MICROSEMI CORP
Form 10-Q
May 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended April 1, 2012

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)

Delaware	**95-2110371**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Enterprise, Aliso Viejo, California	**92656**
(Address of principal executive offices)	**(Zip Code)**

(949) 380-6100

(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	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 x

The number of shares of the issuer s Common Stock, $0.20 par value, outstanding on April 25, 2012 was 88,850,029.

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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 we will be able to successfully integrate acquired companies and personnel with our existing operations;
- expectations that plant consolidations will result in anticipated cost savings without unanticipated costs or expenses;
- 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;
- the effect of events such as natural disasters and related disruptions on our operations, including, without limitation, the effects of and status of our recovery from the recent flooding in Thailand;
- 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 liquidity and capital resources, including our loan covenants;

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 condensed consolidated statement of operations and comprehensive income for the quarter and six months ended April 1, 2012 of Microsemi Corporation and its subsidiaries (which we herein sometimes refer to collectively as Microsemi, the Company, we, our, ours or the unaudited condensed consolidated statement of cash flows for the six months ended April 1, 2012, and the comparative unaudited condensed consolidated financial information for the corresponding period of the prior year, together with the unaudited balance sheet as of April 1, 2012 and October 2, 2011, are included herein.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheet

(amounts in thousands, except per share data)

	April 1, 2012	October 2, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 121,404	$ 266,631
Accounts receivable, net of allowance for doubtful accounts of $1,865 and $2,149 at April 1, 2012 and October 2, 2011, respectively	144,423	110,908
Inventories	156,330	140,827
Deferred income taxes	43,424	43,424
Other current assets	26,554	16,100
Total current assets	492,135	577,890
Property and equipment, net	104,959	89,922
Goodwill	814,464	491,079
Other intangible assets, net	453,413	281,689
Other assets	46,959	29,893
TOTAL ASSETS	$ 1,911,930	$ 1,470,473
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 63,337	$ 48,561
Accrued liabilities	93,867	101,078
Current maturity of long-term liabilities	9,115	4,050
Total current liabilities	166,319	153,689
Credit facility	799,900	357,384
Deferred income taxes	32,311	34,285
Other long term liabilities	46,901	33,008
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 88,816 and 86,806 at April 1, 2012 and October 2, 2011, respectively	17,763	17,361
Capital in excess of par value of common stock	636,016	612,517
Retained earnings	212,049	261,443
Accumulated other comprehensive income	671	786
Total stockholders equity	866,499	892,107
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,911,930	$ 1,470,473

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Operations and Comprehensive Income

(amounts in thousands, except per share data)

	Quarter Ended		Six Months Ended	
	April 1, 2012	April 3, 2011	April 1, 2012	April 3, 2011
Net sales	$ 249,306	$ 207,490	$ 490,226	$ 391,841
Cost of sales	117,438	114,854	232,622	204,176
Gross profit	131,868	92,636	257,604	187,665
Operating expenses:				
Selling, general and administrative	51,971	43,576	106,687	89,906
Research and development	42,188	28,182	81,789	52,153
Amortization of intangible assets	26,472	15,946	51,334	28,017
Restructuring and severance charges	119	13,286	7,344	19,620
Total operating expenses	120,750	100,990	247,154	189,696
Operating income (loss)	11,118	(8,354)	10,450	(2,031)
Other expense, net:				
Interest expense, net	(8,950)	(4,742)	(20,789)	(7,896)
Other expense, net	(2,279)	(1,002)	(34,683)	(18,952)
Total other expense, net	(11,229)	(5,744)	(55,472)	(26,848)
Loss before income taxes	(111)	(14,098)	(45,022)	(28,879)
Provision (benefit) for income taxes	4,681	5,031	4,372	(8,454)
NET LOSS	$ (4,792)	$ (19,129)	$ (49,394)	$ (20,425)
Basic and diluted loss per share	$ (0.06)	$ (0.23)	$ (0.58)	$ (0.25)
Basic and diluted common and common equivalent shares outstanding	85,645	83,853	85,435	82,432
Other comprehensive income (loss), net of tax				
Translation adjustment	(176)	513	(115)	485
COMPREHENSIVE LOSS	$ (4,968)	$ (18,616)	$ (49,509)	$ (19,940)

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Cash Flows

(amounts in thousands)

	Six Months Ended	
	April 1, 2012	April 3, 2011
Cash flows from operating activities:		
Net loss	$ (49,394)	$ (20,425)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	68,302	43,978
Amortization of deferred financing cost	1,528	
Provision for doubtful accounts	(284)	(119)
Settlement of foreign currency forward	(3,701)	
Loss on disposition or impairment of assets	1,513	1,940
Deferred income taxes	(997)	(1,920)
Charge for stock based compensation	17,577	14,389
Credit facility issuance and refinancing costs	29,275	14,218
Change in assets and liabilities (net of acquisitions):		
Accounts receivable	(15,251)	19,999
Inventories	15,641	9,414
Other current assets	32,601	(10,072)
Other assets	(7,509)	1,222
Accounts payable and accrued liabilities	(51,179)	(47,979)
Other long-term liabilities	23,172	3,091
Net cash provided by operating activities	61,294	27,736
Cash flows from investing activities:		
Purchases of property and equipment	(26,675)	(12,227)
Insurance proceeds from property and equipment losses	325	
Settlement of foreign currency forward	3,701	
Payments for acquisitions, net of cash acquired	(584,218)	(380,847)
Net cash used in investing activities	(606,867)	(393,074)
Cash flows from financing activities:		
Repayments of credit facility	(53,600)	(50,938)
Credit facility issuance costs	(41,790)	(14,218)
Proceeds from credit facility	959,708	425,000
Extinguishment of debt	(470,296)	
Net proceeds from stock awards	6,324	22,841
Net cash provided by financing activities	400,346	382,685
Net increase (decrease) in cash and cash equivalents	(145,227)	17,347
Cash and cash equivalents at beginning of period	266,631	199,950
Cash and cash equivalents at end of period	$ 121,404	$ 217,297

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. PRESENTATION OF FINANCIAL INFORMATION

The unaudited condensed 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 and first six months of the current fiscal year are not necessarily indicative of the results to be expected for the full year.

The accompanying unaudited condensed 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 2, 2011.

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 2, 2011. In referencing a year, we are referring to the fiscal year ended on the Sunday closest to September 30.

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 (loss) consisted of net income (loss) and the change of the cumulative foreign currency translation. Accumulated other comprehensive income consisted of the cumulative foreign currency translation adjustment.

Fair Value of Financial Assets and Liabilities

Accounting Standards Codification (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 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 13, we elected the fair value option in accounting for the term loan balance outstanding as of October 2, 2011, but following the extinguishment of the term loan in conjunction with our acquisition of Zarlink Semiconductor, Inc., we did not elect the fair value option for the term loan balance outstanding as of April 1, 2012.

Measurement Period for the Acquisition of Actel Corporation

During the first quarter of 2012, we closed the measurement period for the acquisition of Actel Corporation that occurred in the prior year first quarter. We completed our evaluation of income tax-related information regarding facts and circumstances that existed as of the acquisition date. In accordance with ASC 805-10, we retrospectively adjusted the preliminary amounts previously reported and are now reporting the final amounts. In the balance sheet as of October 2, 2011, we have reflected a retrospective adjustment of $1.3 million that increased non-current deferred tax assets and retained earnings. While the retrospective adjustment will have the effect of reducing income tax expense for 2011 by $1.3 million, due to the timing of the application of this retrospective adjustment, income tax expense for the quarter and six months ended April 3, 2011 increased by $2.2 million compared to previously reported amounts.

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2. ACQUISITIONS

Zarlink Semiconductor, Inc.

During the quarter ended January 1, 2012, we completed our acquisition of Zarlink Semiconductor, Inc. (Zarlink) through a wholly-owned subsidiary. Following the expiration of the previously announced offers for all of the issued and outstanding common shares (Zarlink Shares) and 6% unsecured, subordinated convertible debentures maturing September 30, 2012 (Zarlink Debentures and together with the Zarlink Shares, the Zarlink Securities) of Zarlink, we acquired all remaining Zarlink Shares and Zarlink Debentures for $623.7 million in cash through compulsory acquisitions under, respectively, the Canada Business Corporations Act and the trust indenture governing the Zarlink Debentures. We acquired Zarlink for its world-leading, mixed-signal chip technologies for a broad range of communication and medical applications. Zarlink s core capabilities include timing solutions that manage time-sensitive communication applications over wireless and wired networks, line circuits supporting high-quality voice services over cable and broadband connections, and ultra low-power radios enabling new wireless medical devices and therapies. Serving the world s largest original equipment manufacturers, Zarlink s highly integrated chip solutions help customers simplify design, lower costs and reach market quickly. We sometimes refer to this division herein as Microsemi CMPG.

We preliminarily allocated the total estimated consideration to Zarlink s tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The preliminary estimated consideration is allocated as follows (in thousands):

Cash and cash equivalents	$ 83,497
Accounts receivable	17,980
Inventory	28,403
Other current assets	37,585
Property and equipment	7,648
Other assets	41,639
Identifiable intangible assets	210,100
Goodwill	294,586
Current liabilities	(57,540)
Deferred tax liabilities	(35,963)
Other non-current liabilities	(4,265)
Total estimated consideration	$ 623,670

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

	Asset Amount	Weighted Average Useful Life (Years)
Completed technology	$ 47,800	6
Customer relationships	144,600	6
Backlog	15,700	1
Trade name	2,000	2
	$ 210,100	

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Timing, Synchronization and Synthesis Business of Maxim Integrated Products, Inc.

During the quarter ended April 1, 2012, we acquired the timing, synchronization and synthesis business of Maxim Integrated Products, Inc. for $44.0 million in cash. The acquired product lines and technology are vital to the effective and efficient delivery of time-sensitive voice, data and multimedia traffic over wireless and wired networks, and will further provide our customers with the critical synchronization components required to harmonize system and network clocks, as well as the synthesis products required to distribute timing clocks throughout each system.

We preliminarily allocated the total estimated consideration to the acquired business tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The preliminary estimated consideration is allocated as follows (in thousands):

Inventory	$ 2,741
Property and equipment	4
Identifiable intangible assets	12,960
Goodwill	28,509
Current liabilities	(169)
Total estimated consideration	$ 44,045

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

	Asset Amount	Weighted Average Useful Life (Years)
Completed technology	$ 6,000	5
Customer relationships	6,700	5
Backlog	260	1
	$ 12,960	

Valuation methodology

The fair value of the identified intangible assets for the acquisitions noted above 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 valuation of completed technology and trade names for the acquisitions noted above was based on a variation of the income approach, the relief-from-royalty income approach. The premise of the relief-from-royalty income approach is that if we had not been assigned the rights to the technology and trade names, we would have to pay royalties to continue to exploit the technology and trade names covered by their claims. To arrive at an estimate of royalty charges, the acquired entity s revenue and profit margins were analyzed to determine the ability to pay a royalty. In addition, the license databases were searched for actual royalty terms based on transactions involving technology and trade name licensing.

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 a trade name was estimated based on the period in which a benefit could be ascribed to the identified trade names.

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

- Historical performance including sales and profitability.
- 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 results 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.

The purchase price allocations described above are preliminary. A final determination of fair values of assets acquired and liabilities assumed relating to the transactions could differ from the preliminary purchase price allocations and if material differences exist they could result in retrospective revision to the purchase price allocations. We utilized the straight line method of amortization for completed technology, customer relationships and trade name and the estimated fulfillment period for backlog.

Supplemental pro forma data

The following supplemental pro forma data summarizes the results of operations for the six months ended April 1, 2012 and April 3, 2011, as if the acquisitions we completed in 2012 and 2011 were completed as of the first day of 2011. 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 implemented a plan developed prior to the completion of the acquisition and 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 six months ended April 1, 2012 were adjusted to exclude $8.0 million in cost of goods sold from manufacturing profit in acquired inventory, $6.6 million in acquisition costs and $34.0 million in credit facility refinancing costs associated with the Zarlink financing and supplemental pro forma earnings for the quarter ended April 3, 2011 were adjusted to include these items. Supplemental pro forma data does not adjust the timing of the refinancing completed in the quarter ended April 1, 2012. Supplemental pro forma data is as follows (amounts in thousands, except per share data):

	Six Months Ended	
	April 1, 2012	**April 3, 2011**
Net sales	$ 497,060	$ 537,104
Net loss	$ (21,820)	$ (22,641)
Net loss per basic and diluted share	$ (0.26)	$ (0.27)

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3. INVENTORIES

Inventories are summarized as follows (amounts in thousands):

	April 1, 2012	October 2, 2011
Raw materials	$ 40,034	$ 40,454
Work in process	78,316	65,190
Finished goods	37,980	35,183
	$ 156,330	$ 140,827

4. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill and intangible assets, net consisted of the following components (amounts in thousands):

	April 1, 2012	October 2, 2011
Non-amortizing intangible assets		
Goodwill	$ 814,464	$ 491,079
Amortizable intangible assets, net		
Completed technology	$ 210,999	$ 177,828
Customer relationships	227,592	95,296
Backlog	10,242	4,658
Trade names and other	4,580	3,907
	$ 453,413	$ 281,689

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

	Less than 1 year	1-2 years	2-3 years	3-4 years	Thereafter
Amortization expense	$ 94,391	$ 82,537	$ 75,680	$ 71,199	$ 129,606

5. ACCRUED LIABILITIES

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

	April 1, 2012	October 2, 2011
Payroll, bonus, accrued time off and other employee benefits	$ 38,342	$ 41,264
Fair value of foreign currency forward		11,675
Restructuring and severance	9,352	9,562
Licenses	9,601	9,636
Outside services	12,686	7,815
Interest	1,965	4,037

Warranties	2,426	2,945
Commissions	2,813	2,692
Other	16,682	11,452
	$ 93,867	$ 101,078

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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 tricholorethylene 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 the 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.

We are generally self-insured for losses and liabilities related to workers compensation and employer s liability insurance. Accrued workers compensation liability was $1.4 million and $1.5 million at April 1, 2012 and October 2, 2011, respectively. Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate, the ultimate claims may be in excess of the amounts provided.

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. On February 15, 2011, the plaintiffs filed an amended complaint adding Xilinx, Inc. as a defendant. 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. The discovery process recently commenced and we do not expect trial to begin for at least one year. In the event of an unfavorable outcome, we believe amounts accrued are adequate and do not believe the resolution of this matter will have a material impact on our financial position or results of operations.

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 aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not currently reasonably estimable. 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. 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. All 12.2 million and 13.1 million stock awards for the quarter and six months ended April 1, 2012 and April 3, 2011, respectively, were excluded in the computation of diluted earnings per share (EPS) as we incurred net losses in these periods.

8. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2010, the FASB issued ASU No. 2010-06, that 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 this ASU did not result in a material impact on our consolidated financial position, results of operations or cash flows.

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In June 2011, the FASB issued ASU No. 2011-05, that 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. In December 2011, the FASB issued ASU No. 2011-12 that effectively defers the changes in ASU No. 2011-05 related to the presentation of reclassification adjustments out of accumulated other comprehensive income. We updated our presentation of comprehensive income in accordance with this ASU.

In December 2011, the FASB issued ASU No. 2011-11, the objective of which is to provide additional disclosures on the effect or potential effect of rights of setoff associated with an entity s recognized assets and recognized liabilities within the scope of the update. The update primarily impacts financial instruments and derivatives subject to a master netting arrangement or similar agreement. ASU No. 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (the first quarter of our fiscal year 2014). We are currently evaluating the disclosures required under this ASU.

9. STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

In January 2012, our stockholders approved an amendment to the Microsemi Corporation 2008 Performance Incentive Plan (the 2008 Plan). The amendment a) increased the share limit by an additional 14.5 million shares so that the new aggregate share limit for the 2008 Plan is 28.5 million shares; b) extended the plan term to December 5, 2021; c) increased the number of shares counted against the share limit for every one share issued in connection with a full-value award to 2.41; d) terminated the evergreen provision in the original plan; and e) extended the Performance-Based Award feature through the first annual meeting of stockholders that occurs in calendar year 2017. 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. The shares issued under the 2008 Plan may be newly issued or shares held by the Company as treasury stock. The maximum term of a stock option grant or a stock appreciation right grant is six years.

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:

Six Months Ended	# of Awards	Per Award Exercise Price	Per Award Fair Value	Risk Free Rate	Expected Dividend Yield	Expected Life (Years)	Expected Volatility
April 1, 2012							
Restricted shares	1,522,361		$ 19.30				
Performance stock units	350,000		$ 17.77				
April 3, 2011							
Restricted stock awards and units	1,720,893		$ 20.95				
Stock options and share appreciation rights	3,024,480	$ 13.92	$ 7.12	0.2%	0.0%	1.1	41.9%

In connection with the acquisition of Actel Corporation in 2011, we assumed Actel stock options, stock appreciation rights and restricted stock units and converted them to Microsemi awards in accordance with the merger agreement. For the quarter and six months ended April 1, 2012, stock-based compensation expense decreased operating income by $10.0 million and $17.6 million, respectively. For the quarter and six months ended April 3, 2011, stock-based compensation expense decreased operating income by $7.1 million and $14.4 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 granted or assumed 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 a participant does not meet length of service requirements.

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Performance stock units are subject to performance-based vesting requirements and are reported at target levels in the preceding table. These performance-based awards will generally vest based on the Company s growth in net sales and earnings per share (subject to certain adjustments) for fiscal years 2012 and 2013 in comparison with the growth in net sales and adjusted earnings per share over the same period for a peer group selected by the Compensation Committee. Half of each performance-based award opportunity will be subject to the growth in net sales metric for the performance period and half will be subject to the growth in earnings per share metric for the performance period. None of the units related to a particular metric will vest if the Company s performance ranking using that metric is lower than the 30th percentile relative to the peer group for the performance period, and the maximum number of units related to a particular metric that will vest is capped at 200% of the target number of units subject to the award related to that metric (half the total target number of units subject to the total performance-based award). This maximum vesting level will be achieved only if the Company s performance ranking using that metric is equal to or greater than the 95th percentile relative to the peer group for the performance period. The target number of units subject to an award related to a particular metric (half the total target number of units subject to the total performance-based award) will vest only if the Company s performance ranking using that metric is at the 70th percentile of the peer group for the performance period. Thirty percent of the target number of units may vest based on performance for fiscal 2012, with the majority of each award subject to the long-term two year performance period (fiscal years 2012 and 2013).

10. 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, Communications and Industrial & Medical. 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		Six Months Ended	
	April 1, 2012	April 3, 2011	April 1, 2012	April 3, 2011
United States	$ 123,488	$ 133,844	$ 240,481	$ 246,303
Europe	65,656	32,416	135,079	63,105
Asia	60,162	41,230	114,666	82,433
Total	$ 249,306	$ 207,490	$ 490,226	$ 391,841
Defense & Security	71,466	73,036	140,581	142,879
Aerospace	52,879	53,533	102,002	98,604
Communications	77,231	36,518	152,355	70,154
Industrial & Medical	47,730	44,403	95,288	80,204
Total	$ 249,306	$ 207,490	$ 490,226	$ 391,841

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

	April 1, 2012	October 2, 2011
United States	$ 81,485	$ 69,647
Europe	13,622	12,632
Asia	8,151	7,643
Other	1,701	
Total	$ 104,959	$ 89,922

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11. INCOME TAXES

For the quarter and six months ended April 1, 2012, we recorded an income tax provision of $4.7 million and $4.4 million, respectively. For the quarter and six months ended April 3, 2011, we recorded an income tax provision of $5.0 million and an income tax benefit of $8.5 million, respectively. The difference in our effective rate from the US statutory rate of 35 percent primarily reflects changes in the ratio of domestic and international pre-tax income and valuation allowances on both U.S. and foreign deferred tax assets. Additionally, during the six months ended April 1, 2012 we recognized a benefit from the effect of statutory tax rate changes in Israel enacted in the first quarter. Further, during the six months ended April 3, 2011 we recognized non-recurring tax benefits from the valuation allowance release related to the Microsemi SoC acquisition.

We file U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2007 through 2011 tax years generally remain subject to examination by federal tax authorities, 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. Based on anticipated settlements and federal, state and foreign statute expirations in various jurisdictions, we anticipate a decrease in the unrecognized tax benefits of approximately $9.5 million within the next twelve months.

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 are currently undergoing an Internal Revenue Service examination for the 2007 to 2009 tax years, as well as certain state examinations. There have been no significant proposed adjustments to date. We do not expect the results of any tax audits would have a material impact on our financial position or results of operations.

12. 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 within the next twelve months. 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):

	Employee Severance	Contract Termination Costs	Total
Balance at October 2, 2011	$ 355	$ 6,482	$ 6,837
Cash expenditures	(211)	(801)	(1,012)
Balance at April 1, 2012	$ 144	$ 5,681	$ 5,825

At October 2, 2011, we had recorded severance accruals of $2.7 million from reductions in force at our various facilities other than Scottsdale. We recorded additional provisions, primarily related to activities at Microsemi CMPG, for severance and retention payments totaling $7.3 million during the six months ended April 1, 2012 and also assumed a fair value of $10.0 million in pre-acquisition liabilities recorded by Microsemi CMPG. Severance covered approximately 200 individuals in manufacturing, engineering and sales. Employee severance is expected to be paid within the next twelve months. Contract termination costs relate primarily to remaining obligations under facility leases and are expected to be paid through 2020.

	Employee Severance	Contract Termination Costs	Total
Balance at October 2, 2011	$ 2,382	$ 342	$ 2,724
Assumed from acquisition	8,465	1,582	10,047
Provisions	6,840	504	7,344
Cash expenditures	(15,041)	(374)	(15,415)

Other non-cash settlement	28	5	33
Balance at April 1, 2012	$ 2,674	$ 2,059	$ 4,733

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13. CREDIT AGREEMENT AND RELATED INSTRUMENTS

Credit Agreement

In connection with the acquisition of Zarlink, during the quarter ended January 1, 2012, we entered into Amendment No. 2 to our Credit Agreement dated as of November 2, 2010 with Morgan Stanley Senior Funding, Inc. (MSSF), Morgan Stanley & Co. Incorporated, East West Bank, Raymond James Bank, FSB and the lenders referred to therein, as amended by Amendment No. 1 to the Credit Agreement, dated as of March 2, 2011 (as amended, the Second Amended and Restated Credit Agreement). We accounted for the second amendment as a debt extinguishment and recorded $34.0 million in debt extinguishment costs in other income (expense) in accordance with ASC 470-50. Pursuant to the Second Amended and Restated Credit Agreement, MSSF has provided $850.0 million senior secured lien credit facilities, consisting of a term loan facility in an aggregate principal amount of $800.0 million and a revolving credit facility in an aggregate principal amount of $50.0 million. Microsemi paid upfront fees or original issue discount equal to 2.00% of the term loan facility and an amendment fee on the revolving facility of 0.25%.

During the quarter ended April 1, 2012, we entered into Amendment No. 3 to our Credit Agreement (as amended, the Third Amended and Restated Credit Agreement). We paid $9.1 million in amendment costs, consisting of a 1% repricing premium and underwriting fees and expenses. In accordance with ASC 470-50, we accounted for the third amendment as a debt modification with respect to amounts that remained in the syndicate and a debt extinguishment with respect to amounts that exited the syndicate. As such, we immediately expensed $1.2 million in financing costs and deferred the remaining $7.9 million, which we will amortize over the six year remaining life of the term loan to interest expense. Pursuant to the Third Amended and Restated Credit Agreement, MSSF has provided an $860.0 million senior secured lien credit facilities, consisting of a term loan facility in an aggregate principal amount of $810.0 million and a revolving credit facility in an aggregate principal amount of $50.0 million.

Under the Third Amended and Restated Credit Agreement, the current applicable margin on revolving loans and swingline loans determined at the Base Rate is 3.00% to 3.75% and revolving loans and swingline loans determined at the Eurodollar Rate is 4.00% to 4.75%, depending on Microsemi s consolidated leverage ratio. For term loans, the current applicable margin on term loans determined at the Base Rate is 2.00% and on term loans determined at the Eurodollar Rate is 3.00%. The Base Rate is defined as a rate per annum equal to the greatest of (a) the prime rate, (b) 1/2 of 1% per annum above the federal funds effective rate, (c) the one-month Eurodollar Rate plus 1%, and (d) in the case of any term loans, 2.25%. The Eurodollar Rate is defined as (a) the rate per annum offered for deposits of dollars for the applicable interest period that appears on Reuters Screen LIBOR01 Page as of 11:00 A.M., London, England time, two (2) business days prior to the first day of such interest period or (b) if no such offered rate exists, such rate will be the rate of interest per annum as determined by the administrative agent (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits of dollars in immediately available funds are offered at 11:00 A.M., London, England time, two (2) business days prior to the first day in the applicable interest period by major financial institutions reasonably satisfactory to the administrative agent in the London interbank market for such interest period and for an amount equal or comparable to the principal amount of the loans to be borrowed, converted or continued as Eurodollar Rate loans on such date of determination. In the case of term loans, the Eurodollar Rate will not be lower than 1.00%. The principal amount outstanding under our term loan facility is a LIBOR-based loan and is subject to an interest rate of 4.00% as of April 1, 2012.

As of April 1, 2012, we had $808.0 million borrowed under the term loan facility and no direct borrowings and $0.4 million in letters of credit outstanding under the revolving facility. As of October 2, 2011, we had $372.2 million borrowed under the term loan facility and no direct borrowings and $0.4 million in letters of credit outstanding under the revolving facility. The amended term loan facility matures on February 2, 2017 and requires minimum principal payments of $2.0 million per quarter or $8.1 million per year.

Pursuant to the Third Amended and Restated Credit Agreement, Microsemi can request, at any time and from time to time, the establishment of one or more term loan and/or revolving credit facilities with commitments in an aggregate amount not to exceed $212.0 million, of which $12.0 million was utilized upon the execution of the Third Amended and Restated Credit Agreement.

Microsemi expects to pay an undrawn commitment fee ranging from 0.25% to 0.625% depending on Microsemi s consolidated leverage ratio, on the unused portion of the revolving facility. If any letters of credit are issued, then Microsemi expects 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 Eurodollar Rate-based loans on the face amount of such letter of credit.

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The Amended and Restated Credit Agreement includes financial covenants requiring a maximum leverage ratio and minimum fixed charge coverage ratio and also contains other customary affirmative and negative covenants and events of default. We were in compliance with our financial covenants as of April 1, 2012.

Interest Rate Swap Agreements

In connection with the original 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 initial 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 classified 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 the counterparty to the swap agreements. Related to these interest rate swap agreements, we recorded a current liability of $0.1 million and a long-term liability of $2.5 million as of April 1, 2012 and a $2.8 million long-term liability as of October 2, 2011. We reflected the change in fair value of the swaps through other income (expense), net. For the quarters ended April 1, 2012 and April 3, 2011, we recorded income (expense) of $(0.1) million and $0.2 million, respectively. For the six months ended April 1, 2012 and April 3, 2011, we recorded income (expense) of $0.2 million and $(0.5) million, respectively.

Fair Value Option

We elected the fair value option in accounting for the term loan balance outstanding as of October 2, 2011. We classified term loan balances currently outstanding under our original 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 market quotes provided to us by MSSF.

We determined the fair value of the term loan balance as of October 2, 2011 to be $361.0 million compared to a par value of $372.2 million, a difference of $11.2 million. Subsequent to entering into Amendment No. 2 to the credit agreement, we did not elect the fair value option on term loan balances and outstanding at par. As we extinguished the existing $372.2 million term loan balance at par, we recorded an expense of $11.2 million in other income (expense), net, in the quarter ended January 1, 2012. As we did not elect the fair value option for current outstanding term loan balances, we did not record a fair value adjustment subsequent to the quarter ended January 1, 2012.

Foreign Currency Forward

In connection with the acquisition of Zarlink, we entered into a foreign currency forward agreement in the fourth quarter of 2011 to minimize our foreign currency risk associated with the transaction that we funded in Canadian Dollars (CAD). We agreed to purchase CAD 623.0 million for $608.2 million that settled in October 2011. We classified interest rate forward balances as Level 1 fair value measurements where there are quoted prices in active markets for identical instruments. We determined the fair value of our foreign currency forward agreement based on a corresponding quote from Morgan Stanley Capital Services LLC, the counterparty to the forward transaction. As the forward currency forward contract did not qualify for hedge accounting, we reflected the change in fair value of the swap through other income (expense), net. At October 2, 2011, we recorded a current liability and corresponding expense of $11.7 million for the change in fair value. During the quarter ended January 1, 2012, we recorded income of $15.4 million related to the settlement of this forward. As our only foreign currency forward agreement settled in the quarter ended January 1, 2012, we did not record a fair value adjustment subsequent to the quarter ended January 1, 2012.

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 2, 2011.

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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 field programmable gate arrays (FPGAs). We also offer subsystems and modules that include application-specific power modules and Power-over-Ethernet (PoE) midspans.

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, Communications and Industrial & Medical.

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 data storage, wireless local area network (LAN), 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 to strengthen our product and technology portfolio with the intent of broadening our customer base and increasing our technology footprint in customers end designs in high-value, high barrier-to-entry markets where power matters, security is non-negotiable, and reliability is vital. 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, and increases our served available market.

Recent industry leading innovations include:

- High-efficiency PoE midspans that reduce energy consumption on network cables by as much as 50 percent;
- The world s first single-chip, standards-compliant synchronous ethernet timing devices allowing the transmission of SyncE over optical transport network channels without the need for additional rate conversion phased locked loops;
- Breakthrough monolithic 4G RF front-end modules based on silicon germanium technology;
- A new family of DC-DC regulators for powering disk drives used in enterprise applications, based upon flexible architecture unique to Microsemi that includes patent-pending control technology;

A ceramic quad flat pack (CQFP) package for the Company s radiation tolerant RT ProASIC®3 family of FPGAs;

A revolutionary non-dissipative LED backlight driver for LCD TV applications, featuring a proprietary non-dissipative architecture that dramatically increases power efficiency while enhancing backlight performance and lowering total solution cost, and is also the first device of its type to provide LED driving capabilities in televisions based on the LCD Integrated Power Supply (LIPS) architecture;

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An LCD display reference design for industrial and medical applications based Microsemi s SmartFusion® cSoC;

A line card device for mobile multimedia and packet-based carrier Ethernet applications, featuring two integrated digital phase lock loops that can lock on to up to four inputs for applications that require independent transmit and receive timing paths, and which integrates two numerically controlled oscillators ideally suited to network measurement and control systems used in GSM, WCDMA and LTE applications; and

The industry s first 60 W IEEE-compliant PoE midspan that delivers power over standard Ethernet cabling to outdoor devices.

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				
April 1, 2012	**January 1. 2012**	**October 2, 2011**	**July 3, 2011**	**April 3, 2011**
$249,306	$240,920	$227,291	$216,722	$207,490

Net sales increased $41.8 million or 20.2% between the quarters ended April 1, 2012 (Q2 2012 and April 3, 2011 (Q2 2011) to $249.3 million for Q2 2012 from $207.5 million for Q2 2011 and increased $98.4 million or 25.1% between the six months ended April 1, 2012 (2012 YTD) and April 3, 2011 (2011 YTD) to $490.2 million for 2012 YTD from $391.8 million for 2011 YTD. For 2012 YTD, we estimate that approximately 15% to 20% of net sales were derived from acquisitions concluded during the current fiscal year. On April 25, 2012 we announced that we expect that our consolidated net sales for the third quarter of fiscal year 2012 will increase between 3 to 5 percent, sequentially.

Gross profit increased $39.2 million to $131.9 million (52.9% of net sales) for Q2 2012 from $92.6 million (44.6% of net sales) for Q2 2011 and increased $69.9 million to $257.6 million (52.5% of net sales) in 2012 YTD from $187.7 million (47.9% of net sales) in 2011 YTD. The increases in gross profit were primarily as a result of contributions from the acquisition of Microsemi CMPG. In Q2 2012 and 2012 YTD. Gross profit was adversely affected by $3.2 million from an inventory write-off related to Thailand flooding, net of insurance recoveries. In Q2 2011and 2011 YTD, gross profit was adversely affected by approximately $16.6 million in inventory charges and $5.6 million in remediation and fixed asset impairments related to the closure of a facility in Scottsdale, Arizona.

In October 2011, we completed the acquisition of Zarlink Semiconductor, Inc. We sometimes refer to this division herein as Microsemi CMPG. We expect that its timing, synchronization and voice products, which complement our existing communications products, will significantly add to our consolidated net sales in 2012. We completed the acquisition of the timing, synchronization and synthesis business of Maxim Integrated Products, Inc. in January 2012 and have integrated this business into Microsemi CMPG.

Uncertain macroeconomic conditions worldwide subject us to certain risks (see Part II, Item 1A, Risk Factors, Negative or uncertain worldwide economic conditions may adversely affect our business, financial condition, cash flow and results of operations, 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, and We may be unable to successfully implement our acquisitions strategy or integrate acquired companies and personnel with existing operations.) In response to the impact of flooding at subcontractor facilities in Thailand, we implemented plans that moved production to other facilities outside the affected area. We believe that current production capabilities at these other facilities can compensate in the near future for the loss of production in the flooded facilities in Thailand and that we have recovered from this event as of the end of Q2 2012. However, unforeseen impacts on our customers, suppliers or subcontractors as a result of the flooding in Thailand could continue to affect our revenue, consolidated financial position, results of operations and cash flows.

We closed our Scottsdale facility during the second quarter of 2011. We may make further specific determinations to consolidate, close, sell or divest of additional facilities, operations or product lines, which could be announced at any time. Possible adverse consequences from current and future consolidation or disposition activities may include a loss of revenues and 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

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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.

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, as well as 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, 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, as well as 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.

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, monitors, and storage devices.

Industrial & Medical 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, as well as PIN diode switches, dual diode modules and switched-most power supplies (SMPS) for use in MRI systems.

ACQUISITIONS

Zarlink Semiconductor, Inc.

During the quarter ended January 1, 2012, we completed our acquisition of Zarlink Semiconductor, Inc. (Zarlink) through a wholly-owned subsidiary. Following the expiration of the previously announced offers for all of the issued and outstanding common shares (Zarlink Shares) and 6% unsecured, subordinated convertible debentures maturing September 30, 2012 (Zarlink Debentures and together with the Zarlink Shares, the Zarlink Securities) of Zarlink, we acquired all remaining Zarlink Shares and Zarlink Debentures for $623.7 million in cash through compulsory acquisitions under, respectively, the Canada Business Corporations Act and the trust indenture governing the Zarlink Debentures. We acquired Zarlink for its world-leading, mixed-signal chip technologies for a broad range of communication and medical applications. Zarlink s core capabilities include timing solutions that manage time-sensitive communication applications over wireless and wired networks, line circuits supporting high-quality voice services over cable and broadband connections, and ultra low-power radios enabling new wireless medical devices and therapies. Serving the world s largest original equipment manufacturers, Zarlink s highly integrated chip solutions help customers simplify design, lower costs and reach market quickly. We sometimes refer to this division herein as Microsemi CMPG.

We preliminarily allocated the total estimated consideration to Zarlink s tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The preliminary estimated consideration is allocated as follows (in thousands):

Cash and cash equivalents	$ 83,497
Accounts receivable	17,980
Inventory	28,403
Other current assets	37,585
Property and equipment	7,648
Other assets	41,639
Identifiable intangible assets	210,100
Goodwill	294,586
Current liabilities	(57,540)
Deferred tax liabilities	(35,963)
Other non-current liabilities	(4,265)
Total estimated consideration	$ 623,670

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

	Asset Amount	Weighted Average Useful Life (Years)
Completed technology	$ 47,800	6
Customer relationships	144,600	6
Backlog	15,700	1
Trade name	2,000	2
	$ 210,100	

Timing, Synchronization and Synthesis Business of Maxim Integrated Products, Inc.

During the quarter ended April 1, 2012, we acquired the timing, synchronization and synthesis business of Maxim Integrated Products, Inc. for $44.0 million in cash. The acquired product lines and technology are vital to the effective and efficient delivery of time-sensitive voice, data and multimedia traffic over wireless and wired networks, and will further provide our customers with the critical synchronization components required to harmonize system and network clocks, as well as the synthesis products required to distribute timing clocks throughout each system.

We preliminarily allocated the total estimated consideration to the acquired business tangible and intangible assets and liabilities based on their estimated fair values as of the date of the completion of the transaction. The preliminary estimated consideration is allocated as follows (in thousands):

Inventory	$ 2,741
Property and equipment	4
Identifiable intangible assets	12,960
Goodwill	28,509
Current liabilities	(169)
Total estimated consideration	$ 44,045

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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	$ 6,000	5
Customer relationships	6,700	5
Backlog	260	1
	$ 12,960	

Valuation methodology

The fair value of the identified intangible assets for the acquisitions noted above 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 valuation of completed technology and trade names for the acquisitions noted above was based on a variation of the income approach, the relief-from-royalty income approach. The premise of the relief-from-royalty income approach is that if we had not been assigned the rights to the technology and trade names, we would have to pay royalties to continue to exploit the technology and trade names covered by their claims. To arrive at an estimate of royalty charges, the acquired entity s revenue and profit margins were analyzed to determine the ability to pay a royalty. In addition, the license databases were searched for actual royalty terms based on transactions involving technology and trade name licensing.

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 a 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.
- 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 results 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.

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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.

The purchase price allocations described above are preliminary. A final determination of fair values of assets acquired and liabilities assumed relating to the transactions could differ from the preliminary purchase price allocations and if material differences exist they could result in retrospective revision to the purchase price allocations. We utilized the straight line method of amortization for completed technology, customer relationships and trade name and the estimated fulfillment period for backlog.

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 within the next twelve months. 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):

	Employee Severance	Contract Termination Costs	Total
Balance at October 2, 2011	$ 355	$ 6,482	$ 6,837
Cash expenditures	(211)	(801)	(1,012)
Balance at April 1, 2012	$ 144	$ 5,681	$ 5,825

At October 2, 2011, we had recorded severance accruals of $2.7 million from reductions in force at our various facilities other than Scottsdale. We recorded additional provisions, primarily related to activities at Microsemi CMPG, for severance and retention payments totaling $7.3 million during the six months ended April 1, 2012 and also assumed a fair value of $10.0 million in pre-acquisition liabilities recorded by Microsemi CMPG. Severance covered approximately 200 individuals in manufacturing, engineering and sales. Employee severance is expected to be paid within the next twelve months. Contract termination costs relate primarily to remaining obligations under facility leases and are expected to be paid through 2020.

	Employee Severance	Contract Termination Costs	Total
Balance at October 2, 2011	$ 2,382	$ 342	$ 2,724
Assumed from acquisition	8,465	1,582	10,047
Provisions	6,840	504	7,344
Cash expenditures	(15,041)	(374)	(15,415)
Other non-cash settlement	28	5	33
Balance at April 1, 2012	$ 2,674	$ 2,059	$ 4,733

RESULTS OF OPERATIONS FOR THE QUARTER AND SIX MONTHS ENDED APRIL 1, 2012 COMPARED TO THE QUARTER AND SIX MONTHS ENDED APRIL 3, 2011

Net sales increased $41.8 million or 20.2% between Q2 2012 and Q2 2011 to $249.3 million for Q2 2012 from $207.5 million for Q2 2011 and increased $98.4 million or 25.1% between the six months ended April 1, 2012 (2012 YTD) and April 3, 2011 (2011 YTD) to $490.2 million for 2012 YTD from $391.8 million for 2011 YTD. For 2012 YTD, we estimate that approximately 15% to 20% of net sales were derived from acquisitions concluded during the current fiscal year.

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Net sales by end market are based on our understanding of end market uses of our products. An estimated breakout of net sales by end markets is approximately as follows (amounts in thousands):

	Quarter Ended		Six Months Ended	
	April 1, 2012	April 3, 2011	April 1, 2012	April 3, 2011
Defense & Security	71,466	73,036	140,581	142,879
Aerospace	52,879	53,533	102,002	98,604
Communications	77,231	36,518	152,355	70,154
Industrial & Medical	47,730	44,403	95,288	80,204
Total	$ 249,306	$ 207,490	$ 490,226	$ 391,841

Net sales in the Defense & Security end market decreased $1.5 million to $71.5 million in Q2 2012 from $73.0 million in Q2 2011 and decreased $2.3 million to $140.6 million in 2012 YTD from $142.9 million in 2011 YTD. Sales were adversely impacted by the lack of a 2012 federal budget through the first quarter of 2012 and uncertainty surrounding the defense budget that was reflected in cautious procurement plans of end customers. However, a new budget is in place that we believe emphasizes intelligence, reconnaissance, surveillance and modernization programs that equate to growing electronic content. This is reflected in sequential growth in net sales when comparing Q2 2012 to the first quarter of 2012. 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 net sales in this end market will grow in the upcoming quarter.

Net sales in the Aerospace end market decreased $0.6 million to $52.9 million in Q2 2012 from $53.5 million in Q2 2011 and increased $3.4 million to $102.0 million in 2012 YTD from $98.6 million in 2011 YTD. The decline in net sales between Q2 2012 and Q2 2011 was due primarily to a slowdown in satellite billings though when comparing 2012 YTD to 2011 YTD, the decrease in satellite billings was offset 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. We have experienced increases in recent satellite order activity and project continued growth for our commercial air products. As such, we believe that net sales in this end market will grow in the upcoming quarter.

Net sales in the Communications end market increased $40.7 million to $77.2 million in Q2 2012 from $36.5 million in Q2 2011 and increased $82.2 million to $152.4 million in 2012 YTD from $70.2 million in 2011 YTD, primarily due to the contributions of Microsemi CMPG. We have also experienced steady sales of our RF power amplifier and DC-DC products. While we experienced an expected seasonal slowdown in PoE sales in Q2 2012, we believe that it was temporary and that rapid market adoption of PoE technology, especially by leading enterprise customers, will increase our market share and revenues. We also expect additional contributions from our voice circuit and timing and synchronization solutions. While this is our most economically sensitive end market, 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 & Medical end market increased $3.3 million to $47.7 million in Q2 2012 from $44.4 million in Q2 2011 and increased $15.1 million to $95.3 million in 2012 YTD from $80.2 million in 2011 YTD, primarily due to the contributions of Microsemi CMPG. Net sales between Q2 2012 and Q2 2011 were tempered by declines in solar products, however medical products have contributed to stable growth and we have noted growth in plasma cutting and welding applications where our high power proficiency differentiates our products. While we expect that sales of our products in many industrial applications will increase, we have noted continued 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		Six Months Ended	
	April 1, 2012	April 3, 2011	April 1, 2012	April 3, 2011
United States	$ 123,488	$ 133,844	$ 240,481	$ 246,303
Europe	65,656	32,416	135,079	63,105

Asia	60,162	41,230	114,666	82,433
Total	$ 249,306	$ 207,490	$ 490,226	$ 391,841

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Gross profit increased $39.3 million to $131.9 million (52.9% of net sales) for Q2 2012 compared to $92.6 million (44.6% of net sales) for Q2 2011 and increased $69.9 million to $257.6 million (52.5% of net sales) for 2012 YTD compared to $187.7 million (47.9% of net sales) for 2011 YTD. The increases in gross profit were primarily as a result of contributions from the acquisition of Microsemi CMPG. In Q2 2012 and 2012 YTD, gross profit was adversely affected by $3.2 million from an inventory write-off related to Thailand flooding, net of insurance recoveries. In Q2 2011 and 2011 YTD, gross profit was adversely affected by approximately $16.6 million in inventory charges and $5.6 million in remediation and fixed asset impairments related to the closure of a facility in Scottsdale, Arizona.

Selling, general and administrative expense was $52.0 million for Q2 2012 compared to $43.6 million for Q2 2011 and $106.7 million for 2012 YTD compared to $89.9 million for 2011 YTD. While selling, general and administrative expenses in 2012 were favorably impacted by restructuring and cost control measures, these expenses increased overall primarily due to the incremental costs incurred from acquisitions. We also recorded acquisition related costs of $0.4 million and $6.6 million in Q2 2012 and 2012 YTD and $0.3 million and $6.3 million in Q2 2011 and 2011 YTD. In connection with the relocation of one of our facilities, we received cash consideration of $4.0 million during Q2 2012 from a non-landlord third party to compensate us for relocation costs and received an additional $4.0 million in cash consideration in the third quarter of 2012 when we vacated our former location. For Q2 2012 and 2012 YTD, we have recorded the $4.0 million and $11.0 million, respectively, of consideration received in selling, general and administrative costs as an offset to incremental costs incurred for the relocation. For the next quarter, we expect selling, general and administrative expenses to remain in line as a percentage of sales.

Research and development expense was $42.2 million for Q2 2012 compared to $28.2 million for Q2 2011 and $81.8 million for 2012 YTD compared to $52.2 million for 2011 YTD. The increase was primarily related to our most recent acquisitions. For the next quarter, we expect research and development expenses to remain in line as a percentage of sales.

Amortization of intangible assets was $26.5 million for Q2 2012 compared to $15.9 million for Q2 2011 and $51.3 million for 2012 YTD compared to $28.0 million for 2011 YTD. These amounts include amortization related to acquired completed technology of $9.8 million for Q2 2012, $7.4 million for Q2 2011, $20.6 million for 2012 YTD and $13.5 million for 2011 YTD. The increase reflects additional amortization expense related to recently completed acquisitions.

Restructuring and severance was $0.1 million for Q2 2012 compared to $13.3 million for Q2 2011 and $7.3 million for 2012 YTD compared to $19.6 million for 2011 YTD. The variances relate to the timing and announcement of restructuring activities. Of the $7.3 million recorded in 2012 YTD, $6.0 million related directly to Microsemi CMPG, which we acquired in the first quarter of 2012 with the remaining balance related to cost reduction initiatives at other operations. The amount recorded in Q2 2011 included $8.1 million related to Scottsdale lease termination costs, $3.8 million in retention payments agreed to in the Actel acquisition agreement and $1.4 million in severance while the amounts recorded in 2011 YTD also included $6.3 million in severance charges, primarily at Microsemi SoC, which we acquired in the first quarter of 2011.

Interest expense was $9.0 million for Q2 2012 compared to $4.8 million for Q2 2011 and $20.8 million for 2012 YTD compared to $7.9 million for 2011 YTD. The increase was due to an increase in term loan borrowings to approximately $808.0 million at the end of Q2 2012 compared to term loan borrowings of $374.1 million at the end of Q2 2011.

Other expense, net, was $34.6 million in 2012 YTD. We elected the fair value option in accounting for the term loan balance outstanding under our credit agreement through October 2, 2011 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. In connection with the acquisition of Zarlink, we entered into a foreign currency forward agreement in the fourth quarter of 2011 to minimize our foreign currency risk associated with the transaction that we funded in Canadian Dollars (CAD). We reflect the change in fair value of our term loan balances, swaps and forward contract through other income or expense. We recorded income of $5.1 million in first quarter of 2012 related to these adjustments. During the first quarter of 2012, we amended our credit facility and accounted for the amendment as a debt extinguishment. Accordingly, we recorded $34.0 million in debt extinguishment costs in other income (expense). During the second quarter of 2012, we further amended our credit facility and accounted for this amendment as a debt modification with respect to amounts that remained in the syndicate and a debt extinguishment with respect to amounts that exited the syndicate. As such, we immediately expensed $1.2 million in financing costs related to the debt extinguishment. Subsequent to the amendment in the first quarter of 2012, we did not elect the fair value option on our outstanding term loan balances.

For Q2 2012 and 2012 YTD, we recorded an income tax provision of $4.7 million and $4.4 million, respectively. For the Q2 2011 and 2011 YTD, we recorded an income tax provision of $5.0 million and an income tax benefit of $8.5 million, respectively. The difference in our effective rate from the US statutory rate of 35 percent primarily reflects changes in the ratio of domestic and international pre-tax income and valuation allowances on both U.S. and foreign deferred tax assets.

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Additionally, during 2012 YTD we recognized a benefit from the effect of statutory tax rate changes in Israel enacted in the first quarter. Further, during 2011 YTD we recognized non-recurring tax benefits from the valuation allowance release related to the Microsemi SoC acquisition.

CAPITAL RESOURCES AND LIQUIDITY

We had $121.4 million and $266.6 million in cash and cash equivalents at April 1, 2012 and October 2, 2011, respectively. During 2012 YTD and 2011 YTD, we financed our operations with cash generated from operations.

Net cash provided by operating activities was $61.3 million for 2012 YTD and $27.7 million for 2011 YTD. During 2012 YTD, operating cash flow was reduced by payments of $16.5 million in bonus and profit sharing, $8.7 million in transaction related costs and $16.4 million in restructuring and severance payments related primarily to Microsemi CMPG. During 2011 YTD, operating cash reduced by $26.1 million related to credits issued to Microsemi SoC distributors that facilitated the alignment of Actel s revenue recognition to a sell-in methodology, payments of $17.2 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 $8.9 million in severance and retention bonuses for Microsemi SoC.

A summary of net cash provided by operating activities for 2012 YTD and 2011 YTD are as follows (amounts in thousands):

	2012 YTD	2011 YTD
Net loss	$ (49,394)	$ (20,425)
Depreciation and amortization	68,302	43,978
Amortization of deferred financing cost	1,528	
Provision for doubtful accounts	(284)	(119)
Settlement of foreign currency forward	(3,701)	
Gain on sales of assets	1,513	1,940
Stock-based compensation	17,577	14,389
Excess tax benefit stock awards		(3,042)
Effect of fair value option on credit facility issuance and refinancing costs	29,275	14,218
Deferred income taxes	(997)	1,122
Net change in working capital accounts	(18,188)	(28,638)
Net change in other assets and long term liabilities	15,663	4,313
Net cash provided by operating activities	$ 61,294	$ 27,736

Accounts receivable increased $33.5 million to $144.4 million at April 1, 2012 from $110.9 million at October 2, 2011. The increase in accounts receivable was primarily due to higher sales, including incremental sales by Microsemi CMPG.

Inventories increased $15.5 million to $156.3 million at April 1, 2012 from $140.8 million at October 2, 2011. The increase was due primarily to inventory balances at operations we acquired in the current fiscal year.

Other current assets increased $10.5 million to $26.6 million at April 1, 2012 from $16.1 million at October 2, 2011. The increase was due primarily to amounts from Microsemi CMPG.

Current liabilities increased $12.6 million to $166.3 million at April 1, 2012 from $153.7 million at October 2, 2011. 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 $606.9 million for 2012 YTD and $393.1 million for 2011 YTD. Net cash used in investing activities in 2012 YTD consisted of net cash consideration of $540.2 million and $44.0 million, respectively, for the acquisitions of Microsemi CMPG and the timing, synchronization and synthesis business of Maxim Integrated Products, Inc., $26.7 million in purchases of property and equipment offset by $3.7 million for the settlement of foreign currency forward and $0.3 million in insurance proceeds. In 2011 YTD, net cash used in investing activities primarily consisted of $381.0 million, net of cash acquired for the acquisition of Actel, and $12.2 million in purchases of property and equipment. In the third fiscal quarter of 2012, we expect to incur approximately $15.0 million in capital expenditures to support the consolidation of facilities in Northern and Southern California.

Net cash provided by financing activities was $400.3 million for 2012 YTD and $382.7 million for 2011 YTD. Net cash provided by financing activities in 2012 YTD primarily consisted of net borrowings of $435.8 million under our credit agreement and $6.3 million in net proceeds from stock awards, offset by $41.8 million in credit facility issuance and

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refinancing costs. In 2011 YTD, net cash provided by financing activities primarily consisted of net borrowings of $374.1 million under our credit agreement and $22.8 million related to proceeds from equity awards, offset by $14.2 million in credit facility issuance costs.

In connection with the acquisition of Zarlink, during the quarter ended January 1, 2012, we entered into Amendment No. 2 to our Credit Agreement dated as of November 2, 2010 with Morgan Stanley Senior Funding, Inc. (MSSF), Morgan Stanley & Co. Incorporated, East West Bank, Raymond James Bank, FSB and the lenders referred to therein, as amended by Amendment No. 1 to the Credit Agreement, dated as of March 2, 2011 (as amended, the Second Amended and Restated Credit Agreement). We accounted for the second amendment as a debt extinguishment and recorded $34.0 million in debt extinguishment costs in other income (expense) in accordance with ASC 470-50. Pursuant to the Second Amended and Restated Credit Agreement, MSSF has provided $850.0 million senior secured lien credit facilities, consisting of a term loan facility in an aggregate principal amount of $800.0 million and a revolving credit facility in an aggregate principal amount of $50.0 million. Microsemi paid upfront fees or original issue discount equal to 2.00% of the term loan facility and an amendment fee on the revolving facility of 0.25%.

During the quarter ended April 1, 2012, we entered into Amendment No. 3 to our Credit Agreement (as amended, the Third Amended and Restated Credit Agreement). We paid $9.1 million in amendment costs, consisting of a 1% repricing premium and underwriting fees and expenses. In accordance with ASC 470-50, we accounted for the third amendment as a debt modification with respect to amounts that remained in the syndicate and a debt extinguishment with respect to amounts that exited the syndicate. As such, we immediately expensed $1.2 million in financing costs and deferred the remaining $7.9 million, which we will amortize over the six year remaining life of the term loan to interest expense. Pursuant to the Third Amended and Restated Credit Agreement, MSSF has provided an $860.0 million senior secured lien credit facilities, consisting of a term loan facility in an aggregate principal amount of $810.0 million and a revolving credit facility in an aggregate principal amount of $50.0 million.

Under the Third Amended and Restated Credit Agreement, the current applicable margin on revolving loans and swingline loans determined at the Base Rate is 3.00% to 3.75% and revolving loans and swingline loans determined at the Eurodollar Rate is 4.00% to 4.75%, depending on Microsemi s consolidated leverage ratio. For term loans, the current applicable margin on term loans determined at the Base Rate is 2.00% and on term loans determined at the Eurodollar Rate is 3.00%. The Base Rate is defined as a rate per annum equal to the greatest of (a) the prime rate, (b) 1/2 of 1% per annum above the federal funds effective rate, (c) the one-month Eurodollar Rate plus 1%, and (d) in the case of any term loans, 2.25%. The Eurodollar Rate is defined as (a) the rate per annum offered for deposits of dollars for the applicable interest period that appears on Reuters Screen LIBOR01 Page as of 11:00 A.M., London, England time, two (2) business days prior to the first day of such interest period or (b) if no such offered rate exists, such rate will be the rate of interest per annum as determined by the administrative agent (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits of dollars in immediately available funds are offered at 11:00 A.M., London, England time, two (2) business days prior to the first day in the applicable interest period by major financial institutions reasonably satisfactory to the administrative agent in the London interbank market for such interest period and for an amount equal or comparable to the principal amount of the loans to be borrowed, converted or continued as Eurodollar Rate loans on such date of determination. In the case of term loans, the Eurodollar Rate will not be lower than 1.00%. The principal amount outstanding under our term loan facility is a LIBOR-based loan and is subject to an interest rate of 4.00% as of April 1, 2012.

As of April 1, 2012, we had $808.0 million borrowed under the term loan facility and no direct borrowings and $0.4 million in letters of credit outstanding under the revolving facility. As of October 2, 2011, we had $372.2 million borrowed under the term loan facility and no direct borrowings and $0.4 million in letters of credit outstanding under the revolving facility. The amended term loan facility matures on February 2, 2017 and requires minimum principal payments of $2.0 million per quarter or $8.1 million per year.

Pursuant to the Third Amended and Restated Credit Agreement, Microsemi can request, at any time and from time to time, the establishment of one or more term loan and/or revolving credit facilities with commitments in an aggregate amount not to exceed $212.0 million, of which $12.0 million was utilized upon the execution of the Third Amended and Restated Credit Agreement.

Microsemi expects to pay an undrawn commitment fee ranging from 0.25% to 0.625% depending on Microsemi s consolidated leverage ratio, on the unused portion of the revolving facility. If any letters of credit are issued, then Microsemi expects 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 Eurodollar Rate-based loans on the face amount of such letter of credit.

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The Third Amended and Restated Credit Agreement includes financial covenants requiring a maximum leverage ratio and minimum fixed charge coverage ratio and also contains other customary affirmative and negative covenants and events of default. We were in compliance with our financial covenants as of April 1, 2012.

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 2, 2011.

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. Specific to the acquisition of Zarlink, we entered into foreign currency forward agreement in the fourth quarter of 2011 to minimize our foreign currency risk associated with the transaction that we funded in Canadian Dollars. We agreed to purchase CAD 623.0 million for $608.2 million that settled in the first quarter of 2012. Other than the foregoing, 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. A portion of our defense sales are 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.

Under the Third Amended and Restated Credit Agreement, the current applicable margin on revolving loans and swingline loans determined at the Base Rate is 3.00% to 3.75% and revolving loans and swingline loans determined at the Eurodollar Rate is 4.00% to 4.75%, depending on Microsemi s consolidated leverage ratio. For term loans, the current applicable margin on term loans determined at the Base Rate is 2.0% and on term loans determined at the Eurodollar Rate is 3.00%. The Base Rate is defined as a rate per annum equal to the greatest of (a) the prime rate, (b) 1/2 of 1% per annum above the federal funds effective rate, (c) the one-month Eurodollar Rate plus 1%, and (d) in the case of any term loans, 2.25%. The Eurodollar Rate is defined as (a) the rate per annum offered for deposits of dollars for the applicable interest period that appears on Reuters Screen LIBOR01 Page as of 11:00 A.M., London, England time, two (2) business days prior to the first day of such interest period or (b) if no such offered rate exists, such rate will be the rate of interest per annum as determined by the administrative agent (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which deposits of dollars in immediately available funds are offered at 11:00 A.M., London, England time, two (2) business days prior to the first day in the applicable interest period by major financial institutions reasonably satisfactory to the administrative agent in the London interbank market for such interest period and for an amount equal or comparable to the principal amount of the loans to be borrowed, converted or continued as Eurodollar Rate loans on such date of determination. In the case of term loans, the Eurodollar Rate will not be lower than 1.00%. The principal amount outstanding under our term loan facility is a LIBOR-based loan and is subject to an interest rate of 4.00% as of April 1, 2012. A one percent increase in the variable rate of interest on the term loan facility would increase interest expense by approximately $8.0 million annually.

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In connection with our 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 initial 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 classified 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 the counterparty to the swap agreements. Related to these interest rate swap agreements, we recorded a current liability of $0.1 million and a long-term liability of $2.5 million as of April 1, 2012 and a $2.8 million long-term liability as of October 2, 2011. We reflected the change in fair value of the swaps through other income (expense), net. For the quarters ended April 1, 2012 and April 3, 2011, we recorded income (expense) of $(0.1) million and $0.2 million, respectively. For the six months ended April 1, 2012 and April 3, 2011, we recorded income (expense) of $0.2 million and $(0.5) million, respectively.

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 April 1, 2012.

(b) Changes in internal control over financial reporting.

During the second quarter of fiscal year 2012, 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, 2011 for our fiscal year ended October 2, 2011, 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. On February 15, 2011, the plaintiffs filed an amended complaint adding Xilinx, Inc. as a defendant. 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. The discovery process recently commenced and we do not expect trial to begin for at least one year. In the event of an unfavorable outcome, we believe amounts accrued are adequate and do not believe the resolution of this matter will have a material impact on our financial position or results of operations.

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Item 1A. RISK FACTORS

While 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, 2011, we routinely update our risk factors and 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.

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;

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- increasing complexity from combining recent acquisitions;
- 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.

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, flooding, tsunamis, 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.

In the first quarter of fiscal year 2012, severe flooding in certain regions of Thailand forced a shutdown of our operations in two subcontracted facilities in Thailand. The two Thailand facilities together accounted for as much as 5% of our total quarterly revenues. In response to the impact of flooding at subcontractor facilities in Thailand, we implemented plans to move production to other facilities outside the affected area. We believe that current production capabilities at these other facilities can compensate in the near future for the loss of production of the flooded facilities in Thailand and that we have recovered from this event as of the end of the second fiscal quarter of 2012. However, unforeseen impacts on our customers, suppliers or subcontractors as a result of the flooding in Thailand could continue to affect our revenue, consolidated financial position, results of operations and cash flows.

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

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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- an unexpected reduction in sales to, or loss of, key customers;
- 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.

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;

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

prepayment terms that may discourage us from refinancing our Third Amended and Restated Credit Agreement or reduce the benefit of lower interest rates.

We have closed, combined, sold or disposed of certain of our operations, 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 during the quarter ended April 3, 2011. Scottsdale represented approximately 1% of our annual net sales in fiscal year 2011 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, sell or divest of additional facilities, operations or product lines, which could be announced at any time. Possible adverse consequences from current and future consolidation or disposition activities may include a loss of revenues and 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, constraints of the budgetary process and timing 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. 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 29% of total net sales in 2012. 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 46% in 2011. 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 Canada, 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;
- uncertain interpretations of and difficulties enforcing intellectual property laws;
- availability of transportation services, including disruptions related to work stoppages, security incidents or natural events at manufacturing, shipping or receiving points or along transportation routes;
- 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.

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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.

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 each of our diverse end 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.

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The semiconductor industry is highly competitive.

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., 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.

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.

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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 & Medical 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.

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.

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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 and from activity at recently acquired operations. 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. In addition, because we rely on third-party subcontractors to perform certain key operational functions, we may be unable to directly control our product delivery schedules and quality assurance. The cost of product replacements or returns and other warranty matters in connection with qualify assurance problems caused by third party subcontractors could materially adversely affect us.

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.

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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 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.

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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.

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 April 1, 2012 and October 3, 2010, the market sale price of our common stock ranged between a low of $14.49 and a high of $24.96. 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 working capital levels have risen, which adversely affects cash flow.

At times, our working capital levels have risen and the increase has adversely affected cash flow. A factor contributing to the increase in our working capital has related to acquisitions with increases in accounts receivable and inventory generally exceeding increases in accounts payable and accrued liabilities. Another factor resulting in an increase in working capital has been a buildup of inventory prior to the consolidation of our manufacturing operations. 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

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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 April 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, a system failure or data security breach could also result in the unintentional disclosure of confidential information about us, our customers or our employees. Further, insurance coverage does not generally protect from normal wear and tear, which can affect system 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. At times, we have also entered into interest rate swap and foreign currency forward contracts. While all of our investments to date are highly rated and we believe our counterparties to be highly rated, current credit market disruptions may adversely affect the value and liquidity of these investments and may affect the ability of our counterparties to fulfill their contractual obligations.

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 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 4. MINE SAFETY DISCLOSURES

Inapplicable

Item 5. OTHER INFORMATION

Inapplicable

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Item 6. EXHIBITS

Exhibit No.	Description
2.1	Support Agreement, dated September 21, 2011, by and among 0916753 B.C. ULC, Microsemi Corporation and Zarlink Semiconductor Inc. (incorporated by reference to Exhibit 1.2 to Amendment No. 3 to the Registrant s Schedule 14D-1F as filed with the Commission on September 26, 2011)
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	Second Amended and Restated Bylaws of Microsemi Corporation (incorporated by reference to Exhibit 3.2 to the Registrant s Annual Report on Form 10-K (File No. 0-08866) as filed with the Commission on November 23, 2011)
10.1	Microsemi Corporation 2008 Performance Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on February 6, 2012)
10.2	Amendment No. 3 to Credit Agreement, dated as of February 17, 2012, by and among Microsemi Corporation, Morgan Stanley Senior Funding, Inc., Morgan Stanley & Co. LLC and the lenders referred to therein (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on February 21, 2012)
10.3	Increase Term Joinder, dated as of February 17, 2012, by and among Microsemi Corporation and Morgan Stanley Senior Funding, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on February 21, 2012)
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 [February 8], 2012
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 [February 8], 2012
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 [February 8], 2012
101	The following financial statements are from Microsemi Corporation s Report on Form 10-Q for the quarter and six months ended April 1, 2012, 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: May 8, 2012	By:	/s/ JOHN W. HOHENER **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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Filed with this Report.