2011 are primarily from the non-cash benefit of valuation allowance release from the acquisitions we consummated in the current fiscal year. Our effective income tax rate depends on various factors, such as tax legislation, the ratio of domestic and international pre-tax income, valuation allowances on both U.S. and foreign deferred tax assets and the effectiveness of our tax planning strategies. The effective tax rates for the quarter and nine months ended July 3, 2011 were the combined calculated tax expenses and benefits for various jurisdictions.

We evaluate the need for a valuation allowance quarterly and, at July 3, 2011, we had approximately \$16.3 million of valuation allowance related to certain foreign operations. We will reverse valuation allowance on our foreign deferred tax assets in the period that we determine that such valuation allowance is no longer required.

We had gross unrecognized tax benefits including interest and penalties of approximately \$35.8 million and \$25.2 million related to various U.S. and foreign jurisdictions at July 3, 2011 and October 3, 2010, respectively. These amounts include approximately \$3.9 million and \$3.5 million of interest and penalties at July 3, 2011 and October 3, 2010, respectively. Unrecognized tax benefits of approximately \$32.0 million and \$23.1 million at July 3, 2011 and October 3, 2010, respectively, would impact the effective tax rate if recognized. We are unaware of any position for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months. However, based on anticipated settlements and federal and state statute expirations in various jurisdictions, we anticipate a decrease in the unrecognized tax benefits of approximately \$4.9 million within the next twelve months.

We file U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2007 through 2010 tax years generally remain subject to examination by federal tax authorities. The 2006 through 2010 tax years generally remain subject to examination by most state tax authorities and in significant foreign jurisdictions. Each quarter, we reassess our uncertain tax positions for additional unrecognized tax benefits, interest and penalties, and deletions due to statute expirations.

We establish liabilities for possible assessments by tax authorities resulting from known tax exposures including, but not limited to, international tax issues and certain tax credits. We do not expect the results of any tax audits would have a material impact on our financial position or results of operations.

**13. RESTRUCTURING AND SEVERANCE CHARGES**

In 2009, we approved consolidation plans that resulted in the closure of our manufacturing facility in Scottsdale, Arizona ( Scottsdale ), which ceased production during the quarter ended April 3, 2011. The Scottsdale facility occupied a 135,000 square foot leased facility. Employee severance is expected to be paid through 2013. Contract termination costs relate primarily to remaining obligations under facility and equipment leases and are expected to be paid through 2016. The following table reflects the restructuring activities for the Scottsdale facility and the accrued liabilities in the consolidated balance sheets at the dates below (amounts in thousands):

**Total**

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	<b>Employee Severance</b>	<b>Contract Termination Costs</b>	
Balance at October 3, 2010	\$ 4,124	\$	\$ 4,124
Provisions	(1,903)	8,200	6,297
Cash expenditures	(1,492)	(949)	(2,441)
Balance at July 3, 2011	\$ 729	\$ 7,251	\$ 7,980

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At October 3, 2010, we had recorded severance accruals of \$1.6 million from reductions in force at our various facilities other than Scottsdale. We recorded additional provisions, primarily related to activities at Microsemi SoC, for severance and retention payments totaling \$14.0 million for the nine months ended July 3, 2011. Severance covered approximately 150 individuals in manufacturing, engineering and sales. Substantially all accrued amounts are expected to be paid within twelve months. The following table reflects the restructuring activities and the accrued liabilities in the consolidated balance sheets at the dates below (amounts in thousands):

	<b>Employee Severance</b>
Balance at October 3, 2010	\$ 1,642
Provisions	13,974
Cash expenditures	(12,648)
Other non-cash settlement	(116)
Balance at July 3, 2011	\$ 2,852

**14. CREDIT AGREEMENT AND RELATED INSTRUMENTS***Credit Agreement*

On November 2, 2010, we entered into a Credit Agreement with Morgan Stanley Senior Funding, Inc. (MSSF), Morgan Stanley & Co. Incorporated, East West Bank, Raymond James Bank, FSB and the lenders referred to therein (the Credit Agreement). Pursuant to the Credit Agreement, MSSF has provided \$425.0 million senior secured first lien credit facilities (the Facilities), consisting of a term loan facility in an aggregate principal amount of \$375.0 million and a revolving credit facility (the Revolving Facility) in an aggregate principal amount of \$50.0 million. The Facilities financed the acquisition of Actel and fees and expenses related thereto. The Revolving Facility is also available for working capital requirements and other general corporate purposes. On March 2, 2011, we entered into Amendment No. 1 to the Credit Agreement that provided for new pricing terms, modified reporting requirements for permitted acquisitions and modified prepayment provisions related to the term loan facility. We had, as of July 3, 2011, \$373.1 million borrowed under the term loan facility and no direct borrowings and \$0.4 million in letters of credit outstanding under the Revolving Facility.

We can request, at any time and from time to time, the establishment of one or more incremental term loans and/or revolving credit facilities with commitments in an aggregate amount not to exceed \$100.0 million the proceeds of which can be used for working capital requirements and other general corporate purposes. MSSF will act as sole bookrunner, sole lead arranger and administrative agent.

Interest under the Facilities is, at our option, Base Rate or LIBOR, plus a margin ranging from 2.00% to 2.50% for Base Rate-based loans that are either term loans or revolving loans and ranging from 3.00% to 3.50% for LIBOR-based loans that are either term loans or revolving loans, depending on our consolidated leverage ratio. The Base Rate for term loans is equal to 2.0% per annum and for revolving loans is a fluctuating interest rate per annum equal to the highest of (a) the prime rate, (b)  $\frac{1}{2}$  of 1% per annum above the federal funds effective rate and (c) one-month LIBOR plus 1%. Interest for Base Rate-based loans is calculated on the basis of a 365-day year and interest for LIBOR-based loans is calculated on the basis of a 360-day year. The current principal amount outstanding under our term loan facility is a LIBOR-based loan and is subject to an interest rate of 4.00%. A one percent increase in the variable rate of interest on the term loan facility would increase interest expense by approximately \$3.7 million annually.

In accordance with the terms of the Facilities, we pay an undrawn commitment fee ranging from 0.25% to 0.75% depending on our consolidated leverage ratio, on the unused portion of the Revolving Facility. In connection with letters of

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credit issued under the Facilities, we are required to pay a fronting fee equal to 0.25% per annum of the aggregate face amount of each letter of credit and a participation fee on all outstanding letters of credit at a per annum rate equal to the margin then in effect with respect to LIBOR-based loans under the Revolving Facility on the face amount of such letter of credit.

Subject to certain customary exceptions, all of our obligations under the Facilities are unconditionally guaranteed by each of our existing and subsequently acquired or organized direct and indirect wholly-owned domestic subsidiaries whose assets or revenues exceed 5%, as the case may be, of the consolidated assets or revenues (the Guarantors). Other domestic subsidiaries will be required to become a Guarantor to the extent that domestic subsidiaries excluded from such guarantee obligation represent more than 15%, as the case may be, of the consolidated assets or revenues.

The Facilities are subject to certain representations and warranties, certain affirmative covenants, certain negative covenants, certain financial covenants, certain conditions and events of default that are customarily required for similar financings.

*Fair Value Option*

We elected the fair value option in accounting for the term loan balance currently outstanding under our Credit Agreement and changes in fair value of the loan balances are reflected as adjustments to the income statement. We classify term loan balances currently outstanding under our Credit Agreement as Level 2 where valuations are based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. Our valuation was based on a market quote and pricing of executed transactions provided to us by MSSF. We determined the fair value of the currently outstanding term loan balance to be \$372.2 million compared to a par value of \$373.1 million. For the quarter and nine months ended July 3, 2011, we recorded income of \$4.6 million and \$0.9 million, respectively, in other income (expense), net, for the change in fair value of principal outstanding on our term loan. In addition, upon election of the fair value option, we were required to immediately expense up front debt issuance and refinancing costs. For the nine months ended July 3, 2011, we recorded expense of \$14.2 million in other income (expense), net, for these costs.

*Interest Rate Swap Agreements*

In connection with the Credit Agreement, we entered into interest rate swap agreements for the purpose of minimizing the variability of cash flows in the interest rate payments of our variable rate borrowings. The cash flows received under the interest rate swap agreements are expected to offset the change in cash flows associated with LIBOR rate borrowings between the effective and maturity dates of the swaps. Our three swap agreements have notional amounts, fixed rates and terms as follows: \$24.0 million at 1.49% for two years, \$121.0 million at 1.83% for three years and \$24.0 million at 2.21% for four years. We classify interest rate swap balances as Level 2 fair value measurements. We determined the fair value of our interest rate swap agreements based on mid-market valuations reported to us by RJ Capital Services, Inc., the counterparty to the swap agreements. We reflect the change in value of the swaps through other income or expense and at July 3, 2011, recorded a liability of \$2.1 million. For the quarter and nine months ended July 3, 2011, we recorded expense of \$1.5 million and \$2.1 million, respectively, in other income (expense), net, for the change in fair value of our interest rate swaps.

**15. SUBSEQUENT EVENTS**

On July 5, 2011, we entered into an Agreement and Plan of Merger with Whitney Acquisition Corp., our wholly-owned subsidiary, and Asic Advantage, Inc. (Asic), pursuant to which we have acquired Asic, a fabless semiconductor company that designs and manufactures a broad portfolio of high-performance, high-voltage and radiation-hardened mixed-signal integrated circuit solutions for the aerospace, automotive, communications, industrial and medical markets. Total consideration, net of Asic's cash balance on the date of acquisition, is preliminarily estimated at approximately \$29 million.

On July 20, 2011, we issued a press release announcing our proposal to acquire all the outstanding shares of Zarlink Semiconductor, Inc. (Zarlink) for CAD \$3.35 per share in cash. The proposed transaction has a total equity value of USD \$548.7 million based on a fully diluted share count. We have executed a financing commitment letter with Morgan Stanley Senior Funding, Inc. to ensure that required Funds are available to finance this proposed transaction. Zarlink has announced its intention to conduct a strategic review of alternatives, and has adopted a shareholder rights plan in response to our proposal. Our proposal is preliminary and there is no assurance that we will be able to complete this transaction at an acceptable price, or at all.

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Quarterly Report on Form 10-Q includes current beliefs, expectations and other forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results contemplated by these forward-looking statements due to certain factors, including those discussed in Part II, Item 1A, Risk Factors and elsewhere in this Quarterly Report. This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and the accompanying unaudited consolidated financial statements and notes thereto must be read in conjunction with the MD&A and the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended October 3, 2010.

**OVERVIEW**

We are a leading designer, manufacturer and marketer of high-performance analog and mixed-signal semiconductor solutions differentiated by power, security, reliability and performance. Our semiconductors manage and control or regulate power, protect against transient voltage spikes and transmit, receive and amplify signals. We offer one of the industry's most comprehensive portfolios of semiconductor technology. Our products include high-performance, high-reliability radio frequency (RF) and power components, analog and RF integrated circuits (ICs), standard and customizable system-on-chip solutions (SoCs/cSoCs), and mixed-signal and radiation-tolerant FPGAs. We also offer subsystems and modules include application-specific power modules and PowerDsine<sup>®</sup> midpsans.

Our products include individual components as well as IC solutions that enhance customer designs by improving performance, reliability and battery optimization, reducing size or protecting circuits. The principal end markets that we serve include Defense & Security, Aerospace, Enterprise & Communications and Industrial & Alternative Energy, and applications where security is non-negotiable and reliability is vital.

Our products offer light, sound and power management for desktop and mobile computing platforms, LCD TVs and other power control applications. Power management generally refers to a class of standard linear integrated circuits (SLICs) that perform voltage regulation and reference in most electronic systems. The definition of power management has broadened in recent years to encompass other devices and modules, often application-specific standard products (ASSPs), which address particular aspects of power management, such as audio or display related ICs. This business is composed of both a core platform of traditional SLICs, such as low dropout regulators (LDOs) and pulse width modulators (PWMs), and differentiated ASSPs such as backlight inverters, audio amplification ICs and small computer standard interface terminators. Our IC products are used in notebook computers, data storage, wireless local area network (LAN), LCD backlighting, LCD TVs, LCD monitors, automobiles, telecommunications, test instruments, defense and aerospace equipment, high-quality sound reproduction and data transfer equipment.

Our individual component semiconductor products include silicon rectifiers, zener diodes, low leakage and high voltage diodes, temperature compensated zener diodes, transistors, subminiature high power transient suppressor diodes and pin diodes used in magnetic resonance imaging (MRI) machines. We also manufacture semiconductors for commercial applications, such as automatic surge protectors, transient suppressor diodes used for telephone applications and switching diodes used in computer systems. A partial list of these products includes: implantable cardioverter defibrillator and heart pacer switching, charging and transient shock protector diodes, low leakage diodes, transistors used in jet aircraft engines and high performance test equipment, high temperature diodes used in oil drilling sensing elements operating at 200 degrees centigrade, temperature compensated zener or rectifier diodes used in missile systems and power transistors.

We have implemented a growth strategy through continuous innovation complemented by strategic acquisitions with the intent of increasing our technology footprint in customers' end designs in high-value, high barrier-to-entry markets. This allows us to offer an increased value proposition, gather a larger portion of the bill of materials, and engage with customers as a strategic partner as opposed to a socket provider. We believe this strategy strengthens our position in the industry as it protects and grows our share within those markets with the highest barriers to entry.

Recent industry leading innovations include:

High power silicon carbide RF power device for use in ultra high frequency radar, military power conversion and high speed switching applications;

Secure storage memory solutions for defense, IT and surveillance products;

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Enhanced reliability cold cathode fluorescent lamp ( CCFL ) backlight inverters for use in mission-critical medical and industrial LCD displays;

High reliability metal-oxide-semiconductor field-effect-transistors ( MOSFET ) products for use in power conversion, motor control and power switching applications;

Extended temperature grade FPGAs with temperature screening from -55 degrees C to +100 degrees C that permit the integration of our products in military, avionics and defense applications where highly reliable operation at extreme temperatures is needed;

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Transient voltage suppression devices that meet new avionics safety standards that are designed to protect avionics in composite-skinned aircraft;

An advanced 65-nanometer platform for flash-based customizable system-on-chips;

Precision target-seeking and secure guidance solutions resulting in substantial improvements in size, accuracy, and cost efficient weaponry;

Application specific integrated circuit devices for use in smart meter and smart grid applications;

Leading edge wireless and wired network solutions for 802.11n Wi-Fi and power-over-ethernet ( PoE ) technology;

Global positioning system (GPS) receiver modules incorporating anti-tamper technology; and

Defense Supply Center Columbus (DSCC)-certified radiation-hardened power MOSFETs for space applications.

Our growth strategy is dependent on our ability to successfully develop new technologies and products, and complemented by our ability to implement our selective acquisitions strategy. New technologies or products that we may develop may not lead to an incremental increase in revenues, and there is a risk that these new technologies or products will decrease the demand for our existing products and result in an offsetting reduction in revenues. There can be no assurance that the benefits of any acquisition will outweigh the attendant costs, and if they do not, our results of operations and stock price may be adversely affected.

The following table reflects quarterly net sales for the prior five quarters (amounts in thousands):

Quarter Ended				
July 3, 2011	April 3, 2011	January 2, 2011	October 3, 2010	June 27 2010
\$216,722	\$207,490	\$184,351	\$151,201	\$136,017

Net sales increased \$80.7 million or 59.3% between the quarters ended July 3, 2011 ( Q3 2011 ) and June 27, 2010 ( Q3 2010 ) to \$216.7 million for Q3 2011 from \$136.0 million for Q3 2010. Net sales grew in all of our end markets, with contributions from our acquisitions of Actel Corporation in November 2010 and White Electronic Designs Corporation in April 2010.

On July 28, 2011, we announced that we expect that our consolidated net sales for the fourth quarter of fiscal year 2011 will increase between 4 to 6 percent, sequentially.

Gross profit increased \$57.8 million to \$123.6 million (57.0% of net sales) for Q3 2011 from \$65.8 million (48.4% of net sales) for Q3 2010 and increased \$137.3 million to \$311.3 million (51.2% of net sales) in the first nine months of fiscal year 2011 ( 2011 YTD ) from \$174.0 million (47.4% of net sales) in the first nine months of fiscal year 2010 ( 2010 YTD ). During the first nine months of fiscal year 2011, gross profit was favorably impacted by higher margin products related to Microsemi SoC, cost optimization programs, transfer of manufacturing to lower cost and more efficient facilities and reductions in personnel. During the second quarter of 2011, we recorded a charge of \$8.4 million for the write-off of bridging inventory that we intended to complete at other locations and \$8.2 million for the write-off of medical inventory that did not meet our corporate gross margin targets. In addition, we recorded non-cash purchase accounting expenses of \$5.5 million in 2011 YTD related to manufacturing profit in acquired inventory.



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We closed our Scottsdale facility during the second quarter of 2011 and we may make further specific determinations to consolidate, close or sell additional facilities, which could be announced at any time. Possible adverse consequences from current and future consolidation activities may include various accounting charges such as for workforce reduction, including severance and other termination benefits and for excess facilities, including lease termination fees, future contractual commitments to pay lease charges, facility remediation costs and moving costs to remove property and equipment from facilities. We may also be adversely impacted from inventory buildup in preparation for the transition of manufacturing, disposition costs, impairments of goodwill, a possible immediate loss of revenues, and other items in addition to normal or attendant risks and uncertainties. We may be unsuccessful in any of our current or future efforts to consolidate our business into a smaller number of facilities. Our plans to minimize or eliminate any loss of revenues during consolidation may not be achieved.

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### **MARKETING**

Our products include individual components as well as IC solutions that enhance customer designs by improving performance, reliability and battery optimization, reducing size or protecting circuits. The principal end markets that we serve include:

**Defense & Security** Products in this end market include mixed-signal analog integrated circuits, JAN, JANTX, JANTXV and JANS high-reliability semiconductors and modules including diodes, zeners, diode arrays, transient voltage suppressors, bipolar transistors, MOSFETs, insulated gate bipolar transistors ( IGBTs ), small signal analog integrated circuits, small signal transistors, relays, silicon-controlled rectifiers ( SCRs ), RF transceivers and subsystems and FPGAs. These products are utilized in a variety of applications including radar and communications, defense electronics, homeland security, threat detection, targeting and fire control and other power conversion and related systems in military platforms.

**Aerospace** Products in this end market include offerings such as JAN, JANTX, JANTXV and JANS high-reliability semiconductors and modules and analog mixed-signal products including diodes, zeners, diode arrays, transient voltage suppressors, bipolar transistors, small signal analog integrated circuits, relays, small signal transistors, SCRs, MOSFETs, IGBTs and FPGAs. These products are utilized in a variety of applications including electronic applications for large aircraft and regional jets, commercial radar and communications, satellites, cockpit electronics, and other power conversion and related systems in space and aerospace platforms.

**Enterprise & Communications** Products in this end market include broadband power amplifiers and monolithic microwave integrated circuits ( MMICs ) targeted at 802.11 a/b/g/n/e, FPGAs, multiple-in multiple-out ( MIMO ), light emitting diode ( LED ), cold cathode fluorescent lamp ( CCFL ) controllers, visible light sensors, PWM controllers, voltage regulators, EMI/RFI filters, transient voltage suppressors and class-D audio circuits. Applications for these products include wi-max and wireless LAN devices, PoE devices, portable devices, set top box and telecom applications, notebook computers, monitors, storage devices and televisions.

**Industrial & Alternative Energy** Products in this end market include MOSFETs, IGBTs, FPGAs, power modules, ultra thin bypass diodes, bridge rectifiers, and high-voltage assemblies for use in industrial equipment, semiconductor capital equipment and solar power applications. Industrial applications also include zener diodes, high-voltage diodes, MOSFETs, IGBTs, transient voltage suppressors and thyristor surge protection devices that are designed into implantable defibrillators, pacemakers and neurostimulators and PIN diode switches, dual diode modules and switched-most power supplies ( SMPS ) for use in MRI systems.

### **ACQUISITIONS**

For the acquisitions we completed during the current fiscal year, the fair value of the identified intangible assets was estimated by performing a discounted cash flow analysis using the income approach. This method includes a forecast of direct revenues and costs associated with the respective intangible assets and charges for economic returns on tangible and intangible assets utilized in cash flow generation. Net cash flows attributable to the identified intangible assets were discounted to their present value at a rate commensurate with the perceived risk. The projected cash flow assumptions considered contractual relationships, customer attrition, eventual development of new technologies and market competition.

The useful lives of completed technology rights are based on the number of years in which net cash flows have been projected. The useful life of backlog is estimated based upon the fulfillment period. The useful lives of customer relationships are estimated based upon the length of the relationships currently in place, historical attrition patterns and natural growth and diversification of other potential customers. The useful life of the trade name was estimated based on the period in which a benefit could be ascribed to the identified trade names.

Assumptions used in forecasting cash flows for each of the identified intangible assets included consideration of the following:

Historical performance including sales and profitability.



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Business prospects and industry expectations.

Estimated economic life of asset.

Development of new technologies.

Acquisition of new customers.

Attrition of existing customers.

Obsolescence of technology over time.

Generally, the allocation of purchase prices resulted in an allocation to goodwill. Depending on the tax treatment of a particular acquisition, goodwill and intangible assets may not be deductible for tax purposes. The factors that contributed to a purchase price resulting in the recognition of goodwill include:

The premium paid over market capitalization immediately prior to the merger announcement.

Our belief that the merger will create a more diverse semiconductor company with expansive offerings which will enable us to expand our product offerings.

Our belief that both companies are committed to improving cost structures and that our combined efforts after the merger should result in a realization of cost savings and an improvement of overall efficiencies.

*Actel Corporation*

During the quarter ended January 2, 2011, we completed our acquisition of Actel Corporation ( Actel ) for \$20.88 per share in cash. Actel is the leading supplier of low-power FPGAs, mixed-signal FPGAs, and system-critical FPGAs. Delivering the lowest power consumption of any comparably sized FPGAs at both the chip and the system level, Actel's flash- and antifuse-based FPGA solutions enable power-efficient design. We sometimes refer to this division herein as Microsemi SoC.

The total consideration as shown in the table below is allocated to Actel's tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The consideration is allocated as follows (in thousands):

**Calculation of consideration:**

Cash consideration to Actel shareholders	\$ 548,759
Change in control obligations	17,298
Fair value of vested stock awards assumed by Microsemi	15,294
 Total consideration	 \$ 581,351

**Allocation of consideration:**

Book value of Actel's net assets	182,245
Adjustments to historical net book value:	

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Inventories	5,494
Identifiable intangible assets	232,600
Deferred tax liability	(95,238)
Adjustment to goodwill	\$ 256,250

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Identifiable intangible assets and their estimated useful lives are as follows (amounts in thousands):

	Asset Amount	Weighted Average Useful Life (Years)
Completed technology	\$ 147,000	8
Customer relationships	68,000	7
Backlog	13,600	1
Trade name	4,000	3
	\$ 232,600	

We utilized the straight line method of amortization for completed technology, customer relationships and trade name and the estimated fulfillment period for backlog. This allocation is preliminary with respect to certain tax matters and is based on our estimates. The amount ultimately allocated to goodwill and identifiable intangible assets is not expected to change materially from this allocation.

*AML Communications, Inc.*

During the quarter ended July 3, 2011, we completed our acquisition of AML Communications, Inc. ( AML ), for \$2.50 per share in cash. AML is a designer, manufacturer, and marketer of microelectronic assemblies for the defense industry.

The total consideration as shown in the table below is allocated to AML's tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The consideration is allocated as follows (in thousands):

**Calculation of consideration:**

Cash consideration to AML share- and option-holders	\$ 31,264
Change in control obligations	1,956
Total consideration	\$ 33,220

**Allocation of consideration:**

Book value of AML's net assets	\$ 11,726
Adjustments to historical net book value:	
Inventories	304
Identifiable intangible assets	10,000
Deferred tax liability	(4,122)
Adjustment to goodwill	\$ 15,312

Identifiable intangible assets and their estimated useful lives are as follows (amounts in thousands):

	Asset Amount	Weighted Average Useful Life (Years)
Completed technology	\$ 4,200	6

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Customer relationships	4,600	5
Backlog	1,100	2
Trade name	100	2
	\$ 10,000	

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We utilized the straight line method of amortization for completed technology, customer relationships and trade name and the estimated fulfillment period for backlog. This allocation is preliminary and is based on our estimates. The amount ultimately allocated to goodwill and identifiable intangible assets is not expected to change materially from this allocation.

*Brijot Imaging Systems, Inc.*

During the quarter ended July 3, 2011, we acquired substantially all the assets of Brijot Imaging Systems, Inc. and its passive millimeter wave imaging solutions technology. Total consideration, including cash and assumed liabilities, was approximately \$2.7 million.

**RESTRUCTURING AND SEVERANCE CHARGES**

In 2009, we approved consolidation plans that resulted in the closure of our manufacturing facility in Scottsdale, Arizona ( Scottsdale ), which ceased production during the quarter ended April 3, 2011. The Scottsdale facility occupied a 135,000 square foot leased facility. Employee severance is expected to be paid through 2013. Contract termination costs relate primarily to remaining obligations under facility and equipment leases and are expected to be paid through 2016. The following table reflects the restructuring activities for the Scottsdale facility and the accrued liabilities in the consolidated balance sheets at the dates below (amounts in thousands):

	<b>Employee Severance</b>	<b>Contract Termination Costs</b>	<b>Total</b>
Balance at October 3, 2010	\$ 4,124	\$	\$ 4,124
Provisions	(1,903)	8,200	6,297
Cash expenditures	(1,492)	(949)	(2,441)
Balance at July 3, 2011	\$ 729	\$ 7,251	\$ 7,980

At October 3, 2010, we had recorded severance accruals of \$1.6 million from reductions in force at our various facilities other than Scottsdale. We recorded additional provisions, primarily related to activities at Microsemi SoC, for severance and retention payments totaling \$14.0 million for the nine months ended July 3, 2011. Severance covered approximately 150 individuals in manufacturing, engineering and sales. Substantially all accrued amounts are expected to be paid within twelve months. The following table reflects the restructuring activities and the accrued liabilities in the consolidated balance sheets at the dates below (amounts in thousands):

	<b>Employee Severance</b>
Balance at October 3, 2010	\$ 1,642
Provisions	13,974
Cash expenditures	(12,648)
Other non-cash settlement	(116)
Balance at July 3, 2011	\$ 2,852

**RESULTS OF OPERATIONS FOR THE QUARTER AND NINE MONTHS ENDED JULY 3, 2011 COMPARED TO THE QUARTER AND NINE MONTHS ENDED JUNE 27, 2010**

Net sales increased \$80.7 million or 59.3% to \$216.7 million in Q3 2011 from \$136.0 million in Q3 2010 and increased \$241.5 million or 65.8% to \$608.6 million in 2011 YTD from \$367.1 million in 2010 YTD. The increases were primarily due to the acquisition of Actel that occurred in November 2010 and White Electronic that occurred in April 2010. Each end market was favorably impacted by the combined contribution of these acquisitions. Net sales by end market are based on our understanding of end market uses of our products.





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An estimated breakout of net sales by end markets is approximately as follows (amounts in thousands):

	Quarter Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010
Defense & Security	\$ 76,642	\$ 54,634	\$ 219,521	\$ 142,772
Aerospace	55,467	27,028	154,071	77,962
Enterprise & Communications	35,495	31,275	105,649	85,045
Industrial & Alternative Energy	49,118	23,080	129,322	61,288
Total	\$ 216,722	\$ 136,017	\$ 608,563	\$ 367,067

Net sales in the Defense & Security end market increased \$22.0 million to \$76.6 million in Q3 2011 from \$54.6 million in Q3 2010 and increased \$76.7 million to \$219.5 million in 2011 YTD from \$142.8 million in 2010 YTD. Sales in this end market were favorably impacted by the contributions from products we added from recent acquisitions, as well as contributions from the ramping of millimeter wave scan subsystems used in whole-body scanners and radar applications. We believe the Department of Defense and Homeland Security budgets for electronic content, an area of Microsemi focus, will continue to expand and contribute to growth in this end market. We also believe that international defense sales will increase, enabled in part by our security product offerings, and that Microsemi's dollar content in defense programs will increase as our products move up the value chain. As such, we believe that this end market will grow in the upcoming quarter.

Net sales in the Aerospace end market increased \$28.5 million to \$55.5 million in Q3 2011 from \$27.0 million in Q3 2010 and increased \$76.1 million to \$154.1 million in 2011 YTD from \$78.0 million in 2010 YTD. The increase in net sales between the periods was driven primarily by demand and order rates for commercial aircraft at aircraft manufacturers and tier one suppliers, growing electronic content in current aircraft, refurbishment programs for older aircraft and demand for the high-reliability radar and avionics solutions we provide. Sales into satellite applications have grown as generally these applications are in a less economically sensitive market and are expected to grow further as we develop power management ICs and DC/DC converter solutions. Including contributions from products we added from Microsemi SoC, our average dollar content opportunity now approaches \$3 million per satellite, with some high end satellite products offering significantly more. We believe that sales in this end market will grow in the upcoming quarter.

Net sales in the Enterprise & Communications end market increased \$4.2 million to \$35.5 million in Q3 2011 from \$31.3 million in Q3 2010 and increased \$20.6 million to \$105.6 million in 2011 YTD from \$85.0 million in 2010 YTD. We have experienced steady sales of our PoE offerings, RF power amplifier and DC-DC products. We believe that rapid market adoption of PoE technology, especially by enterprise customers, has increased our market share and our wireless LAN products are well accepted. We also expect additional contribution from our display products as we expect increasing support for our differentiated backlight solutions. While this is our most economically sensitive end market, as demonstrated by general volatility in commercial markets and a \$1.0 million sequential decline in sales in Q3 2011, based on current and expected backlog, we expect that net sales in this end market will grow in the upcoming quarter.

Net sales in the Industrial & Alternative Energy end market increased \$26.0 million to \$49.1 million in Q3 2011 from \$23.1 million in Q3 2010 and increased \$68.0 million to \$129.3 million in 2011 YTD from \$61.3 million in 2010 YTD. In response to adverse economic conditions, semiconductor companies substantially reduced their capital expenditures, which negatively impacted sales in early 2010. In subsequent quarters, we believe that capital spending has increased and we have experienced sequential increases in net sales over the past several quarters. We have also noted growth in plasma cutting and welding applications where our high power proficiency differentiates our products. We have increased sales through new product introductions in solar, smart grid, wind power and general industrial product offerings. This growth has also been complemented by products we added from Microsemi SoC. While we expect that sales of our products in many industrial applications will increase, we have noted increased channel inventory of products for solar applications. Accordingly, we expect that net sales in this end market will remain stable next quarter.

Net sales by originating geographical area were as follows (amounts in thousands):

	Quarter Ended		Nine Months Ended	
	July 3, 2011	June 27, 2010	July 3, 2011	June 27, 2010

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Net Sales:				
United States	\$ 138,995	\$ 66,747	\$ 385,298	\$ 167,603
Europe	35,200	28,834	98,305	91,490
Asia	42,527	40,436	124,960	107,974
Total	\$ 216,722	\$ 136,017	\$ 608,563	\$ 367,067

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Gross profit increased \$57.8 million to \$123.6 million (57.0% of net sales) for Q3 2011 from \$65.8 million (48.4% of net sales) for Q3 2010 and increased \$137.3 million to \$311.3 million (51.2% of net sales) in 2011 YTD from \$174.0 million (47.4% of net sales) in 2010 YTD. During fiscal year 2011, gross profit was favorably impacted by higher margin products related to Microsemi SoC, cost optimization programs, transfer of manufacturing to lower cost and more efficient facilities and reductions in personnel. During the second quarter of 2011, we recorded a charge of \$8.4 million for the write-off of bridging inventory that we intended to complete at other locations and \$8.2 million for the write-off of medical inventory that did not meet our corporate gross margin targets. We also recorded a charge in the second quarter of 2011 of \$5.6 million for Scottsdale remediation and fixed assets that we no longer needed to transfer to other facilities. In addition, we recorded non-cash purchase accounting expenses of \$5.5 million in 2011 YTD related to manufacturing profit in acquired inventory.

Selling, general and administrative expense was \$48.4 million for Q3 2011 compared to \$30.0 million for Q3 2010 and \$138.3 million in 2011 YTD compared to \$81.0 million in 2010 YTD. While selling, general and administrative expenses in 2011 were favorably impacted by restructuring and cost control measures, these expenses increased overall primarily due to the incremental costs incurred from acquisitions we added in the last year. Selling, general and administrative expense in 2011 YTD also included \$8.6 million in acquisition-related costs compared to \$2.4 million in 2010 YTD. We expect selling, general and administrative expenses to increase by \$2.0 million to \$2.5 million next quarter primarily to support our continued growth prospects in the coming year, particularly in the radiation hardened, RF and security markets.

Research and development expense was \$29.6 million for Q3 2011 compared to \$14.8 million in Q3 2010 and \$81.7 million in 2011 YTD compared to \$38.7 million in 2010 YTD. The increase was due to additional product development to support our organic growth and attributable to additional research and development activities from acquisitions we added in the last year. We expect research and development expense to increase by \$2.0 million to \$2.5 million next quarter primarily due to support our product development efforts as we intend to continue to make product investments that deliver continued organic growth.

Amortization of intangible assets was \$16.8 million for Q3 2011 compared to \$5.9 million in Q3 2010 and \$44.8 million in 2011 YTD compared to \$13.7 million in 2010 YTD. The increases reflect additional amortization expense related to acquisitions consummated after Q3 2010.

Restructuring and severance was \$0.7 million in Q3 2011 compared to \$1.1 million in Q3 2010 and \$20.3 million in 2011 YTD compared to \$1.7 million in 2010 YTD. The amount recorded in 2011 YTD included \$8.1 million related to Scottsdale lease termination costs and \$3.8 million in retention payments agreed to in the Actel acquisition agreement. In addition to these amounts, restructuring expense in 2011 YTD included \$14.0 million in severance charges, primarily from Microsemi SoC.

Interest expense was \$4.3 million in Q3 2011 and \$12.4 million in 2011 YTD compared to \$0.2 million in Q3 2010 and \$0.4 million in 2010 YTD. The increase in both periods was due to interest on term loan borrowings under our Credit Agreement.

Other income (expense), net, was \$4.7 million in Q3 2011 and (\$14.2) million in 2011 YTD. We elected the fair value option in accounting for the term loan balance currently outstanding under our Credit Agreement and changes in fair value of the loan balances are reflected as adjustments to the income statement. In connection with the Credit Agreement, we entered into interest rate swap agreements for the purpose of minimizing the variability of cash flows in the interest rate payments of our variable rate borrowings. We reflect the change in fair value of our term loan balances and swaps through other income or expense. We recorded income of \$3.1 million in Q3 2011 and expense of \$1.1 million in 2011 YTD related to these adjustments. In addition, upon election of the fair value option, we were required to immediately expense up front debt issuance and refinancing costs that totaled \$14.2 million in 2011 YTD. Finally, we recorded a gain of \$2.0 million in Q3 2011 related to the sale of a facility.

For Q3 2011 and 2011 YTD, we recorded an income tax benefit of \$1.8 million on \$28.8 million of pre-tax income and \$12.4 million on \$0.1 million of pre-tax loss, respectively. For Q3 2010 and 2010 YTD, we recorded an income tax benefit of \$19.3 million on \$13.7 million of pre-tax income and \$14.0 million on \$38.5 million of pre-tax income, respectively. The income tax benefits recorded during 2011 YTD are primarily from the non-cash benefit of valuation allowance release from the Microsemi SoC acquisition. Our effective income tax rate depends on various factors, such as tax legislation, the ratio of

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domestic and international pre-tax income, valuation allowances on both U.S. and foreign deferred tax assets and the effectiveness of our tax planning strategies. The effective tax rates for Q3 2011 and 2011 YTD were the combined calculated tax expenses and benefits for various jurisdictions.

**CAPITAL RESOURCES AND LIQUIDITY**

We had \$246.2 million and \$200.0 million in cash and cash equivalents at July 3, 2011 and October 3, 2010, respectively. During 2011 YTD and 2010 YTD, we financed our operations with cash generated from operations.

Net cash provided by operating activities was \$87.0 million for 2011 YTD and \$82.5 million for 2010 YTD. During 2011 YTD, operating cash was negatively impacted by \$28.0 million related to credits issued to Microsemi SoC distributors resulting from a realignment in sales practices to distributors, payments of \$18.8 million in acquisition related costs (\$10.9 million was accrued in the fourth quarter of fiscal year 2010 or was a liability recorded by Microsemi SoC s at the time of acquisition) and \$15.1 million in restructuring.

A summary of net cash provided by operating activities for 2011 YTD and 2010 YTD are as follows (amounts in thousands):

	<b>2011 YTD</b>	<b>2010 YTD</b>
Net income	\$ 12,362	\$ 52,478
Depreciation and amortization	67,186	27,494
Provision for doubtful accounts	219	287
Gain on sales of assets	(113)	
Stock-based compensation	21,165	18,936
Excess tax benefit stock awards	(3,574)	(205)
Effect of fair value option on credit facility issuance and refinancing costs	14,218	
Deferred income taxes	(1,558)	(17,278)
Net change in working capital accounts	(21,349)	1,880
Net change in other assets and long term liabilities	(1,544)	(1,108)
 Net cash provided by operating activities	 \$ 87,012	 \$ 82,484

Accounts receivable increased \$19.4 million to \$98.1 million at July 3, 2011 from \$78.7 million at October 3, 2010. The increase in accounts receivable was primarily due to higher sales, including incremental sales by Microsemi SoC, in Q3 2011 compared to Q4 2010.

Inventories increased \$19.2 million to \$145.4 million at July 3, 2011 from \$126.2 million at October 3, 2010. The increase was due primarily to inventory balances at operations we acquired in the current fiscal year.

Other current assets increased \$16.4 million to \$31.1 million at July 3, 2011 from \$14.7 million at October 3, 2010. The increase was due primarily to inventory balances at operations we acquired in the current fiscal year.

Current liabilities increased \$54.4 million to \$125.7 million at July 3, 2011 from \$71.3 million at October 3, 2010. The increase was due primarily to current liability balances at operations we acquired in the current fiscal year and an increase in current maturities of long term debt from our term loan balances.

Net cash used in investing activities was \$428.2 million for 2011 YTD and \$66.8 million for 2010 YTD. Net cash used in investing activities in 2011 YTD consisted of \$411.0 million in cash payments for acquisitions, net of cash acquired, \$19.4 million in purchases of property and equipment and \$2.2 million in proceeds from the disposition of assets. In 2010 YTD, net cash used in by investing activities primarily consisted of \$103.7 million in cash payments for acquisitions, net of cash acquired, \$9.3 million in purchases of property and equipment offset by a \$46.6 million issuer redemption of auction rate securities.

Net cash provided by (used in) financing activities was \$387.5 million in 2011 YTD and (\$44.2) million in 2010 YTD. In 2011 YTD, net cash provided by financing activities primarily consisted of net borrowings of \$373.1 million under our Credit Agreement and \$30.2 million related to proceeds from stock awards, offset by \$14.2 million in credit facility issuance and refinancing costs. In 2010 YTD, net cash used in financing activities consisted of a \$46.6 million reduction in an auction rate securities credit facility offset by \$3.3 million related to proceeds from stock

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awards.

On November 2, 2010, we entered into a Credit Agreement with Morgan Stanley Senior Funding, Inc. ( MSSF ), Morgan Stanley & Co. Incorporated, East West Bank, Raymond James Bank, FSB and the lenders referred to therein (the

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Credit Agreement ). Pursuant to the Credit Agreement, MSSF has provided \$425.0 million senior secured first lien credit facilities (the Facilities ), consisting of a term loan facility in an aggregate principal amount of \$375.0 million and a revolving credit facility (the Revolving Facility ) in an aggregate principal amount of \$50.0 million. The Facilities financed the acquisition of Actel and fees and expenses related thereto. The Revolving Facility is also available for working capital requirements and other general corporate purposes. On March 2, 2011, we entered into Amendment No. 1 to the Credit Agreement that provided for new pricing terms, modified reporting requirements for permitted acquisitions and modified prepayment provisions related to the term loan facility. We had, as of July 3, 2011, \$373.1 million borrowed under the term loan facility and no direct borrowings and \$0.4 million in letters of credit outstanding under the Revolving Facility.

We can request, at any time and from time to time, the establishment of one or more incremental term loans and/or revolving credit facilities with commitments in an aggregate amount not to exceed \$100.0 million the proceeds of which can be used for working capital requirements and other general corporate purposes. MSSF will act as sole bookrunner, sole lead arranger and administrative agent.

Interest under the Facilities is, at our option, Base Rate or LIBOR, plus a margin ranging from 2.00% to 2.50% for Base Rate-based loans that are either term loans or revolving loans and ranging from 3.00% to 3.50% for LIBOR-based loans that are either term loans or revolving loans, depending on our consolidated leverage ratio. The Base Rate for term loans is equal to 2.0% per annum and for revolving loans is a fluctuating interest rate per annum equal to the highest of (a) the prime rate, (b) 1/2 of 1% per annum above the federal funds effective rate and (c) one-month LIBOR plus 1%. Interest for Base Rate-based loans is calculated on the basis of a 365-day year and interest for LIBOR-based loans is calculated on the basis of a 360-day year. The current principal amount outstanding under our term loan facility is a LIBOR-based loan and is subject to an interest rate of 4.00%. A one percent increase in the variable rate of interest on the term loan facility would increase interest expense by approximately \$3.7 million annually.

In accordance with the terms of the Facilities, we pay an undrawn commitment fee ranging from 0.25% to 0.75% depending on our consolidated leverage ratio, on the unused portion of the Revolving Facility. In connection with letters of credit issued under the Facilities, we are required to pay a fronting fee equal to 0.25% per annum of the aggregate face amount of each letter of credit and a participation fee on all outstanding letters of credit at a per annum rate equal to the margin then in effect with respect to LIBOR-based loans under the Revolving Facility on the face amount of such letter of credit.

Subject to certain customary exceptions, all of our obligations under the Facilities are unconditionally guaranteed by each of our existing and subsequently acquired or organized direct and indirect wholly-owned domestic subsidiaries whose assets or revenues exceed 5%, as the case may be, of the consolidated assets or revenues (the Guarantors ). Other domestic subsidiaries will be required to become a Guarantor to the extent that domestic subsidiaries excluded from such guarantee obligation represent more than 15%, as the case may be, of the consolidated assets or revenues.

The Facilities are subject to certain representations and warranties, certain affirmative covenants, certain negative covenants, certain financial covenants, certain conditions and events of default that are customarily required for similar financings. We are in compliance with all of our covenants.

***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States that require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. Information with respect to our critical accounting policies that we believe could have the most significant effect on our reported results and require subjective or complex judgments is contained in Note 1 to these unaudited consolidated financial statements, and in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended October 3, 2010.

**Table of Contents****Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the potential loss arising from adverse changes in credit risk, foreign currency exchange rates, interest rates or the stock market. We are exposed to various market risks, which are related to credit risks, changes in certain foreign currency exchange rates and changes in certain interest rates.

We conduct a relatively small portion of our business in a number of foreign currencies, principally the European Union Euro, British Pound, Israeli Shekel and Chinese RMB. We may receive some revenues in foreign currencies and purchase some inventory and services in foreign currencies. Accordingly, we are exposed to transaction gains and losses that could result from changes in exchange rates of foreign currencies relative to the U.S. dollar. Transactions in foreign currencies have represented a relatively small portion of our business. As a result, foreign currency fluctuations have not had a material impact historically on our revenues or results of operations. However, there can be no assurance that future fluctuations in the value of foreign currencies will not have material adverse effects on our results of operations, cash flows or financial condition. We have not conducted a foreign currency hedging program thus far. We have considered and may continue to consider the adoption of a foreign currency hedging program.

We are potentially subject to concentrations of credit risk consisting principally of trade accounts receivable. Concentrations of credit risk exist because we rely on a significant portion of customers whose principal sales are to the U.S. Government. Approximately 40% of total net sales in 2010 were in the Defense & Security end market, with a very significant amount to customers whose principal sales are to the U.S. Government or to subcontractors whose material sales are to the U.S. Government. We, as a subcontractor, sell our products to higher-tier subcontractors or to prime contractors based upon purchase orders that usually do not contain all of the conditions included in the prime contract with the U.S. Government. However these sales are usually subject to termination and/or price renegotiations by virtue of their reference to a U.S. Government prime contract. Therefore, we believe that all of our product sales that ultimately are sold to the U.S. Government may be subject to termination, at the convenience of the U.S. Government or to price renegotiations under the Renegotiation Act. We have never experienced a material loss due to termination of a U.S. Government contract. We have never had to renegotiate our price under any government contract.

Interest under the Facilities is, at our option, Base Rate or LIBOR, plus a margin ranging from 2.00% to 2.50% for Base Rate-based loans that are either term loans or revolving loans and ranging from 3.00% to 3.50% for LIBOR-based loans that are either term loans or revolving loans, depending on our consolidated leverage ratio. The Base Rate for term loans is equal to 2.0% per annum and for revolving loans is a fluctuating interest rate per annum equal to the highest of (a) the prime rate, (b)  $\frac{1}{2}$  of 1% per annum above the federal funds effective rate and (c) one-month LIBOR plus 1%. Interest for Base Rate-based loans is calculated on the basis of a 365-day year and interest for LIBOR-based loans is calculated on the basis of a 360-day year. The current principal amount outstanding under our term loan facility is a LIBOR-based loan and is subject to an interest rate of 4.00%. A one percent increase in the variable rate of interest on the term loan facility would increase interest expense by approximately \$3.7 million annually.

In connection with the Credit Agreement, we entered into interest rate swap agreements for the purpose of minimizing the variability of cash flows in the interest rate payments of our variable rate borrowings. The cash flows received under the interest rate swap agreements are expected to offset the change in cash flows associated with LIBOR rate borrowings between the effective and maturity dates of the swaps. Our three swap agreements have notional amounts, fixed rates and terms as follows: \$24.0 million at 1.49% for two years, \$121.0 million at 1.83% for three years and \$24.0 million at 2.21% for four years. We reflect the change in value of the swaps through other income or expense and at July 3, 2011, recorded a liability of \$2.1 million. We recorded the related expense in other income (expense), net. We classify interest rate swap balances as Level 2 fair value measurements. We determined the fair value of our interest rate swap agreements based on mid-market valuations reported to us by RJ Capital Services, Inc., the counterparty to the swap agreements.

**Item 4. CONTROLS AND PROCEDURES****(a) Evaluation of disclosure controls and procedures.**

Our Chief Executive Officer and Chief Financial Officer, with the assistance of other management, conducted an evaluation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 3, 2011.



(b) Changes in internal control over financial reporting.

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During the third quarter of fiscal year 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

In Part I, Item 3 of our most recent Annual Report on Form 10-K as filed with the SEC on November 23, 2010 for our fiscal year ended October 3, 2010, we reported litigation in which we are involved. During the fiscal period that is the subject of this Quarterly Report on Form 10-Q, no material changes occurred in such litigation, and there have been no other legal proceedings requiring reporting in this Quarterly Report on Form 10-Q other than as follows.

On December 8, 2010, Intellectual Ventures I LLC and Intellectual Ventures II LLC filed a complaint in the United States District Court for the District of Delaware (the Complaint) against Altera Corporation, Microsemi, and Lattice Semiconductor Corporation. The complaint alleges, inter alia, that programmable logic devices manufactured and sold by our subsidiary Microsemi SoC infringe United States Patent Numbers 5,687,325, 6,260,087 and 6,272,646 assigned to Intellectual Ventures II LLC, and seeks damages and other relief at law or in equity as the court deems appropriate. We have responded to the Complaint. Given the early stages of this matter, we cannot determine the likelihood of an unfavorable outcome.

**Item 1A. RISK FACTORS**

With the exception of the fifth risk factor listed below, there have been no material updates to the risk factors set forth below that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K as filed with the SEC on November 23, 2010. For the convenience of our readers, our updated risk factors are included below in this Item 1A, and we recommend that they be read in their entirety.

**Negative or uncertain worldwide economic conditions could prevent us from accurately forecasting demand for our products, which could adversely affect our operating results or market share.**

Recent negative worldwide economic conditions and market instability have made it increasingly difficult for us, our customers and our suppliers to accurately forecast future product demand trends. If signs of improvement in the global economy do not progress as expected and global economic conditions worsen, our forecasts of product demand trends could prove to be incorrect and could cause us to produce excess products that can depress product prices, increase our inventory carrying costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or materials used in our products, that could result in an inability to satisfy demand for our products and a loss of market share.

**Negative or uncertain worldwide economic conditions may adversely affect our business, financial condition, cash flow and results of operations.**

Recent domestic and global economic conditions have presented unprecedented and challenging conditions reflecting continued concerns about the availability and cost of credit, downgrades and continued negative pressure on sovereign credit ratings, the mortgage market, declining real estate values, increased energy costs, decreased consumer confidence and spending and added concerns fueled by the federal government's interventions in the financial and credit markets. These conditions have contributed to instability in both the domestic and international capital and credit markets, potentially increased the cost of credit and diminished expectations for the global economy. In addition, these conditions make it extremely difficult for our customers to accurately forecast and plan future business activities and could cause businesses to slow spending on our products, which could cause our sales to decrease or result in an extension of our sales cycles. If signs of improvement in the global economy do not progress as expected and global economic conditions worsen, our customers may have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations, which could impair their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide or within our industry. If signs of improvement in the global economy do not progress as expected and economic conditions worsen, our business, financial condition, cash flows and results of operations will be adversely affected.

**Our operating results may fluctuate in future periods, which could cause our stock price to decline.**

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We have experienced, and expect to experience in future periods, fluctuations in net sales and operating results from period to period. Our projections and results may be subject to significant fluctuations as a result of a number of factors including:

the timing of orders from and shipment of products to major customers;

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our product mix;

changes in the prices of our products;

manufacturing delays or interruptions;

delays or failures in testing and processing products for defense, security and aerospace applications;

inventory obsolescence or write-downs;

restructuring charges;

variations in the cost of components for our products;

limited availability of components that we obtain from a single or a limited number of suppliers; and

seasonal and other fluctuations in demand for our products.

**We may be unable to successfully implement our acquisitions strategy or integrate acquired companies and personnel with existing operations.**

We have in the past acquired a number of businesses or companies, additional product lines and assets, and we may continue to expand and diversify our operations with additional acquisitions. We may be unable to identify or complete prospective acquisitions for many reasons, including competition from other companies in the semiconductor industry and high valuations of business candidates. In addition, applicable antitrust laws and other regulations may limit our ability to acquire targets or force us to divest an acquired business, such as occurred with our attempt to acquire SEMICOA. If we are unable to identify suitable targets or complete acquisitions, our growth prospects may suffer, and we may not be able to realize sufficient scale advantages to compete effectively in all markets. To the extent that we are successful in making acquisitions, if we are unsuccessful in integrating acquired companies or product lines with existing operations, or if integration is more difficult or more costly than anticipated, we may experience disruptions that could have a material adverse effect on our business, financial condition and results of operations. In addition, the market price of our common stock could be adversely affected if the effect of any acquisitions on the Microsemi consolidated group's financial results is dilutive or is below the market's or financial analysts' expectations. Some of the risks that may affect our ability to integrate or realize any anticipated benefits from acquired companies, businesses or assets include those associated with:

unexpected losses of key employees or customers of the acquired company;

conforming the acquired company's standards, processes, procedures and controls with our operations;

coordinating new product and process development;

hiring additional management and other critical personnel;

increasing the scope, geographic diversity and complexity of our operations;

difficulties in consolidating facilities and transferring processes and know-how;

other difficulties in the assimilation of acquired operations, technologies or products;

diversion of management's attention from other business concerns; and

adverse effects on existing business relationships with customers.

In connection with acquisitions, we may:

use a significant portion of our available cash;

issue equity securities, which would dilute current stockholders' percentage ownership;

incur substantial debt;

incur or assume contingent liabilities, known or unknown, including potential lawsuits, infringement actions and similar liabilities;

incur impairment charges related to goodwill or other intangibles;

incur large, immediate accounting write-offs; and

face antitrust or other regulatory inquiries or actions.

There can be no assurance that the benefits of any acquisitions will outweigh the attendant costs, and if they do not, our results of operations and stock price may be adversely affected.

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**Provisions in our credit facility and our current leverage could adversely affect our consolidated financial position and our ability to operate our business.**

Our credit facility requires that we comply with financial and restrictive covenants. Although we are currently in compliance with these covenants, unexpected downturns in our business may trigger certain covenants that increase our cost of borrowing, decrease the amounts available under our credit facility, or both. The current amount outstanding on our credit facility exceeds our current cash and cash equivalents balance, and we may incur additional debt in the future. Some of the risks that are associated with our leverage include the following:

our ability to obtain additional financing in the future for acquisitions, capital expenditures, general corporate purposes or other purposes may be impaired;

our current credit facility only permits borrowing on variable rates of interest and increases in certain benchmark interest rates will increase the cost of borrowing;

leverage will increase our vulnerability to declining economic conditions, particularly if the decline is prolonged;

failure to comply with any of our debt covenants may result in an event of default which, if not cured or waived, could have a material adverse effect on us;

financial and restrictive covenants may adversely affect our ability to implement business plans, react to changes in economic conditions or benefit from changes in tax regulations; and

debt service payments will continue to have a negative impact on our cash flows.

**We have closed, combined, sold or disposed of certain subsidiaries or divisions, which in the past has reduced our sales volume and resulted in significant restructuring costs.**

In September 2009, we approved consolidation plans that resulted in the closure of our manufacturing facility in Scottsdale, Arizona. Scottsdale represented approximately 6% of our annual net sales in fiscal year 2010, had approximately 200 employees and occupied a 135,000 square foot leased facility. We face major technical challenges in regard to transferring component manufacturing between locations. Before a transfer of manufacturing, we must be finished qualifying the new facility appropriately with the U.S. government or certain customers. In addition, to mitigate the potential for manufacturing disruptions following a closure, we typically build inventory to support the transition process. While we plan generally to retain revenues and income of those operations by transferring the manufacturing elsewhere within Microsemi's subsidiaries, our plans may change at any time based on reassessment of the alternatives and consequences. While we hope to benefit overall from increased gross margins and increased capacity utilization rates at remaining operations, the remaining operations will need to bear the corporate administrative and overhead costs, which are charges to income that had been allocated to the discontinued business units. Moreover, delays in effecting our consolidations could result in changes in the timing of realized costs savings and in greater than anticipated costs incurred to achieve the hoped for longer-range savings.

In October 2003, we announced the consolidation of the manufacturing operations of Microsemi Corp. Santa Ana, of Santa Ana, California into some of our other facilities. The Santa Ana facility, whose manufacturing represented approximately 13% of our annual net sales in fiscal year 2004, had approximately 380 employees and occupied 123,000 square feet. In April 2005, we announced the consolidation of the high-reliability products operations of Microsemi Corp. Colorado of Broomfield, Colorado ( Broomfield ) into some of our other facilities. Broomfield represented approximately 5% of our annual net sales in fiscal year 2009, had approximately 50 employees and occupied a 130,000 square foot owned facility.

We may make further specific determinations to consolidate, close or sell additional facilities, which could be announced at any time. Possible adverse consequences from current and future consolidation activities may include various accounting charges such as for workforce reduction, including severance and other termination benefits and for excess facilities, including lease termination fees, future contractual commitments to

pay lease charges, facility remediation costs and moving costs to remove property and equipment from facilities. We may also be adversely impacted from inventory buildup in preparation for the transition of manufacturing, disposition costs, impairments of goodwill, a possible immediate loss of revenues, and other items in addition to normal or attendant risks and uncertainties. We may be unsuccessful in any of our current or future efforts to consolidate our business into a smaller number of facilities. Our plans to minimize or eliminate any loss of revenues during consolidation may not be achieved.

**Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our financial results.**

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our tax liabilities are affected by the amounts we record in intercompany transactions for inventory, services, licenses, funding and other items. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our intercompany charges or other matters and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our financial condition. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, especially tax laws related to foreign operations, and the discovery of new information in the course of our tax return preparation process. Any of these changes could affect our operating results, cash flows and financial condition.

**Reliance on government contracts for a portion of our sales could have a material adverse effect on results of operations.**

Some of our sales are or may be derived from customers whose principal sales are to the United States government. These sales are or may be derived from direct and indirect business with the U.S. Department of Defense and other U.S. government agencies. Future sales are subject to the uncertainties of governmental appropriations and national defense policies and priorities and potential changes in these policies and priorities. If we experience significant reductions or delays in procurements of our products by the U.S. government or terminations of government contracts or subcontracts, our operating results could be materially and adversely affected.

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Generally, the U.S. government and its contractors and subcontractors may terminate their contracts with us for cause or for convenience. We have in the past experienced one termination of a contract due to the termination of the underlying government contracts. All government contracts are also subject to price renegotiation in accordance with the U.S. Government Renegotiation Act. By reference to such contracts, all of the purchase orders we receive that are related to government contracts are subject to these possible events. There is no guarantee that we will not experience contract terminations or price renegotiations of government contracts in the future.

In addition, we are required to maintain compliance with government regulations, particularly for our facilities and products that service the defense and security markets. Maintaining compliance requires that we devote resources to matters that include training, personnel, information technology and facilities. Failure to maintain compliance may result in the loss of certifications, fines and penalties that may materially and adversely affect our operating results.

Microsemi's aggregate net sales to the Defense & Security end market represented approximately 40% of total net sales in 2010. From time to time, we have experienced declining security- and defense-related sales, primarily as a result of contract award delays and reduced security and defense program funding. We may be unable to adequately forecast or respond to the timing of and changes to demand for security- and defense-related products. In the past, defense-related spending on programs that we participate in has increased at a rate that has been slower than expected, been delayed or declined. Our prospects for additional security- and defense-related sales may be adversely affected in a material manner by numerous events or actions outside our control.

**We must commit resources to research and development, design, and production prior to receipt of purchase commitments and could lose some or all of the associated investment.**

We sell products primarily pursuant to purchase orders for current delivery, rather than pursuant to long-term supply contracts. Many of these purchase orders may be revised or cancelled without penalty. As a result, we must commit resources to the research, design and production of products without any advance purchase commitments from customers. Any inability to sell a product after we devote significant resources to it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

**International operations and sales expose us to material risks and may increase the volatility of our operating results.**

Net sales from international markets represent a significant portion of total net sales. Our net sales to international customers represented approximately 40% for 2010, 30% for 2009 and 40% for 2008. These sales were principally to customers in Europe and Asia. Foreign sales are classified as shipments to foreign destinations. We maintain facilities or contracts with entities in several foreign countries, including Korea, Japan, China, Ireland, Thailand, the Philippines, Malaysia, France, Taiwan, Macau, Israel and India. There are risks inherent in doing business internationally, including:

legislative or regulatory requirements and potential changes in or interpretations of requirements in the United States and in the countries in which we manufacture or sell our products;

tax regulations and treaties and potential changes in regulations and treaties in the United States and in and between countries in which we manufacture or sell our products;

fluctuations in income tax expense and net income due to differing statutory tax rates in various domestic and international jurisdictions;

trade restrictions;

availability of transportation services, including disruptions related to work stoppages, security incidents or natural events at shipping or receiving points or along transportation routes;



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work stoppages or disruption of local labor supply;

communication interruptions;

economic and political instability, including the recent uncertainty in the global financial markets;

acts of war or terrorism, or health issues (such as Sudden Acute Respiratory Syndrome, Avian Influenza or the H1N1 Virus), which could disrupt our manufacturing and logistical activities;

compliance with and changes in import/export regulations;

changes in tariffs and freight rates;

difficulties in collecting receivables and enforcing contracts generally;

restrictions in the transfer or repatriation of funds; and

currency exchange rate fluctuations, devaluation of foreign currencies, hard currencies shortages and exchange rate fluctuations.

International sales of our products that service the defense and security markets are subject to U.S. and local government regulations and procurement policies and practices including regulations relating to import-export control. Violations of export control regulations could result in suspension of our ability to export our products. Depending on the scope of the suspension, this could have a material effect on our ability to perform certain international contracts. In addition, failure to maintain compliance with government regulations may result in fines and penalties that may materially and adversely affect our operating results.

If political, military, transportation, health or other issues in foreign countries result in cancellations of customer orders or contribute to a general decrease in economic activity or corporate spending, or directly impact Microsemi's marketing, manufacturing, financial and logistics functions, our consolidated results of operations and financial condition could be materially adversely affected. In addition, the laws of certain foreign countries may not protect our products, assets or intellectual property rights to the same extent as do U.S. laws. Therefore, the risk of piracy of our technology and products, which could result in a material adverse effect on our financial condition, operating results and cash flows, may be greater in those foreign countries.

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### **There may be unanticipated costs associated with appropriately scaling our manufacturing capacity to meet expected changes in customer demand.**

We may incur unanticipated costs as we scale our manufacturing capacity to meet expected changes in customer demand. During periods of anticipated increases in customer demand, we may determine that our business will require increased manufacturing capacity on our part and on the part of certain outside foundries, assembly shops, or testing facilities for some of our integrated circuit products or other products. Expansion activities are subject to a number of risks, including:

unavailability or late delivery of the advanced, and often customized, equipment used in the production of our specialized products;

availability of qualified manufacturing personnel;

delays in bringing new production equipment on-line;

delays in supplying satisfactory designs or products to our existing customers;

unforeseen environmental, engineering or manufacturing qualification problems relating to existing or new facilities; and

overexpansion may result in unfavorable manufacturing variances, restructuring costs and impairments.

These and other risks may affect the ultimate cost and timing of any expansion of our capacity.

### **Downturns in the highly cyclical semiconductor industry have in the past adversely affected our operating results, cash flows and the value of our business, and may continue to do so in the future.**

The semiconductor industry is highly cyclical and is characterized by constant technological change, rapid product obsolescence and price erosion, short product life-cycles and fluctuations in product supply and demand. During recent years we, as well as many others in our industry, have experienced significant declines in the pricing of, as well as demand for, products during the down portions of these cycles, which have sometimes been severe and prolonged. In the future, these downturns may prove to be as, or possibly even more, severe than past ones. Our ability to sell our products depends, in part, on continued demand in a large number of markets, including the mobile/connectivity, automotive, telecommunications, computers/peripherals, defense and aerospace, space/satellite, industrial/commercial and medical markets. Each of these end markets has in the past experienced reductions in demand, and current and future downturns in any of these markets may continue to adversely affect our revenues, operating results, cash flows and financial condition.

### **The semiconductor business is subject to downward price pressure.**

The market for our products has been characterized by declining selling prices, and we anticipate that our average selling prices will decrease in future periods, although the timing and amount of these decreases cannot be predicted with any certainty. The pricing pressure in the semiconductor industry in past years has been due to a large number of factors, many of which were not easily foreseeable, such as the Asian currency crisis, industry-wide excess manufacturing capacity, weak economic growth, the slowdown in capital spending that followed the dot-com collapse, the reduction in capital spending by telecom companies and satellite companies, and the effects of the tragic events of terrorism on September 11, 2001. Similar to past years, recent unfavorable economic conditions have resulted in a tightening of the credit markets. If signs of improvement in the global economy do not progress as expected and global economic conditions worsen, we may experience a decline in our average selling prices. In addition, our competitors have in the past, and may again in the future, lower prices in order to increase their market share. Continued downward price pressure in the industry may reduce our operating results and harm our financial and competitive position.

### **The semiconductor industry is highly competitive.**

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The semiconductor industry, including most of the markets in which we do business, is highly competitive. We have numerous competitors in the various markets in which we sell products. Some of our current major competitors are Freescale Semiconductor, Inc., National Semiconductor Corp., Texas Instruments, Inc., Koninklijke Philips Electronics, ON Semiconductor Corp., Fairchild Semiconductor International, Inc., Micrel Incorporated, International Rectifier Corp., Semtech Corp., Linear Technology Corp., Maxim Integrated Products, Inc., Skyworks Solutions, Inc., Diodes, Inc., Vishay Intertechnology, Inc., O2Micro International, Ltd. and Monolithic Power Systems, Inc. Some of our competitors in developing markets are Triquint Semiconductor, Inc., RF Micro Devices, Inc., Anadigics, Inc. and Skyworks Solutions, Inc. Many of these companies are larger than we are and have greater resources than we have and may therefore be better able than we are to penetrate new markets, pursue acquisition candidates, and withstand adverse economic or market conditions. We expect intensified competition from both these existing competitors and new entrants into our markets. To the extent we are not able to compete successfully in the future, our financial condition, operating results or cash flows could be harmed.

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**Table of Contents****We may not be able to develop new technologies and products to satisfy changes in customer demand, and our competitors could develop products that decrease the demand for our products.**

Rapidly changing technologies and industry standards, along with frequent new product introductions, characterize the semiconductor industry. Our financial performance depends, in part, on our ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. If we are unable to continue to reduce package sizes, improve manufacturing yields and expand sales, we may not remain competitive. The competitiveness of designs that we have introduced, including integrated circuits and subsystems such as class D audio subsystems for newly-introduced home theatre DVD players supporting surround sound, power-over-ethernet, PDA backlighting subsystems, backlight control and power management solutions for the automotive notebook computer, monitors and the LCD TV market, LED driver solutions and power amplifiers for certain wireless LAN components, are subject to various risks and uncertainties that we are not able to control, including changes in customer demand and the introduction of new or superior technologies by others. Moreover, any failure by us in the future to develop new technologies or timely react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenues and a loss of our market share to our competitors. New technologies or products that we may develop may not lead to an incremental increase in revenues, and there is a risk that these new technologies or products will decrease the demand for our existing products and result in an offsetting reduction in revenues. In addition, products or technologies developed by others may render our products or technologies obsolete or non-competitive. A fundamental shift in technologies in our product markets could have a material adverse effect on our competitive position within the industry.

**Compound semiconductor products may not successfully compete with silicon-based products.**

Our choices of technologies for development and future implementation may not reflect future market demand. The production of gallium arsenide (GaAs), indium gallium phosphide (InGaP), silicon germanium (SiGe), indium gallium arsenide phosphide (InGaAsP) or silicon carbide (SiC) integrated circuits is more costly than the production of silicon circuits, and we believe it will continue to be more costly in the future. The costs differ because of higher costs of raw materials, lower production yields and higher unit costs associated with lower production volumes. Silicon semiconductor technologies are widely used in process technologies for integrated circuits, and these technologies continue to improve in performance. As a result, we must offer compound semiconductor products that provide vastly superior performance to that of silicon for specific applications in order for our products to be competitive with silicon products. If we do not offer compound semiconductor products that provide sufficiently superior performance to offset the cost differential and otherwise successfully compete with silicon-based products, our revenues and operating results may be materially and adversely affected.

**Production delays related to new compound semiconductors could adversely affect our future results.**

We utilize process technology to manufacture compound semiconductors such as GaAs, InGaP, SiGe, SiC and InGaAsP primarily to manufacture semiconductor components. We are pursuing this development effort internally as well as with third party foundries. Our efforts sometimes may not result in commercially successful products. Certain of our competitors offer this capability and our customers may purchase our competitors' products instead of ours for this reason. In addition, the third party foundries that we use may delay delivery of, or even completely fail to deliver, technology and products to us. Our business and financial prospects could be materially and adversely affected by any failure by us to timely produce these products.

**We may be unable to retain our customers due in part to our inability to fulfill our customer demand and other factors.**

Our ability to fulfill our customers' demand for our products is and will continue to be dependent in part on our order volumes and long lead times with regard to our manufacturing and testing of certain high-reliability products. The lead time for manufacture and testing of high-reliability products can be many months. In response to this current demand, we have recently increased our capital expenditures for production equipment as well as increased expenses for personnel at certain manufacturing locations. We may have delays or other difficulties in regard to increasing our production and in hiring and retaining qualified personnel. In addition, we have raised prices on certain products, primarily in our Aerospace, Defense & Security and Industrial & Alternative Energy end markets. Manufacturing delays and price increases may result in our customers reducing their purchase levels with us and/or seeking alternative solutions to meet their demand. In addition, the current demand may not continue in the future. Decreased sales as a result of a loss of one or more significant customers could materially and adversely impact our business and results of operations.

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### **Unfavorable or uncertain conditions in certain retail markets that our OEM customers address may cause fluctuations in our rate of revenue growth or financial results.**

Some of the principal markets we serve include consumer markets, such as mobile/connectivity and notebooks, monitors and LCD televisions. If domestic and global economic conditions worsen, overall consumer spending may be reduced or shifted to products other than those made by our customers, which would adversely impact demand for products in these market. Reduced sales by our customers in these end markets will adversely impact demand by our customers for our products and could also slow new product introductions by our customers and by us. Lower net sales of our products would have an adverse effect on our revenue, cash flow and results of operations.

### **Fluctuations in sales of high-reliability products for use in implantable defibrillators may adversely affect our financial results.**

Although the market for implantable defibrillators is growing, customers in this market could reduce their reliance on outside suppliers. The implantable defibrillator market also fluctuates based on several other factors, such as product recalls and the need to secure regulatory approvals. Product recalls can from time to time accelerate sales to levels that cannot be sustained for long periods of time. The timing and qualification of new generations of products brought to market by OEMs can also result in fluctuations in order rates.

### **Variability of our manufacturing yields may affect our gross margins and profits.**

Our manufacturing yields vary significantly among products, depending on the complexity of a particular product's design and our experience in manufacturing that type of product. We have in the past experienced difficulties in achieving planned yields, which have adversely affected our gross margins and profits.

The fabrication of semiconductor products is a highly complex and precise process. Problems in the fabrication process can cause a substantial percentage of wafers to be rejected or numerous circuits on each wafer to be non-functional, thereby reducing yields. These difficulties include:

defects in masks, which are used to transfer circuit patterns onto our wafers;

impurities in the materials used;

contamination of the manufacturing environment; and

equipment failure.

Because a large portion of our costs of manufacturing is relatively fixed and average selling prices for our products tend to decline over time, it is critical for us to improve the number of shippable circuits per wafer and increase the production volume of wafers in order to maintain and improve our results of operations. Yield decreases can result in substantially higher unit costs, which could materially and adversely affect our operating results and have done so in the past. Moreover, our process technologies have primarily utilized standard silicon semiconductor manufacturing equipment, and production yields of compound integrated circuits have been relatively low compared with silicon circuit devices. We may be unable to continue to improve yields in the future, and we may suffer periodic yield problems, particularly during the early production of new products or introduction of new process technologies. In either case, our results of operations could be materially and adversely affected.

### **The concentration of the facilities that service the semiconductor industry, including facilities of current or potential vendors or customers, makes us more susceptible to events or disasters affecting the areas in which they are most concentrated.**

Relevant portions of the semiconductor industry, and the facilities that serve or supply this industry, tend to be concentrated in certain areas of the world. Events such as natural disasters and related disruptions, epidemics and health advisories like those related to Sudden Acute Respiratory Syndrome, Avian Influenza or the H1N1 Virus, power outages and infrastructure disruptions, and civil unrest and political instability in those areas, have from time to time in the past, and may again in the future, adversely affect the semiconductor industry. In particular, events such as these could adversely impact our ability to manufacture or deliver our products and result in increased costs and a loss of revenue. Similarly, a localized risk affecting our employees or the staff of our suppliers could impair the total volume of products that we are

able to manufacture, which could adversely affect our results of operations and financial condition.

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**Table of Contents****Some of our facilities are located near major earthquake fault lines.**

Our headquarters, our major operating facilities, and certain other critical business operations are located near known major earthquake fault lines. We presently do not have earthquake insurance. We could be materially and adversely affected in the event of a major earthquake.

**Delays in beginning production, implementing production techniques, resolving problems associated with technical equipment malfunctions, or issues related to government or customer qualification of facilities could adversely affect our manufacturing efficiencies and our ability to realize cost savings.**

Microsemi's consolidated manufacturing efficiency will be an important factor in our future profitability, and we may be unsuccessful in our efforts to maintain or increase our manufacturing efficiency. Our manufacturing processes, and those utilized by our third-party subcontractors, are highly complex, require advanced and costly equipment and are sometimes modified in an effort to improve yields and product performance. We have from time to time experienced difficulty in transitions of manufacturing processes to different facilities or adopting new manufacturing processes. As a consequence, we have at times experienced delays in product deliveries and reduced yields. Every silicon wafer fabrication facility utilizes very precise processing, and processing difficulties and reduced yields commonly occur, often as a result of contamination of the material. Reduced manufacturing yields can often result in manufacturing and shipping delays due to capacity constraints. Therefore, manufacturing problems can result in additional operating expense and delayed or lost revenues. In one instance, which occurred in fiscal year 2005, Microsemi scrapped nonconforming inventory at a cost of approximately \$1 million and experienced a delay of approximately two months in realizing approximately \$1.5 million of net sales. In an additional instance, which occurred in fiscal year 2004, Microsemi encountered a manufacturing problem concerning contamination in a furnace that resulted in the quarantine of approximately one million units at a cost of approximately \$2 million. The identification and resolution of that manufacturing issue required four months of effort to investigate and resolve, which resulted in a concurrent delay in realizing approximately \$2 million of net sales. Microsemi may experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, upgrading existing facilities, relocating processes to different facilities, or changing its process technologies, any of which could result in a loss of future revenues or an increase in manufacturing costs.

**Interruptions, delays or cost increases affecting our materials, parts, equipment or subcontractors may impair our competitive position.**

Our manufacturing operations, and the outside manufacturing operations that we use increasingly, in some instances depend upon obtaining a governmental qualification of the manufacturing process, and in all instances, adequate supplies of materials including wafers, parts and equipment (including silicon, mold compounds and lead frames) on a timely basis from third parties. Some of the outside manufacturing operations we use are based in foreign countries. Our results of operations could be adversely affected if we are unable to obtain adequate supplies of materials, parts and equipment in a timely manner or if the costs of materials, parts or equipment increase significantly. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Although we generally use materials, parts and equipment available from multiple suppliers, we have a limited number of suppliers for some materials, parts and equipment. In addition, if signs of improvement in the global economy do not progress as expected and global economic conditions worsen, our suppliers may cease operations or be unable to obtain capital at adequate or historical levels to finance their ongoing business and operations, which could impair their ability to continue to supply us. If alternate suppliers for these materials, parts and equipment are not available, our operations could be interrupted, which would have a material adverse effect on our operating results, financial condition and cash flows.

Some of our products are manufactured, assembled and tested by third-party subcontractors, some of whom are based in foreign countries. We generally do not have any long-term agreements with these subcontractors. As a result, we may not have direct control over product delivery schedules or product quality. Outside manufacturers generally will have longer lead times for delivery of products as compared with our internal manufacturing, and therefore, when ordering from these suppliers, we will be required to make longer-term estimates of our customers' current demand for products, and these estimates are difficult to make accurately. Also, due to the amount of time typically required to qualify assemblers and testers, we could experience delays in the shipment of our products if we are forced to find alternate third parties to assemble or test our products. Any product delivery delays in the future could have a material adverse effect on our operating results, financial condition and cash flows. Our operations and ability to satisfy customer obligations could be adversely affected if our relationships with these subcontractors were disrupted or terminated. In addition, these subcontractors must be qualified by the U.S. government or customers for high-reliability processes. Historically the Defense Supply Center Columbus (DSCC) has rarely qualified any foreign manufacturing or assembly lines for reasons of national security; therefore, our ability to move certain manufacturing offshore may be limited or delayed.

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We depend on third party subcontractors in Asia for wafer fabrication, assembly and packaging of an increasing portion of our products. On a unit basis, we currently utilize third-party subcontractors for approximately 79% of our assembly and packaging requirements and 22% of our wafer fabrication. We expect that these percentages may increase due, in part, to the manufacture of our next-generation products by third party subcontractors in Asia. The packaging of our products is performed by a limited group of subcontractors and some of the raw materials included in our products are obtained from a limited group of suppliers. Disruption or termination of any of these sources could occur and such disruptions or terminations could harm our business and operating results. In the event that any of our subcontractors were to experience financial, operational, production or quality assurance difficulties resulting in a reduction or interruption in supply to us, our operating results could suffer until alternate qualified subcontractors, if any, were to become available and active.

### **Fixed costs may reduce operating results if our sales fall below expectations.**

Our expense levels are based, in part, on our expectations for future sales. Many of our expenses, particularly those relating to capital equipment and manufacturing overhead, are relatively fixed. We might be unable to reduce spending quickly enough to compensate for reductions in sales. Accordingly, shortfalls in sales could materially and adversely affect our operating results. This challenge could be made even more difficult if lead times between orders and shipments are shortening.

### **Failure to manage consolidation of operations effectively could adversely affect our margins and earnings.**

Our ability to successfully offer and sell our products requires effective planning and management processes. Our consolidations and realignments of operations, and expected future growth, may place a significant strain on our management systems and resources, including our financial and managerial controls, reporting systems, procedures and information technology. In addition, we will need to continue to train and manage our workforce worldwide. Any unmet challenges in that regard could negatively affect our results of operations.

### **Any failure by us to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete.**

We rely heavily on our proprietary technologies. Our future success and competitive position depend in part upon our ability to obtain or maintain protection of certain proprietary technologies used in our principal products. We do not have significant patent protection on many aspects of our technology. The protection of some of our technology as trade secrets will not necessarily protect us from all uses by other persons of our technology, or their use of technology that is similar or superior to that which is embodied in our trade secrets. In addition, others may be able to independently duplicate or exceed our technology in whole or in part. In the instances in which we hold patents or patent licenses, such as with respect to some circuit components for notebook computers and LCD TVs, any patents held by us may be challenged, invalidated or circumvented, or the rights granted under any patents may not provide us with competitive advantages. Patents often provide only narrow protection and require public disclosure of information that may otherwise be subject to trade secret protection. In addition, patents eventually expire and are not renewable.

Obtaining or protecting our proprietary rights may require us to defend claims of intellectual property infringement by our competitors. We could also become subject to lawsuits in which it is alleged that we or companies we have acquired have infringed or are infringing upon the intellectual property rights of others with or without our prior awareness of the existence of those third-party rights, if any. Litigation in connection with our intellectual property, whether instituted by us or others, could be very costly and distract management and other resources from our business. We are currently involved in certain patent litigation to protect our patents and patent rights, which could cause legal costs to increase above normal levels over the next several years. It is not possible to estimate the exact amounts of these costs, but it is possible that these costs could have a negative effect on our future results.

Moreover, if any infringement, real or imagined, happens to exist, arise or is claimed in the future, we may be exposed to substantial liability for damages and may need to obtain licenses from the patent owners, discontinue or change our processes or products or expend significant resources to develop or acquire non-infringing technologies. We may not be successful in such efforts, or such licenses may not be available under reasonable terms. Any failure by us to develop or acquire non-infringing technologies or to obtain licenses on acceptable terms could have a material adverse effect on our operating results, financial condition and cash flows.

### **Our products may be found to be defective or hazardous and we may not have sufficient liability insurance.**

There is at any time a risk that our products may be found to be defective or to contain, without the customer's knowledge, certain prohibited hazardous chemicals after we have already shipped the products in volume, perhaps requiring a product replacement or recall. We may be subject to product returns that could impose substantial costs and have a material and adverse effect on our business, financial condition and results of operations. Our aerospace, defense, and industrial businesses in particular expose us to potential liability risks that are inherent in the



manufacturing and marketing of high-reliability

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electronic components for critical applications. Production of many of these products is sensitive to minute impurities, which can be introduced inadvertently in manufacture. Any production mistake can result in large and unanticipated product returns, product liability and warranty liability. Environmental regulations have imposed on every major participant in the electronics industry a new burden of determining and tracking the presence and quantity of certain chemicals in the content of supplies we buy and add to our products for sale and to inform our customers about each of our finished goods' relevant chemical contents. The management and execution of this process is very challenging, and mistakes in this information gathering process could have a material adverse effect on our business.

We may be subject to product liability claims with respect to our products. Our product liability insurance coverage may be insufficient to pay all such claims. In addition, product liability insurance may become too costly for us to maintain or may become completely unavailable to us in the future. We may not have sufficient resources to satisfy any product liability claims not covered by insurance, which would materially and adversely affect our financial position.

### **Environmental liabilities could adversely impact our consolidated financial position.**

Federal, state and local laws and regulations impose various restrictions and controls on the discharge of materials, chemicals and gases used in our semiconductor manufacturing processes or in our finished goods. Under recent environmental regulations, we are responsible for determining whether certain toxic metals or certain other toxic chemicals are present in any given component we purchase and in each given product we sell. These environmental regulations have required us to expend a portion of our resources and capital on relevant compliance programs. In addition, under other laws and regulations, we could be held financially responsible for remedial measures if our current or former properties are contaminated or if we send waste to a landfill or recycling facility that becomes contaminated, even if we did not cause the contamination. Also, we may be subject to additional common law claims if we release substances that damage or harm third parties. Further, future changes in environmental laws or regulations may require additional investments in capital equipment or the implementation of additional compliance programs in the future. Any failure to comply with existing or future environmental laws or regulations could subject us to significant liabilities and could have a material adverse effect on our operating results, cash flows and financial condition.

In the conduct of our manufacturing operations, we have handled and do handle materials that are considered hazardous, toxic or volatile under federal, state and local laws. The risk of accidental release of such materials cannot be completely eliminated. In addition, we operate or own facilities located on or near real property that was formerly owned and operated by others. These properties were used in ways that involved hazardous materials. Contaminants may migrate from, within or through any such property, which may give rise to claims against us. Third parties who are responsible for contamination may not have funds, or may not make funds available when needed, to pay remediation costs imposed upon us jointly with them under environmental laws and regulations.

In Broomfield, Colorado, the owner of a property located adjacent to a manufacturing facility owned by one of our subsidiaries, Microsemi Corp. Colorado, had notified the subsidiary and other parties of a claim that contaminants migrated to his property, thereby diminishing its value. In August 1995, the subsidiary, together with Coors Porcelain Company, FMC Corporation and Siemens Microelectronics, Inc. (former owners of the manufacturing facility), agreed to settle the claim and to indemnify the owner of the adjacent property for remediation costs. Although TCE and other contaminants previously used by former owners at the facility are present in soil and groundwater on the subsidiary's property, we vigorously contest any assertion that our subsidiary caused the contamination. In November 1998, we signed an agreement with the three former owners of this facility whereby they have 1) reimbursed us for \$0.5 million of past costs, 2) assumed responsibility for 90% of all future clean-up costs, and 3) promised to indemnify and protect us against any and all third-party claims relating to the contamination of the facility. An Integrated Corrective Action Plan was submitted to the State of Colorado. Sampling and management plans were prepared for the Colorado Department of Public Health & Environment. State and local agencies in Colorado are reviewing current data and considering study and cleanup options. The most recent forecast estimated that the total project cost, up to the year 2020, would be approximately \$5.3 million; accordingly, we recorded a one-time charge of \$0.5 million for this project in 2003. There has not been any significant development since September 28, 2003.

### **Litigation could adversely impact our consolidated financial position.**

We are and have been involved in various litigation matters, including from time to time, litigation relating to employment matters, commercial transactions, intellectual property matters, contracts, environmental matters and matters related to compliance with governmental regulations. Litigation is inherently uncertain and unpredictable. The potential risks and uncertainties include, but are not limited to, such factors as the costs and expenses of litigation and the time and attention required of management to attend to litigation. An unfavorable resolution of any particular legal claim or proceeding, and/or the costs and expenses incurred in connection with a legal claim or proceeding, could have a material adverse effect on our consolidated financial position or results of operations.



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### **Our future success depends, in part, upon our ability to continue to attract and retain the services of our executive officers or other key management or technical personnel.**

We could potentially lose the services of any of our senior management personnel at any time due to a variety of factors that could include, without limitation, death, incapacity, military service, personal issues, retirement, resignation or competing employers. Our ability to execute current plans could be adversely affected by such a loss. We may fail to attract and retain qualified technical, sales, marketing and managerial personnel required to continue to operate our business successfully. Personnel with the expertise necessary for our business are scarce and competition for personnel with proper skills is intense. Also, attrition in personnel can result from, among other things, changes related to acquisitions, retirement and disability. We may not be able to retain existing key technical, sales, marketing and managerial employees or be successful in attracting, assimilating or retaining other highly-qualified technical, sales, marketing and managerial personnel, particularly at such times in the future as we may need to fill a key position. If we are unable to continue to retain existing executive officers or other key employees or are unsuccessful in attracting new highly-qualified employees, our business, financial condition and results of operations could be materially and adversely affected.

### **The volatility of our stock price could affect the value of an investment in our stock and our future financial position.**

The market price of our stock has fluctuated widely. Between October 3, 2010 and September 29, 2008, the market sale price of our common stock ranged between a low of \$7.06 and a high of \$25.62. The historic market price of our common stock may not be indicative of future market prices. We may not be able to sustain or increase the value of our common stock. The trading price of our common stock may be influenced by factors beyond our control, such as the recent unprecedented volatility of the financial markets and the current uncertainty surrounding domestic and foreign economies. Declines in the market price of our stock could adversely affect our ability to retain personnel with stock incentives, to acquire businesses or assets in exchange for stock and/or to conduct future financing activities with or involving our common stock.

### **We may not make the sales that are suggested by our order rates, backlog or book-to-bill ratio, and our book-to-bill ratio may be affected by product mix.**

Prospective investors should not place undue reliance on our book-to-bill ratios or changes in book-to-bill ratios. We determine bookings substantially based on orders that are scheduled for delivery within 12 months. However, lead times for the release of purchase orders depend, in part, upon the scheduling practices of individual customers, and delivery times of new or non-standard products can be affected by scheduling factors and other manufacturing considerations. The rate of booking new orders can vary significantly from month to month. Customers frequently change their delivery schedules or cancel orders. We have in the past experienced long lead times for some of our products, which may have therefore resulted in orders in backlog being duplicative of other orders in backlog, which would increase backlog without resulting in additional revenues. Because of long lead times in certain products, our book-to-bill ratio may not be an indication of sales in subsequent periods. Uncertain worldwide economic conditions and market instability have also resulted in hesitance of our customers to place orders with long delivery schedules, which contributes to limited visibility into our markets.

### **At times, our inventory levels have risen, which adversely affects cash flow.**

At times, our inventory levels have risen. An increased inventory level adversely affects cash flow. The primary factor contributing to the increase in our inventory levels is work in progress in our satellite products because our satellite products require very long lead times for testing. A second factor impacting our inventory buildup is the consolidation of our manufacturing operations between facilities. We built inventory cushions during the transition of manufacturing between facilities in order to maintain an uninterrupted supply of product. Obsolescence of any inventory has recently and could in the future result in adverse effects on our future results of operations and future revenue. In 2009, in addition to other inventory write-downs, we recorded inventory write-downs of \$10.3 million for product lines that did not meet gross margin targets, products that are being migrated to newer generations, and products that service the large capital spending end markets for which demand has declined and \$7.3 million for estimated inventory components that were not expected to be used by the closure date of our Scottsdale facility and that cannot be used by other manufacturing facilities. During the quarter ended July 3, 2011, we recorded a charge of \$8.4 million for the write-off of bridging inventory and an additional \$8.2 million for the write-off of medical inventory.

### **There may be some potential effects of system outages.**

We face risks from electrical or telecommunications outages, computer hacking or other general system failure. We rely heavily on our internal information and communications systems and on systems or support services from third parties to manage our operations efficiently and effectively. Any of these are subject to failure. System-wide or local failures that affect our information processing could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, insurance coverage does not generally protect from

normal wear and tear, which can affect system

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performance. Any applicable insurance coverage for an occurrence could prove to be inadequate. Coverage may be or become unavailable or inapplicable to any risks then prevalent. We are upgrading and integrating, and have plans to upgrade and integrate further our enterprise information systems, and these efforts may cause additional strains on personnel and system resources or may result in potential system outages.

### **Our investments in securities subject us to principal, liquidity and counterparty risks that could adversely affect our financial results.**

We invest cash balances in excess of projected liquidity needs primarily in money market funds. All of our investments to date are highly rated; however, current credit market disruptions may adversely affect the value and liquidity of these investments.

### **We may have increasing difficulty attracting and retaining qualified outside Board members.**

The directors and management of publicly traded corporations are increasingly concerned with the extent of their personal exposure to lawsuits and shareholder claims, as well as governmental and creditor claims that may be made against them in connection with their positions with publicly-held companies. Outside directors are becoming increasingly concerned with the availability of directors' and officers' liability insurance to pay on a timely basis the costs incurred in defending shareholder claims. Directors' and officers' liability insurance is expensive and difficult to obtain. The SEC and the NASDAQ Stock Market have also imposed higher independence standards and certain special requirements on directors of public companies. Accordingly, it may become increasingly difficult to attract and retain qualified outside directors to serve on our Board.

### **Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover of Microsemi that might otherwise result in our stockholders receiving a premium over the market price for their shares.**

Provisions of Delaware law and our certificate of incorporation and bylaws could make more difficult an acquisition of Microsemi by means of a tender offer, a proxy contest, or otherwise, and the removal of incumbent officers and directors. These provisions include:

Section 203 of the Delaware General Corporation Law, which prohibits a merger with a 15%-or-greater stockholder, such as a party that has completed a successful tender offer, without board approval until three years after that party became a 15%-or-greater stockholder;

The authorization in the certificate of incorporation of undesignated preferred stock, which could be issued without stockholder approval in a manner designed to prevent or discourage a takeover or in a way that may dilute an investment in our common stock; and

Certain provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent or call special meetings and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Microsemi. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors.

### **Our accounting policies and estimates have a material effect on the financial results we report.**

Critical accounting policies and estimates have a material effect on our calculations and estimations of amounts in our financial statements. Our operating results and balance sheets may be adversely affected either to the extent that actual results prove to be materially lower than previous accounting estimates or to the extent that accounting estimates are revised adversely. We base our critical accounting policies, including our policies regarding revenue recognition, reserves for returns, rebates, price protections, and bad debt and inventory valuation, on various estimates and subjective judgments that we may make from time to time. The judgments made can significantly affect net income and our balance sheets. We are required to make significant judgments concerning inventory, and whether it becomes obsolete or excess, and concerning impairments of long-lived assets and of goodwill. Our judgments, estimates and assumptions are subject to change at any time. In addition, our accounting policies may change at any time as a result of changes in generally accepted accounting principles as they apply to us or changes in other circumstances affecting us. Changes in accounting policy have affected and could further affect, in each case materially and adversely, our results of operations or financial position.

### **If, in the future, we conclude that our internal control over financial reporting is not effective, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock.**

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the companies' internal control over financial reporting in their annual reports on Form 10-K, including an assessment by management of the effectiveness of the filing company's internal control over financial reporting. In addition, the independent registered public accounting firm auditing a public company's financial statements



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must attest to the effectiveness of the company's internal control over financial reporting. There is a risk that in the future we may identify internal control deficiencies that suggest that our controls are no longer effective. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could cause the market price of our common stock to decline and make it more difficult for us to finance our operations.

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

Inapplicable

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Inapplicable

**Item 5. OTHER INFORMATION**

Inapplicable

**Item 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of Microsemi Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 0-08866) as filed with the Commission on February 10, 2011)
3.2	Amended and Restated Bylaws of Microsemi Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on September 3, 2008)
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 5, 2011
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 5, 2011
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 5, 2011
101	The following financial statements are from Microsemi Corporation's Report on Form 10-Q for the quarter and nine months ended July 3, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets; (ii) Unaudited Consolidated Income Statements; (iii) Unaudited Consolidated Statements of Cash Flows; and (iv) Notes to Unaudited Consolidated Financial Statements.

Filed with this Report.



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**SIGNATURES**

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

**MICROSEMI CORPORATION**

DATED: August 5, 2011

By: **/s/ JOHN W. HOENER**  
**John W. Hohener**  
**Executive Vice President, Chief Financial Officer,**  
**Secretary and Treasurer**  
**(Principal Financial and Accounting Officer and**  
**duly authorized to sign on behalf of the Registrant)**

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