MICROSEMI CORP
Form 10-Q
February 04, 2009
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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 December 28, 2008

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 **(State or other jurisdiction of incorporation or organization)**	**95-2110371** **(I.R.S. Employer Identification No.)**
2381 Morse Avenue, Irvine, California **(Address of principal executive offices)**	**92614** **(Zip Code)**

(949) 221-7100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 ¨ 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 February 2, 2009 was 81,092,196.

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THIS FORM 10-Q MUST BE READ IN ITS ENTIRETY

IMPORTANT FACTORS RELATED TO FORWARD-LOOKING STATEMENTS

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 may, will, could, should, project, believe, anticipate, expect, plan, estimate, forec 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 Form 10-Q include, but are not limited to, statements concerning:

expectations that we will be able to successfully complete announced and to-be-announced plant consolidations on the anticipated schedules and without unanticipated costs or expenses, and that such consolidations will result in anticipated cost savings;

demand, growth and sales expectations for our products;

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;

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

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

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;

expectations regarding the value and future liquidity of the auction rate securities held by us;

critical accounting estimates;

tax exposure and tax rates; and

expected financial and operating results.

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 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 shall necessarily prove correct or that all of our objectives or plans shall necessarily be achieved. You are, therefore, cautioned not to place undue reliance on these forward-looking statements, which are made only as of the date of this report. We do not intend, and undertake no obligation, to update or revise the forward-looking statements to reflect events or circumstances after the date of this report, whether as a result of new information, future events or otherwise.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

The unaudited consolidated income statements for the quarter ended December 28, 2008 of Microsemi Corporation and its subsidiaries (which we herein sometimes refer to collectively as Microsemi , the Company , we , our , ours or us), the unaudited consolidated statement of cash for the quarter ended December 28, 2008, and the comparative unaudited consolidated financial information for the corresponding period of the prior year, together with the unaudited balance sheets as of September 28, 2008 and December 28, 2008, are included herein.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets

(amounts in thousands, except per share data)

	December 28, 2008	September 28, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 118,257	$ 107,197
Investment in available for sale securities	46,550	62,000
Accounts receivable, net of allowance for doubtful accounts of $1,741 and $1,731 at December 28, 2008 and September 28, 2008, respectively	100,516	103,467
Inventories	128,887	121,726
Deferred income taxes	13,618	13,375
Other current assets	12,025	10,921
Total current assets	419,853	418,686
Property and equipment, net	79,379	78,589
Deferred income taxes	1,701	6,456
Goodwill	210,438	201,183
Other intangible assets, net	59,228	49,242
Other assets	6,784	6,452
TOTAL ASSETS	$ 777,383	$ 760,608
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturity of long-term liabilities	$ 419	$ 406
Accounts payable	25,755	29,425
Accrued liabilities	36,376	37,395
Total current liabilities	62,550	67,226
Long-term liabilities	20,339	20,212
Stockholders equity:		
Preferred stock, $1.00 par value; authorized 1,000; none issued		
Common stock, $0.20 par value; authorized 250,000, issued and outstanding 81,086 and 79,797 at December 28, 2008 and September 28, 2008, respectively	16,217	15,959
Capital in excess of par value of common stock	491,270	483,233
Retained earnings	186,706	173,498
Accumulated other comprehensive income	301	480
Total stockholders equity	694,494	673,170
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 777,383	$ 760,608

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Income Statements

(amounts in thousands, except per share data)

	Quarter Ended	
	December 28, 2008	December 30, 2007
Net sales	$ 130,594	$ 123,474
Cost of sales	70,161	70,940
Gross profit	60,433	52,534
Operating expenses:		
Selling, general and administrative	30,605	26,761
Research and development	10,767	11,154
Amortization of intangible assets	3,244	3,099
Restructuring and severance charges	1,905	42
In process research and development		440
Total operating expenses	46,521	41,496
Operating income	13,912	11,038
Other income (expense):		
Interest income	683	1,119
Interest expense	(56)	(42)
Other, net	46	41
Total other income	673	1,118
Income before income taxes	14,585	12,156
Provision for income taxes	1,377	3,543
NET INCOME	$ 13,208	$ 8,613
Earnings per share:		
Basic	$ 0.17	$ 0.11
Diluted	$ 0.16	$ 0.11
Common and common equivalent shares outstanding:		
Basic	79,430	77,328
Diluted	80,474	79,645

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

(amounts in thousands)

	Quarter Ended December 28, 2008	Quarter Ended December 30, 2007
Cash flows from operating activities:		
Net income	$ 13,208	$ 8,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,651	6,927
Stock based compensation	7,915	6,141
In process research and development		440
Changes in assets and liabilities, net of the effects of acquisitions:		
Accounts receivable, net	8,676	(5,138)
Inventories, net	(5,759)	(2,054)
Other current assets	3,204	926
Other assets	146	7
Deferred income taxes	(824)	(3,062)
Accounts payable and accrued liabilities	(14,860)	(6,635)
Income taxes payable	2,334	1,515
Other long term liabilities	140	73
Net cash provided by operating activities	21,831	7,753
Cash flows from investing activities:		
Proceeds from sale of available for sale securities	15,450	
Purchases of property and equipment	(4,224)	(5,158)
Changes in other assets	(525)	(1,197)
Payments for acquisitions, net of cash acquired	(21,867)	(8,871)
Net cash used in investing activities	(11,166)	(15,226)
Cash flows from financing activities:		
Excess tax benefit stock awards	15	736
Exercise of stock options	380	4,315
Net cash provided by financing activities	395	5,051
Net increase (decrease) in cash and cash equivalents	11,060	(2,422)
Cash and cash equivalents at beginning of period	107,197	107,685
Cash and cash equivalents at end of period	$ 118,257	$ 105,263

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 28, 2008

1. PRESENTATION OF FINANCIAL INFORMATION

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

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore do not include all information and note disclosures necessary for a fair presentation of consolidated financial position, results of operations and cash flows in conformity with 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 the Annual Report on Form 10-K for the fiscal year ended September 28, 2008.

Significant Accounting Policies and Estimates

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 which 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 the Annual Report on Form 10-K for the fiscal year ended September 28, 2008.

Income Taxes

The Company had gross unrecognized tax benefits of approximately $15,597,000 and $15,343,000 at December 28, 2008 and September 28, 2008, respectively. These amounts include approximately $2,705,000 and $2,524,000 of interest and penalty at December 28, 2008 and September 28, 2008, respectively. Substantially all of the gross unrecognized tax benefits, if recognized, would impact the Company s effective tax rate in the period of recognition.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2003 through 2007 tax years generally remain subject to examination by tax authorities.

2. INVENTORIES

Inventories were as follows (amounts in thousands):

	December 28, 2008	September 28, 2008
Raw materials	$ 36,551	$ 35,693
Work in progress	61,991	59,434
Finished goods	30,345	26,599
	$ 128,887	$ 121,726

3. INVESTMENT IN AVAILABLE FOR SALE SECURITIES

We invest cash balances in excess of projected liquidity needs primarily in money market funds and auction rate securities. All of our investments to date have maintained triple-A ratings; however, recent credit market disruptions, particularly related to auction rate securities, may adversely affect the ratings of our investments. At December 28, 2008, our

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investment in auction rate securities consisted of auction rate bonds whose principal and interest are federally guaranteed by the Family Federal Education Loan Program. We previously had a practice of investing in auction rate securities and selling the securities prior to our interim and year end reporting periods. We purchased the auction rate securities held at December 28, 2008 in January 2008 and began to experience auction failures beginning in mid-February 2008 that have impacted the liquidity of our investment in auction rate securities. Auction failures do not represent a default of the security.

We have entered into a settlement agreement with the financial institution where we hold our investment in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased $15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our $46.6 million investment in auction rate bonds back to the financial institution at par plus accrued interest beginning June 30, 2010; and c) we are permitted to borrow at no net cost the full par value of our investment in auction rate bonds.

We adopted the provisions of SFAS 157, Fair Value Measurements (SFAS 157) and related FASB Staff Positions effective September 29, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 creates a hierarchy and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories: Level 1 quoted market prices in active markets for identical assets and liabilities that an entity has the ability to access at the measurement date; Level 2 observable market-based inputs or unobservable inputs that are corroborated by market data for the asset or liability at the measurement date and Level 3 unobservable inputs that are not corroborated by market data used when there is minimal market activity for the asset or liability at the measurement date. Fair value measurements of assets and liabilities are assigned a level within the fair value hierarchy based on the lowest level of any input that is significant to the fair value measurement in its entirety.

We also adopted the provisions of SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We have elected to measure the fair value of the auction rate securities settlement agreement at fair value.

Our cash and cash equivalents are classified as Level 1 and our investments in auction rate securities and the fair value of the settlement agreement are classified as Level 3. For our investment in auction rate securities, we performed a discounted cash flow analysis using current and projected coupon rates compared to a market yield on comparable instruments with terms of approximately five years, our estimated time to redemption absent the impact of the settlement agreement. We also evaluated counterparty risk with regards the settlement agreement and concluded, as of December 28, 2008, that non-performance risk was nominal. Based on the results of our discounted cash flow analysis, we concluded that the fair value of our investment in auction rate securities should be discounted approximately $1.3 million; however, any other-than temporary impairment in the fair value of our auction rate securities would be offset substantially by the fair value recognized for the rights provided to us in the settlement agreement. As such, the investment in auction rate securities and the fair value of the auction rate securities settlement agreement are recorded at $46.6 million, the par value of the auction rate bonds. In addition, based on the no net cost loan feature of the settlement, we have the ability to convert our investment in auction rate bonds to cash within our normal operating cycle, and as such, we have classified this investment in current assets.

However, given that there is currently no active secondary market for our investment in auction rate securities, the determination of fair market value in the future could be negatively impacted by many factors including but not limited to, failure of the financial institution to meet its obligations under the settlement agreement,, continuing illiquidity in the market for auction rate securities for an extended period of time, a lack of action by the issuers to establish different forms of financing to replace or redeem these securities, changes in the credit quality of the underlying securities and in market interest rates above contractual maximum interest rates on the underlying auction rate securities. Should credit market disruptions continue or increase in magnitude or if our assessment of the counterparty risk indicates an increased potential for non-performance, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. We currently do not anticipate additional impairment of our investments; however, if we had to record any impairment, for every 1% decline in principal, a pre-tax decrease in value of approximately $0.5 million would occur.

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4. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

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

	December 28, 2008	September 28, 2008
Goodwill	$ 210,438	$ 201,183
Other intangible assets, net		
Completed technology	$ 47,743	$ 41,216
Customer relationships	7,062	5,399
Backlog	3,078	1,496
Trade names	1,345	1,131
	$ 59,228	$ 49,242

Estimated amortization expense in the five succeeding years is as follows (amounts in thousands):

	2010	2011	2012	2013	2014
Amortization expense	$ 13,325	$ 13,270	$ 8,252	$ 6,995	$ 6,971

5. COMMITMENTS AND CONTINGENCIES

In Broomfield, Colorado, the owner of a property located adjacent to a manufacturing facility owned by Microsemi Corp. Colorado (Broomfield) had notified Broomfield and other parties, of a claim that contaminants migrated to his property, thereby diminishing its value. In August 1995, Broomfield, 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 trichloroethylene and other contaminants previously used by former owners at the facility are present in soil and groundwater on Broomfield s property, we vigorously contest any assertion that Broomfield caused the contamination. In November 1998, we signed an agreement with the three former owners of this facility whereby they have (i) reimbursed us for $530,000 of past costs, (ii) assumed responsibility for 90% of all future clean-up costs, and (iii) 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 $5,300,000; accordingly, by assuming that this amount is accurate and that the indemnifying parties will pay 90% of this amount as agreed without need for us to incur material costs to enforce that agreement, we reserved for this contingency by recording a one-time charge of $530,000 for the life of this project in fiscal year 2003. There has not been any significant development since September 28, 2003.

We assumed legal exposures in connection with our acquisition of PowerDsine, Ltd. (PDL), including exposures related to a complaint filed against PDL and its subsidiary, PowerDsine, Inc. (together with PDL, the PD Companies), by ChriMar Systems, Inc. (ChriMar) on October 26, 2001 (the Complaint). The Complaint, which was filed by ChriMar in the United States District Court for the Eastern District of Michigan, Southern Division (the Court), alleges that products manufactured and sold by the PD Companies infringe United States Patent Number 5,406,260 assigned to ChriMar and requests, inter alia, damages and injunctive relief. On February 21, 2002, the PD Companies filed an answer denying all of the allegations stated in the Complaint and raising several affirmative defenses to the claims asserted. On May 15, 2003, the Court stayed the proceeding between ChriMar and the PD Companies pending resolution of a lawsuit filed by ChriMar against Cisco Systems, Inc. (Cisco), alleging that Cisco products infringed the same patent asserted against the PD Companies. In August 2006, following settlement of the case against Cisco, the Court issued an order to commence discovery. The discovery order was stayed in 2006 after ChriMar filed separate patent infringement actions against both D-Link Systems and Foundry Networks. The Court subsequently combined these actions with the case against the PD Companies for partial joint administration. No trial date has been set. The Court has issued a construction of the applicable claims involved in the case and discovery has commenced and must be completed by the end of January 2009. Based on the application of industry statistics relating to outcome of patent litigation matters, we believe that there might be a possibility for exposure and have provided for the estimated potential loss, in accordance with SFAS 5, Accounting for Contingencies.

The Department of Justice has instituted a proceeding against us in connection with our acquisition of certain assets from SEMICOA. The principal remedy requested by the Department of Justice is divestiture of the assets acquired. In addition, the International Trade Commission has commenced an investigation as to whether one of our products (as incorporated into one of our customer s products) infringes a patent owned by O2Micro International Limited. The principal remedy if infringement is found will be a bar on importation of the product involved.

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We are involved in other routine legal matters, arising out of the ordinary conduct of our business, including from time to time litigation relating to commercial transactions, contracts, and environmental matters. In the opinion of management, the final outcome of these routine matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

6. COMPREHENSIVE INCOME

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

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

	Quarter Ended	
	December 28, 2008	**December 30, 2007**
Net income	$ 13,208	$ 8,613
Translation adjustment	(179)	125
Comprehensive income	$ 13,029	$ 8,738

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.

Earnings per share for the respective periods were calculated as follows (amounts in thousands, except per share data):

	Quarter Ended	
	December 28, 2008	**December 30, 2007**
BASIC		
Net income	$ 13,208	$ 8,613
Weighted-average common shares outstanding for basic	79,430	77,328
Basic earnings per share	$ 0.17	$ 0.11
DILUTED		
Net income	$ 13,208	$ 8,613
Weighted-average common shares outstanding for basic	79,430	77,328
Dilutive effect of stock awards	1,044	2,317
Weighted-average common shares outstanding on a diluted basis	80,474	79,645
Diluted earnings per share	$ 0.16	$ 0.11

At December 30, 2007 and December 28, 2008, approximately 6,611,000 and 3,621,000 stock awards, respectively, were excluded in the computation of diluted earnings per share as these stock awards would have been anti-dilutive.

8. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 157 and Related FASB Staff Positions

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. In February 2008, the FASB released FASB Staff Position (FSP) No. 157-1, Application of FASB Statement No. 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP No. 157-2, Partial Deferral of the Effective Date of Statement 157 (FSP 157-2). In October 2008, the FASB released FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP 157-3). FSP 157-1 removes leasing transactions accounted for under FASB Statement 13 and related guidance from the scope of SFAS 157. FSP 157-2 defers the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those years (our fiscal year 2010). FSP 157-3 clarifies the application of SFAS 157 in an inactive market and illustrates key considerations in determining the fair value of a financial asset in an inactive market. We adopted the provisions of SFAS 157 and related FSPs in the first quarter of fiscal year 2009. The adoption of SFAS 157 did not result in a material impact to our consolidated financial position, results of operations or cash flows. We are currently evaluating the potential impact of FSP 157-2 with regards to the potential impact of SFAS 157 on nonfinancial assets and nonfinancial liabilities.

Statement of Financial Accounting Standards No. 159

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (FAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We adopted the provisions of SFAS 159 in the first quarter of fiscal year 2009 and elected the fair value option in valuing our settlement agreement related to auction rate securities. The adoption of SFAS 159 did not result in a material impact to our consolidated financial position, results of operations or cash flows.

Statement of Financial Accounting Standards No. 141R and No. 160

In December 2007, the FASB concurrently issued SFAS 141(R), Business Combinations (SFAS 141R), and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). SFAS 141R replaces SFAS 141 and provides greater consistency in the accounting and financial reporting of business combinations. SFAS 141R requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, establishes principles and requirements for how an acquirer recognizes and measures any non-controlling interest in the acquiree and the goodwill acquired, and requires the acquirer to disclose the nature and financial effect of the business combination. Among other changes, this statement also required that negative goodwill be recognized in earnings as a gain attributable to the acquisition and that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. In the event an entity holds less than a full ownership interest, SFAS 160 provides for the recognition, measurement and subsequent accounting for the non-controlling interest included in the entity s consolidated financial statements. SFAS 141R and SFAS 160 are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (our fiscal year 2010). We are currently evaluating the potential impact of SFAS 141R and SFAS 160 but it is dependent on the specific terms of any potential future business combinations or acquisitions involving non-controlling interests.

Statement of Financial Accounting Standards No. 161

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective as of the beginning of an entity s first fiscal period, including interim periods, that begins after November 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the potential impact on our financial disclosure of SFAS 161.

FASB Staff Position No. 142-3

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible

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asset under SFAS 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS 141(R) and other U.S. generally accepted accounting principles. FSP 142-3 is effective for intangible assets acquired on or after the beginning of an entity s first fiscal period, including interim periods, that begin after December 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the potential impact of FAS 142-3 but the potential impact is dependent on the specific terms of any potential future business combinations or acquisitions.

Statement of Financial Accounting Standards No. 162

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We are currently evaluating the impact of SFAS 162.

Emerging Issues Task Force Issue No. 08-7

In November 2008, the Emerging Issues Task Force (EITF) of the FASB reached a final consensus on EITF Issue No. 08-7, Accounting for Defensive Intangible Assets (EITF 08-7). The EITF reached a final consensus that a defensive intangible asset should be considered a separate unit of accounting and not be combined with an existing asset whose value it may enhance. In addition, a useful life should be assigned that reflects the acquiring entity s consumption of the defensive asset s expected benefits. If the final consensus is ratified by the FASB, the guidance in EITF 08-7 will be applied prospectively for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (our fiscal year 2010). We are currently evaluating the impact of EITF 08-7 but the potential impact is dependent on the specific terms of any potential future business combinations or acquisitions.

9. STOCK BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

In February 2008, our stockholders approved the Microsemi Corporation 2008 Performance Incentive Plan (the 2008 Plan). The 2008 Plan replaced the 1987 Plan, as amended, previously approved by our stockholders. The 2008 Plan includes a share limit of 4,063,000 shares of the Company s common stock, for delivery under awards that have been and may be granted under the 2008 Plan. Awards authorized by the 2008 Plan include options, stock appreciation rights, restricted stock, stock bonuses, stock units, performance share awards, and other cash or share-based awards (each an Award). The shares of common stock delivered under the 2008 Plan may be newly-issued shares or shares held by the Company as treasury stock.

The share limit under the 2008 Plan increases on the first day of each year for the first five consecutive years, by an amount equal to the lesser of (i) three percent of the total number of shares of common stock issued and outstanding on the last day of the immediately preceding fiscal year, (ii) 7,500,000 shares of common stock or (iii) such number of shares of common stock as may be established by the Board of Directors. Shares issued in respect to any Full-Value Award granted under the 2008 Plan shall be counted against the share limit as 2.25 shares for every one share actually issued in connection with such award. Full-Value Award means any award under the 2008 Plan that is not a stock option grant or a stock appreciation right grant. The maximum term of a stock option grant or a stock appreciation right grant is six years.

In the quarters ended December 28, 2008 and December 30, 2007, stock-based compensation expense of stock awards decreased operating income by $7,915,000 and $6,141,000, respectively. Compensation expense for stock awards was calculated based on the date of grant or conversion using the Black-Scholes option pricing model. Awards granted, weighted-average exercise price, weighted-average fair value and weighted-average assumptions used in the calculation of compensation expense are as follows:

		Per Award					
Quarter Ended	**# of Awards**	**Exercise Price**	**Fair Value**	**Risk Free Rate**	**Expected Dividend Yield**	**Expected Life (Years)**	**Expected Volatility**
December 28, 2008							
Option grants	1,600	$ 19.92	$ 6.07	1.9%	0.0%	3.0	42.5%
Restricted stock awards	1,259,367		$ 21.43				
December 30, 2007							
Option grants	1,653,020	$ 28.34	$ 8.05	4.0%	0.0%	2.7	37.8%

Restricted stock awards	508,672	$ 28.50

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Options are granted at exercise prices equal to the closing price of our common stock on the date of grant. Restricted stock awards are granted to employees with compensation expense determined based on the closing price of our common stock on the date of grant. Options and restricted stock awards are subject to forfeiture if length of service requirements are unmet. 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.

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 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 commercial air/satellite, defense, industrial/semicap, medical, mobile connectivity and notebook / LCD TVs / displays. We estimate net sales by end-market based on our understanding of end market uses of our products and sales by channel.

Net sales by the originating geographic area, end market and long lived assets by geographic area are as follows (amounts in thousands):

	Quarter Ended	
	December 28, 2008	**December 30, 2007**
Net Sales:		
United States	$ 62,026	$ 60,179
Europe	36,808	23,126
Asia	31,760	40,169
Total	$ 130,594	$ 123,474
Commercial Air/Satellite	$ 33,853	$ 23,480
Defense	44,984	38,999
Industrial/Semicap	11,041	11,166
Medical	20,440	16,216
Mobile Connectivity	12,947	19,934
Notebook/LCD TV/Display	7,329	13,679
Total	$ 130,594	$ 123,474

	December 28, 2008	**September 28, 2008**
Tangible long lived assets:		
United States	$ 64,420	$ 64,674
Europe	11,272	10,030
Asia	3,687	3,885
Total	$ 79,379	$ 78,589

Between the quarters ended December 28, 2008 and December 30, 2007, net sales originating from the United States and Europe increased $1.8 million and $13.7 million, respectively, while net sales originating from Asia decreased $8.4 million. The increase in net sales originating from Europe was primarily due to the transition of product lines to our facility in Ireland. The decrease in net sales in Asia was primarily due to a decrease in net sales of products, primarily in the mobile connectivity and notebook / LCD TV / display end markets, shipped from our facilities in Asia.

11. RESTRUCTURING AND SEVERANCE CHARGES

In April 2005, we announced the consolidation of operations in Broomfield, Colorado into other Microsemi facilities. Broomfield has approximately 70 employees and occupies a 130,000 square foot owned facility. Broomfield accounted for approximately 2% and 8% of net sales in the first quarters of fiscal years 2008 and 2009, respectively. The

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increase in the sales percentage relates to our customers taking a larger stocking position during the transition of product lines at the Broomfield facility to other Microsemi facilities. In the second quarter of fiscal year 2005, we recorded estimated severance payments of $1,134,000 in accordance with SFAS 112. The severance payments cover approximately 148 employees, including 14 management positions. Severance payments commenced in the second quarter of fiscal year 2006.

For the quarter ended December 28, 2008, we recorded restructuring expenses of $1,905,000, of which ($19,000) related to consolidation activities for the Broomfield facility and $1,924,000 related to severance from a reduction in force at our various facilities, of which $1,067,000 has been paid, with substantially the remaining balance expected to be paid within the next twelve months. The restructuring expense at facilities other than Broomfield covered approximately 100 individuals in manufacturing, engineering and sales.

The following table reflects the activities related to the consolidation of Broomfield and the accrued liabilities in the consolidated balance sheets at the date below (amounts in thousands):

	Employee Severance
Balance at September 28, 2008	$ 959
Provisions	(19)
Cash Expenditures	(32)
Balance at December 28, 2008	$ 908

12. REVOLVING CREDIT FACILITY

We entered into an unsecured Revolving Credit Agreement dated as of December 29, 2006 with Comerica Bank (the Revolving Credit Agreement) with maximum available borrowing amounts set at $75 million, $60 million and $50 million in the agreement s first, second and third years, respectively. However, due to certain restrictions, the amount actually available to us for borrowing at any given time could be less than the maximum amount stated. As of December 28, 2008, we were in the second year of the agreement and there were no borrowings outstanding against the Revolving Credit Agreement. As of December 28, 2008, $0.4 million was outstanding in the form of a letter of credit, and $59.6 million was available for borrowing under the Revolving Credit Agreement. The Revolving Credit Agreement s Stated Maturity Date is January 1, 2010. Proceeds of borrowing under the Revolving Credit Agreement can be used for working capital and other lawful corporate purposes, and initial borrowings were used to finance a portion of the Company s acquisition of PowerDsine Ltd. Interest accruing on the amount of each revolving borrowing under the Revolving Credit Agreement is determined based upon the Company s choice of either a Prime based Advance or Eurodollar based Advance. Prime based Advances incur interest at a rate equal to the Prime Rate, as defined in the Revolving Credit Agreement, less 100 basis points. If the Company elects a Eurodollar based Advance, the borrowing bears interest at the Eurodollar based Rate, also defined in the Revolving Credit Agreement, which is determined, in part, by an Applicable Margin that fluctuates with the Company s Funded Debt to adjusted EBITDA ratio. Financial covenants, which include for example maintaining (i) a minimum four quarters adjusted EBITDA of $20,000,000 and (ii) a Maximum Funded Debt to adjusted EBITDA ratio of 2.00:1.00, establish both conditions and current limitations on available amounts of borrowings. As of December 28, 2008, we were in compliance with the financial covenants required by the Revolving Credit Agreement.

The Revolving Credit Agreement is subject to our satisfaction and performance of various affirmative and negative covenants. The negative covenants include, among others, limitations on material corporate transactions, borrowing, the creation of liens, sales of assets, acquisitions, mergers, and investments. There is no assurance possible that such restrictions will be waived. These covenants might, unless waived, deter some strategic corporate transactions or acquisitions that could have otherwise possibly enhanced value for our stockholders. Any real or alleged default by us under any of our obligations under the Revolving Credit Agreement could have material adverse consequences for our business and could materially adversely affect the value of an investment in our common stock.

The Revolving Credit Agreement is unsecured, which means that each of our assets is not subject to a lien, security interest or other encumbrance. However, we are subject to restrictions under the Revolving Credit Agreement against asset dispositions or financings, without the lender s prior written consent, or waiver, which may be granted or denied in the lender s discretion. In addition to our corporate parent company, Microsemi Corporation, several of our subsidiaries are also parties to the Revolving Credit Agreement, as follows: Microsemi Corp. Power Products Group, Microsemi Corp. Analog Mixed Signal Group, Microsemi Corp. Analog Mixed Signal Group, Ltd., Microsemi Corp. Massachusetts and Microsemi Corp. Scottsdale. The obligations of each company are joint and several under the Revolving Credit Agreement. Unless we are in compliance with the terms of the Revolving Credit Agreement, our subsidiaries cannot pay us any dividends. The position of the lender is and always shall be superior to our position as a stockholder of the subsidiaries. A

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sale or transfer of any of the parties to the Revolving Credit Agreement is subject to the lender s consent and approval. This may, depending on the circumstances, possibly impede a strategic corporate transaction that otherwise might have been possible and might have been in the best interest of our stockholders. In the future, other persons may from time to time become parties to the Revolving Credit Agreement, as lenders or otherwise.

13. ACQUISITION

In the first quarter of fiscal year 2009, we entered into a stock purchase agreement in which we acquired all the shares of Electro Module, Inc. and its wholly-owned subsidiary, Babcock, Inc. Babcock, Inc. is a leading manufacturer of high-reliability power supplies, relays and flat panel displays and supplies. This acquisition did not significantly impact results of operations, and on a pro forma basis, would not be material to our results of operations for the quarter ended December 28, 2008. We subsequently renamed Babcock, Inc., Microsemi Corp. Power Management Group (PMG).

The preliminary purchase consideration is as follows (amounts in thousands):

Cash consideration to Electro Module, Inc. stockholders	$ 23,198
Direct transaction fees and expenses	41
Total consideration	$ 23,239

The preliminary purchase consideration has been allocated based on the estimated fair values of assets acquired and liabilities assumed. Management s estimate of the purchase price allocation is as follows (amounts in thousands):

Cash and cash equivalents	$ 1,372
Accounts receivable	5,725
Inventories	1,402
Other current assets	4,321
Property and equipment, net	1,105
Goodwill	9,450
Intangible assets	13,230
Accounts payable	(2,072)
Accrued liabilities	(5,958)
Deferred income tax liability long term	(5,336)
Total consideration	$ 23,239

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

	Asset Amount	Useful Life (Years)
Completed technology	$ 9,190	3 to 8
Backlog	1,840	3
Customer relationships	1,880	10
Trade name	320	3
	$ 13,230	

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

OVERVIEW

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 the Annual Report on Form 10-K for the fiscal year ended September 28, 2008.

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Microsemi is a leading designer, manufacturer and marketer of high-performance analog and mixed-signal integrated circuits and high-reliability semiconductors. Our semiconductors manage and control or regulate power, protect against transient voltage spikes and transmit, receive and amplify signals.

Our 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.

We currently serve a broad group of customers with none of our customers accounting for more than 10% of our revenue in the first quarter of fiscal year 2008 or 2009. We also serve a variety of end markets, which we generally classify as follows:

Defense We offer a broad selection of products including mixed-signal analog integrated circuits, JAN, JANTX, JANTXV and JANS high-reliability discrete semiconductors and modules including diodes, zeners, diode arrays, transient voltage suppressors, bipolar transistors, metal-oxide-semiconductor field-effect-transistors (MOSFETs), insulated gate bipolar transistors (IGBTs), small signal analog integrated circuits, small signal transistors, and silicon-controlled rectifiers (SCRs). These products are utilized in a variety of applications including radar and communications, targeting and fire control and other power conversion and related systems in military platforms.

Commercial air / satellite Our commercial air/space products include offerings such as JAN, JANTX, JANTXV and JANS high-reliability discrete semiconductors and modules and analog mixed-signal products including diodes, zeners, diode arrays, transient voltage suppressors, bipolar transistors, small signal analog integrated circuits, small signal transistors, SCRs, MOSFETs and IGBTs. These products are utilized in a variety of applications including commercial air 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.

Industrial / Semicap Products in this category include MOSFETs, IGBTs, power modules, bridge rectifiers and high voltage assemblies for use primarily in industrial equipment and semiconductor capital equipment.

Medical Our medical products, which include zener diodes, high voltage diodes, MOSFETs, IGBTs, transient voltage suppressors and thyristor surge protection devices, are designed into implantable defibrillators, pacemakers and neurostimulators. We are also a supplier of PIN diode switches, dual diode modules, and switched-most power supplies (SMPS) for use in MRI systems.

Mobile / Connectivity Our mobile connectivity products include broadband power amplifiers and monolithic microwave integrated circuits (MMICs) targeted at 802.11 a/b/g/n/e, multiple-in multiple-out (MIMO), wi-max wireless LAN devices and related equipment. Products also include power-over-ethernet (PoE,) a variety of DC-DC products, such as voltage regulators, PWM controllers, and light emitting diode (LED) drivers that are sold into the portable device set top box, and telecom applications.

Notebook/ LCD TV/ Display Products in this market are used in notebook computers, monitors, storage devices, and LCD televisions, and include cold cathode fluorescent lamp (CCFL) controllers, LED drivers, visible light sensors, PWM controllers, voltage regulators, EMI/RFI filters, transient voltage suppressors, sensors for auto-dimming rear view mirrors and class-D audio circuits.

In April 2005, we announced the consolidation of operations in Broomfield, Colorado into other Microsemi facilities. Broomfield has approximately 70 employees and occupies a 130,000 square foot owned facility. Broomfield accounted for approximately 2% and 8% of net sales in the first quarter of fiscal year 2008 and 2009, respectively. The increase in the sales percentage relates to our customers taking a larger stocking position during the transition of product lines at the Broomfield facility to other Microsemi facilities. In the second quarter of fiscal year 2005, we recorded estimated severance payments of $1,134,000 in accordance with SFAS 112. The severance payments cover approximately 148 employees, including 14 management positions. Severance payments commenced in the second quarter of fiscal year 2006.

For the quarter ended December 28, 2008, we recorded restructuring expenses of $1,905,000, of which ($19,000) related to consolidation activities for the Broomfield facility. The remaining $1,924,000 related to severance from a reduction in force at our various facilities, of which $1,067,000 has been paid, with substantially the remaining balance expected to be paid within the next twelve months. The restructuring expense at facilities other than Broomfield covered approximately 100 individuals in manufacturing, engineering and sales.

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ACQUISITION

In the first quarter of fiscal year 2009, we entered into a stock purchase agreement in which we acquired all the shares of Electro Module, Inc. and Babcock, Inc., its wholly-owned subsidiary. Babcock, Inc. is a leading manufacturer of high-reliability power supplies, relays and flat panel displays and supplies. This acquisition did not significantly impact results of operations and on a pro forma basis would not be material to our results of operations for the quarter ended December 28, 2008. We subsequently renamed Babcock, Inc., Microsemi Corp. Power Management Group (PMG).

RESULTS OF OPERATIONS FOR THE QUARTER ENDED DECEMBER 28, 2008 COMPARED TO THE QUARTER ENDED DECEMBER 30, 2007

Net sales increased $7.1 million or 5.8% from $123.5 million for the first quarter of fiscal year 2008 (Q1 2008) to $130.6 million for the first quarter of fiscal year 2009 (Q1 2009). Net sales by end markets are based on our understanding of end market uses of our products. An estimated breakout of net sales by end markets for Q1 2009 and Q1 2008 is approximately as follows (amounts in thousands):

	Q1 2009	Q1 2008
Commercial air / satellite	$ 33,853	$ 23,480
Defense	44,984	38,999
Industrial / Semicap	11,041	11,166
Medical	20,440	16,216
Mobile / Connectivity	12,947	19,934
Notebook / LCD TV / Display	7,329	13,679
	$ 130,594	$ 123,474

Net sales in the commercial air / satellite end market increased $10.4 million from $23.5 million in Q1 2008 to $33.9 million in Q1 2009. The increase was primarily driven by demand and order rates for commercial aircraft at aircraft manufacturers and tier one suppliers, as well as growing electronic content in current aircraft and demand for the high-reliability radar and avionics solutions we provide. In addition, PMG, which we acquired in Q1 2009, contributed approximately $4.2 million of net sales to this end market. We believe that announced delays in certain commercial aircraft programs will be offset by higher production of other aircraft types to replace aging and less fuel-efficient models, as well as increased refurbishment programs. Additionally, we believe that there is demand for commercial satellites and radar systems, especially with higher planned launch levels and expansion of airports in Asia.

Net sales in the defense end market increased $6.0 million from $39.0 million in Q1 2008 to $45.0 million in Q1 2009. Net sales in this end market continued to be solid with high historical demand, increasing electronic content in defense equipment and continual funding of new programs. We believe that growth areas include military avionics, ground transportation, surveillance equipment, joint service communications systems, naval vessels, radars, missiles and advanced combat unit electronics. Based on our backlog and anticipated increases in both domestic and international defense spending, we expect to see increasing sales in this end market.

Net sales in the industrial / semicap market decreased $0.2 million from $11.2 million in Q1 2008 to $11.0 million in Q1 2009, with the decrease primarily attributable to a decrease in sales for use in semicap applications. While net sales of industrial applications displayed some resiliency, in particular with emerging alternative energy applications, we expect a decline in net sales from this end market.

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Net sales in the medical end market increased $4.2 million, from $16.2 million in Q1 2008 to $20.4 million in Q1 2009. Increasing functionality and device integration in implantable medical devices, such as defibrillators and pacemakers, have resulted in increases in both dollars per unit and unit content per device. We received a large purchase order related to implantable medical components that we expect to fill over the course of fiscal year 2009 that will contribute to growth in this end market. Based on our current bookings, we expect continuing strength in the implantable medical business in upcoming quarters.

Net sales in the mobile / connectivity end market decreased $7.0 million, from $19.9 million in Q1 2008 to $12.9 million in Q1 2009. As enterprise demand has waned in the current economic environment, we expect that net sales in this end market will continue to decline in upcoming quarters.

Net sales in the notebook / LCD television / display end market decreased $6.4 million, from $13.7 million in Q1 2008 to $7.3 million in Q1 2009. While we gained market share in our LCD TV business for CCFL with notable design win strength from our Tier 1 customers in Japan and Korea and we saw strong interest in our next generation backlighting solutions and notebook design wins, LCD TV remains the largest component of this end market and leading LCD TV manufacturers and panel suppliers have noted slowing demand. In total, we expect a decline in this end market in the upcoming quarters.

An estimated breakout of net sales by originating geographic area for Q1 2009 and Q1 2008 is approximately as follows (amounts in thousands):

	Q1 2009	Q1 2008
United States	$ 62,026	$ 60,179
Europe	36,808	23,126
Asia	31,760	40,169
Total	$ 130,594	$ 123,474

Between Q1 2009 and Q1 2008, net sales originating from the United States and Europe increased $1.8 million and $13.7 million, respectively, while net sales originating from Asia decreased $8.4 million. The increase in net sales originating from Europe was primarily due to the transition of product lines to our facility in Ireland. The decrease in net sales in Asia was primarily due to a decrease in net sales of products, primarily in the mobile connectivity and notebook / LCD TV / display end markets, shipped from our facilities in Asia.

On January 22, 2009, we announced that for the second quarter of fiscal year 2009, we expect our net sales will decrease between 16% and 20% sequentially. We expect steady demand for our commercial air / satellite, defense, and medical products and a decline in demand of industrial / semicap, mobile / connectivity and notebooks / LCD TV / display products.

Gross profit increased $7.9 million, from $52.5 million (42.6% of sales) for Q1 2008 to $60.4 million (46.3% of sales) for Q1 2009. The increase in gross profit related primarily to higher net sales. Gross profit percentage increased primarily due to progress in our facility rationalization, which has reallocated production, particularly to our Ireland manufacturing facility.

Selling, general and administrative expenses increased $3.8 million from $26.8 million for Q1 2008 to $30.6 million for Q1 2009. The increase was primarily due to higher stock based compensation expense of $1.8 million, $0.3 million in higher legal expenses and incrementally higher costs to support our increased sales.

The effective tax rate was 29.1% for Q1 2008 and 9.4% for Q1 2009. The Q1 2009 effective tax rate was impacted by a shift of income earned to lower tax rate jurisdictions. In addition, the retroactive reinstatement of the federal research and development tax credit to January 1, 2008, decreased the effective tax rate for Q1 2009 by approximately 5.7%.

The Company had gross unrecognized tax benefits of approximately $15,597,000 and $15,343,000 at December 28, 2008 and September 28, 2008, respectively. These amounts include approximately $2,705,000 and $2,524,000 of interest and penalty at December 28, 2008 and September 28,2008, respectively. Substantially all of the gross unrecognized tax benefits, if recognized, would impact the Company s effective tax rate in the period of recognition.

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We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2004 through 2007 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2003 through 2007 tax years generally remain subject to examination by tax authorities.

CAPITAL RESOURCES AND LIQUIDITY

As of December 28, 2008, we had no material commitments for capital expenditures. Based upon information currently available to us, we believe that we can meet our cash requirements and capital commitments in the foreseeable future with cash balances, internally generated funds from ongoing operations and, if necessary, from the available Revolving Credit Agreement.

In Q1 2009, we financed our operations with cash generated from operations.

Net cash provided by operating activities increased $14.0 million from $7.8 million in Q1 2008 to $21.8 million in Q1 2009. Significant factors that increased net cash provided by operating activities included higher net income of $4.6 million which included $1.8 million of higher stock based compensation expense, $0.7 million higher depreciation and amortization expense, offset by a lower non-cash in-process research charge of $0.4 million. Operating cash flow further increased due to a $13.8 million lower increase in accounts receivable, $2.3 million in higher other current assets, $2.2 million in higher deferred income taxes and $0.8 million in higher income taxes payable. Offsetting these increases were a greater increase in inventory of $3.7 million and higher accounts payable and accrued liabilities of $8.2 million.

We invest cash balances in excess of projected liquidity needs primarily in money market funds and auction rate securities. All of our investments to date have maintained triple-A ratings; however, recent credit market disruptions, particularly related to auction rate securities, may adversely affect the ratings of our investments. At December 28, 2008, our investment in auction rate securities consisted of auction rate bonds whose principal and interest are federally guaranteed by the Family Federal Education Loan Program. We previously had a practice of investing in auction rate securities and selling the securities prior to our interim and year end reporting periods. We purchased the auction rate securities held at December 28, 2008 in January 2008 and began to experience auction failures beginning in mid-February 2008 that have impacted the liquidity of our investment in auction rate securities. Auction failures do not represent a default of the security.

We have entered into a settlement agreement with the financial institution where we hold our investment in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased $15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our $46.6 million investment in auction rate bonds back to the financial institution at par plus accrued interest beginning June 30, 2010; and c) we are permitted to borrow at no net cost the full par value of our investment in auction rate bonds.

We adopted the provisions of SFAS 157, Fair Value Measurements (SFAS 157) and related FASB Staff Positions effective September 29, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 creates a hierarchy and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories: Level 1 quoted market prices in active markets for identical assets and liabilities that an entity has the ability to access at the measurement date; Level 2 observable market-based inputs or unobservable inputs that are corroborated by market data for the asset or liability at the measurement date and Level 3 unobservable inputs that are not corroborated by market data used when there is minimal market activity for the asset or liability at the measurement date. Fair value measurements of assets and liabilities are assigned a level within the fair value hierarchy based on the lowest level of any input that is significant to the fair value measurement in its entirety.

We also adopted the provisions of SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We have elected to measure the fair value of the auction rate securities settlement agreement at fair value.

Our cash and cash equivalents are classified as Level 1 and our investments in auction rate securities and the fair value of the settlement agreement are classified as Level 3. For our investment in auction rate securities, we performed a discounted cash flow analysis using current and projected coupon rates compared to a market yield on comparable instruments with terms of approximately five years, our estimated time to redemption absent the impact of the settlement agreement. We also evaluated counterparty risk with regards the settlement agreement and concluded, as of December 28, 2008, that non-performance risk was nominal. Based on the results of our discounted cash flow analysis, we concluded that the fair value of our investment in auction rate securities should be discounted approximately $1.3 million; however, any other-than temporary impairment in the fair value of our auction rate securities would be offset substantially by the fair value

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recognized for the rights provided to us in the settlement agreement. As such, the investment in auction rate securities and the fair value of the auction rate securities settlement agreement are recorded at $46.6 million, the par value of the auction rate bonds. In addition, based on the no net cost loan feature of the settlement, we have the ability to convert our investment in auction rate bonds to cash within our normal operating cycle, and as such, we have classified this investment in current assets.

However, given that there is currently no active secondary market for our investment in auction rate securities, the determination of fair market value in the future could be negatively impacted by many factors including but not limited to, failure of the financial institution to meet its obligations under the settlement agreement,, continuing illiquidity in the market for auction rate securities for an extended period of time, a lack of action by the issuers to establish different forms of financing to replace or redeem these securities, changes in the credit quality of the underlying securities and in market interest rates above contractual maximum interest rates on the underlying auction rate securities. Should credit market disruptions continue or increase in magnitude or if our assessment of the counterparty risk indicates an increased potential for non-performance, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. We currently do not anticipate additional impairment of our investments; however, if we had to record any impairment, for every 1% decline in principal, a pre-tax decrease in value of approximately $0.5 million would occur.

Accounts receivable decreased $3.0 million from $103.5 million at September 28, 2008 to $100.5 million at December 28, 2008. The decrease in accounts receivable was primarily due to lower sales in Q1 2009 versus the fourth quarter of fiscal year 2008.

Inventories increased $7.2 million, from $121.7 million at September 28, 2008 to $128.9 million at December 28, 2008, with the increase due primarily to expansion at our Ireland facility and the impact of PMG.

Current liabilities decreased $4.6 million from $67.2 million at September 28, 2008 to $62.6 million at December 28, 2008. The decrease was due primarily to a reduction in accrued bonuses of $7.6 million, a reduction of $1.1 million in accrued payroll, offset by $2.1 million in higher income taxes payable and $2.0 million in higher accounts payable and other accruals.

Net cash used in investing activities was $11.2 million for Q1 2009 and $15.2 million for Q1 2008. Net cash used in investing activities in Q1 2009 primarily consisted of $21.9 million in net consideration paid related to the acquisition of Babcock, Inc. and $4.2 million in purchases of property, plant and equipment. These amounts were offset by $15.5 million in proceeds from the disposition of available for sale securities. In Q1 2008, net cash used in investing activities primarily consisted of $8.9 million in net consideration paid related to the acquisitions of Microwave Device Technology Corporation and TSI Microelectronics Corporation and $5.2 million related to the purchases of property, plant and equipment.

Net cash provided by financing activities was $0.4 million in Q1 2009 and $5.1 million in Q1 2008. Net cash provided by financing activities in Q1 2009 consisted primarily of proceeds from stock option exercises. Net cash provided by financing activities in Q1 2008 consisted primarily of $4.3 million in proceeds from stock option exercises and $0.7 million in excess tax benefits from stock awards.

We had $118.3 million and $107.2 million in cash and cash equivalents at December 28, 2008 and September 28, 2008, respectively.

Current ratios were 6.7 to 1 and 6.2 to 1 at December 28, 2008 and September 28, 2008, respectively.

We entered into an unsecured Revolving Credit Agreement dated as of December 29, 2006 with Comerica Bank (the Revolving Credit Agreement) with maximum available borrowing amounts set at $75 million, $60 million and $50 million in the agreement s first, second and third years, respectively. However, due to certain restrictions, the amount actually available to us for borrowing at any given time could be less than the maximum amount stated. As of December 28, 2008, we were in the second year of the agreement and there were no borrowings outstanding against the Revolving Credit Agreement. As of December 28, 2008, $0.4 million was outstanding in the form of a letter of credit, and $59.6 million was available for borrowing under the Revolving Credit Agreement. The Revolving Credit Agreement s Stated Maturity Date is January 1, 2010. Proceeds of borrowing under the Revolving Credit Agreement can be used for working capital and other lawful corporate purposes, and initial borrowings were used to finance a portion of the Company s acquisition of PowerDsine Ltd. Interest accruing on the amount of each revolving borrowing under the Revolving Credit Agreement is determined based upon the Company s choice of either a Prime based Advance or Eurodollar based Advance. Prime based Advances incur interest at a rate equal to the Prime Rate, as defined in the Revolving Credit Agreement, less 100 basis points. If the

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Company elects a Eurodollar based Advance, the borrowing bears interest at the Eurodollar based Rate, also defined in the Revolving Credit Agreement, which is determined, in part, by an Applicable Margin that fluctuates with the Company s Funded Debt to adjusted EBITDA ratio. Financial covenants, which include for example maintaining (i) a minimum four quarters adjusted EBITDA of $20,000,000 and (ii) a Maximum Funded Debt to adjusted EBITDA ratio of 2.00:1.00, establish both conditions and current limitations on available amounts of borrowings. As of December 28, 2008, we were in compliance with the financial covenants required by the Revolving Credit Agreement.

The Revolving Credit Agreement is subject to our satisfaction and performance of various affirmative and negative covenants. The negative covenants include, among others, limitations on material corporate transactions, borrowing, the creation of liens, sales of assets, acquisitions, mergers, and investments. There is no assurance possible that such restrictions will be waived. These covenants might, unless waived, deter some strategic corporate transactions or acquisitions that could have otherwise possibly enhanced value for our stockholders. Any real or alleged default by us under any of our obligations under the Revolving Credit Agreement could have material adverse consequences for our business and could materially adversely affect the value of an investment in our common stock.

The Revolving Credit Agreement is unsecured, which means that each of our assets is not subject to a lien, security interest or other encumbrance. However, we are subject to restrictions under the Revolving Credit Agreement against asset dispositions or financings, without the lender s prior written consent, or waiver, which may be granted or denied in the lender s discretion. In addition to our corporate parent company, Microsemi Corporation, several of our subsidiaries are also parties to the Revolving Credit Agreement, as follows: Microsemi Corp. Power Products Group, Microsemi Corp. Analog Mixed Signal Group, Microsemi Corp. Analog Mixed Signal Group, Ltd., Microsemi Corp. Massachusetts and Microsemi Corp. Scottsdale. The obligations of each company are joint and several under the Revolving Credit Agreement. Unless we are in compliance with the terms of the Revolving Credit Agreement, our subsidiaries cannot pay us any dividends. The position of the lender is and always shall be superior to our position as a stockholder of the subsidiaries. A sale or transfer of any of the parties to the Revolving Credit Agreement is subject to the lender s consent and approval. This may, depending on the circumstances, possibly impede a strategic corporate transaction that otherwise might have been possible and might have been in the best interest of our stockholders. In the future, other persons may from time to time become parties to the Revolving Credit Agreement, as lenders or otherwise.

Costs associated with the consolidation of Broomfield are estimated to range from $5.0 million to $7.0 million, excluding any gain or loss from future dispositions of the plant and property. We anticipate that our cash and cash equivalents will be our primary source for paying such expenditures.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 157 and Related FASB Staff Positions

In September 2006, the FASB issued SFAS 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. In February 2008, the FASB released FASB Staff Position (FSP) No. 157-1, Application of FASB Statement No. 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 (FSP 157-1) and FSP No. 157-2, Partial Deferral of the Effective Date of Statement 157 (FSP 157-2). In October 2008, the FASB released FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP 157-3). FSP 157-1 removes leasing transactions accounted for under FASB Statement 13 and related guidance from the scope of SFAS 157. FSP 157-2 defers the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those years (our fiscal year 2010). FSP 157-3 clarifies the application of SFAS 157 in an inactive market and illustrates key considerations in determining the fair value of a financial asset in an inactive market. We adopted the provisions of SFAS 157 and related FSPs in the first quarter of fiscal year 2009. The adoption of SFAS 157 did not result in a material impact to our consolidated financial position, results of operations or cash flows. We are currently evaluating the potential impact of FSP 157-2 with regards to the potential impact of SFAS 157 on nonfinancial assets and nonfinancial liabilities.

Statement of Financial Accounting Standards No. 159

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (FAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We adopted the provisions of SFAS 159 in the first quarter of fiscal year 2009 and elected the fair value option in valuing our settlement agreement related to auction rate securities. The adoption of SFAS 159 did not result in a material impact to our consolidated financial position, results of operations or cash flows.

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Statement of Financial Accounting Standards No. 141R and No. 160

In December 2007, the FASB concurrently issued SFAS 141(R), Business Combinations (SFAS 141R), and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). SFAS 141R replaces SFAS 141 and provides greater consistency in the accounting and financial reporting of business combinations. SFAS 141R requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, establishes principles and requirements for how an acquirer recognizes and measures any non-controlling interest in the acquiree and the goodwill acquired, and requires the acquirer to disclose the nature and financial effect of the business combination. Among other changes, this statement also required that negative goodwill be recognized in earnings as a gain attributable to the acquisition and that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred. In the event an entity holds less than a full ownership interest, SFAS 160 provides for the recognition, measurement and subsequent accounting for the non-controlling interest included in the entity s consolidated financial statements. SFAS 141R and SFAS 160 are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (our fiscal year 2010). We are currently evaluating the potential impact of SFAS 141R and SFAS 160 but it is dependent on the specific terms of any potential future business combinations or acquisitions involving non-controlling interests.

Statement of Financial Accounting Standards No. 161

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective as of the beginning of an entity s first fiscal period, including interim periods, that begins after November 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the potential impact on our financial disclosure of SFAS 161.

FASB Staff Position No. 142-3

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS 141(R) and other U.S. generally accepted accounting principles. FSP 142-3 is effective for intangible assets acquired on or after the beginning of an entity s first fiscal period, including interim periods, that begin after December 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the potential impact of FAS 142-3 but the potential impact is dependent on the specific terms of any future business combinations or acquisitions.

Statement of Financial Accounting Standards No. 162

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We are currently evaluating the impact of SFAS 162.

Emerging Issues Task Force Issue No. 08-7

In November 2008, the Emerging Issues Task Force (EITF) of the FASB reached a final consensus on EITF Issue No. 08-7, Accounting for Defensive Intangible Assets (EITF 08-7). The EITF reached a final consensus that a defensive intangible asset should be considered a separate unit of accounting and not be combined with an existing asset whose value it may enhance. In addition, a useful life should be assigned that reflects the acquiring entity s consumption of the defensive asset s expected benefits. If the final consensus is ratified by the FASB, the guidance in EITF 08-7 will be applied prospectively for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (our fiscal year 2010). We are currently evaluating the impact of EITF 08-7 but the potential impact is dependent on the specific terms of any future business combinations or acquisitions.

SIGNIFICANT 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 which we believe could have the most significant effect on our reported results and require subjective or complex judgments is contained 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 September 28, 2008.

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 invest cash balances in excess of projected liquidity needs primarily in money market funds and auction rate securities. All of our investments to date have maintained triple-A ratings; however, recent credit market disruptions, particularly related to auction rate securities, may adversely affect the ratings of our investments. At December 28, 2008, our investment in auction rate securities consisted of auction rate bonds whose principal and interest are federally guaranteed by the Family Federal Education Loan Program. We previously had a practice of investing in auction rate securities and selling the securities prior to our interim and year end reporting periods. We purchased the auction rate securities held at December 28, 2008 in January 2008 and began to experience auction failures beginning in mid-February 2008 that have impacted the liquidity of our investment in auction rate securities. Auction failures do not represent a default of the security.

We have entered into a settlement agreement with the financial institution where we hold our investment in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased $15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our $46.6 million investment in auction rate bonds back to the financial institution at par plus accrued interest beginning June 30, 2010; and c) we are permitted to borrow at no net cost the full par value of our investment in auction rate bonds.

Based on the no net cost loan feature of the settlement, we have the ability to convert our investment in auction rate bonds to cash within our normal operating cycle, and as such, we have classified this investment in current assets. At December 28, 2008, we concluded that any potential other-than-temporary impairment in the fair value of our auction rate securities would be offset substantially by the value recognized for the rights provided to us in the settlement agreement. As such, the investment in auction rate bonds and the fair value of the settlement agreement are recorded at $46.6 million, the par value of the auction rate bonds. However, given that there is currently no active secondary market for our investment in auction rate securities, the determination of fair market value in the future could be negatively impacted by many factors including but not limited to, failure of the financial institution to meet its obligations under the settlement agreement, continuing illiquidity in the market for auction rate securities for an extended period of time, a lack of action by the issuers to establish different forms of financing to replace or redeem these securities, changes in the credit quality of the underlying securities and in market interest rates above contractual maximum interest rates on the underlying auction rate securities. Should credit market disruptions continue or increase in magnitude or if our assessment of the counterparty risk indicates an increased potential for non-performance, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. We currently do not anticipate additional impairment of our investments; however, if we had to record any impairment, for every 1% decline in principal, a pre-tax decrease in value of approximately $0.5 million would occur.

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

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fluctuations in the value of foreign currencies will not have material adverse effects on our results of operations, cash flows or financial condition. We have not conducted a foreign currency hedging program thus far. We have and may continue to consider the adoption of a foreign currency hedging program.

We did not enter into derivative financial instruments and did not enter into any other financial instruments for trading or speculative purposes or to hedge exposure to interest rate risks. Our other financial instruments consist primarily of cash, accounts receivable, accounts payable and long-term obligations. Our exposure to market risk for changes in interest rates relates primarily to our short-term investments and short-term obligations. As a result, we do not expect fluctuations in interest rates to have a material impact on the fair value of these instruments. Accordingly, we have not engaged in transactions intended to hedge our exposure to changes in interest rates.

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 December 28, 2008.

(b) Changes in internal control over financial reporting.
During the first quarter of fiscal year 2009, there have been 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 21, 2008 for our fiscal year ended September 28, 2008, we previously 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.

We assumed legal exposures in connection with our acquisition of PowerDsine, Ltd. (PDL), including exposures related to a complaint filed against PDL and its subsidiary, PowerDsine, Inc. (together with PDL, the PD Companies), by ChriMar Systems, Inc. (ChriMar) on October 26, 2001 (the Complaint). The Complaint, which was filed by ChriMar in the United States District Court for the Eastern District of Michigan, Southern Division (the Court), alleges that products manufactured and sold by the PD Companies infringe United States Patent Number 5,406,260 assigned to ChriMar and requests, inter alia, damages and injunctive relief. On February 21, 2002, the PD Companies filed an answer denying all of the allegations stated in the Complaint and raising several affirmative defenses to the claims asserted. On May 15, 2003, the Court stayed the proceeding between ChriMar and the PD Companies pending resolution of a lawsuit filed by ChriMar against Cisco Systems, Inc. (Cisco), alleging that Cisco products infringed the same patent asserted against the PD Companies. In August 2006, following settlement of the case against Cisco, the Court issued an order to commence discovery. The discovery order was stayed in 2006 after ChriMar filed separate patent infringement actions against both D-Link Systems and Foundry Networks. The Court subsequently combined these actions with the case against the PD Companies for partial joint administration. No trial date has been set. The Court has issued a construction of the applicable claims involved in the case and discovery has commenced and must be completed by the end of January 2009. Based on the application of industry statistics relating to outcome of patent litigation matters, we believe that there might be a possibility for exposure and have provided for the estimated potential loss, in accordance with SFAS 5, Accounting for Contingencies.

On December 18, 2008, the Department of Justice instituted a proceeding against us in the United States District Court for the Eastern District of Virginia in connection with our acquisition of certain assets from SEMICOA. In the complaint, the Department of Justice alleges that the Company s acquisition of assets from SEMICOA substantially lessened competition in the manufacture and sale of certain small signal transistors and diodes that meet Department of Defense standards. The principal remedy requested by the Department of Justice is divestiture of the assets acquired. The Company intends to defend the case vigorously.

On January 9, 2009, the International Trade Commission announced that it had voted to commence an investigation as to whether one of our products (as incorporated into one of our customer s products) infringes a patent owned by O2Micro International Limited. The principal remedy if infringement is found will be a bar on importation of the product involved. The Company is cooperating with the investigation.

Item 1A. RISK FACTORS

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 21, 2008. For the convenience of our readers, our updated risk factors are included below in this Item 1A.

Our investments in securities, including auction rate 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 and auction rate securities. All of our investments to date have maintained triple-A ratings; however, recent credit market disruptions, particularly related to auction rate securities, may adversely affect the ratings of our investments. At December 28, 2008, our investment in auction rate securities consisted of auction rate bonds whose principal and interest are federally guaranteed by the Family Federal Education Loan Program. We previously had a practice of investing in auction rate securities and selling the securities prior to our interim and year end reporting periods. We purchased the auction rate securities held at December 28, 2008 in January 2008 and began to experience auction failures beginning in mid-February 2008 that have impacted the liquidity of our investment in auction rate securities. Auction failures do not represent a default of the security.

We have entered into a settlement agreement with the financial institution where we hold our investment in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased $15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our $46.6 million investment in auction rate bonds back to the financial institution at par plus accrued interest beginning June 30, 2010; and c) we are permitted to borrow at no net cost the full par value of our investment in auction rate bonds.

Based on the no net cost loan feature of the settlement, we have the ability to convert our investment in auction rate bonds to cash within our normal operating cycle, and as such, we have classified this investment in current assets. At December 28, 2008, we concluded that any potential other-than-temporary impairment in the fair value of our auction rate securities would be offset substantially by the value recognized for the rights provided to us in the settlement agreement. As such, the investment in auction rate bonds and the fair value of the settlement agreement are recorded at $46.6 million, the par value of the auction rate bonds. However, given that there is currently no active secondary market for our investment in auction rate securities, the determination of fair market value in the future could be negatively impacted by many factors including but not limited to, failure of the financial institution to perform, continuing illiquidity in the market for auction rate securities for an extended period of time, a lack of action by the issuers to establish different forms of financing to replace or redeem these securities, changes in the credit quality of the underlying securities and in market interest rates above contractual maximum interest rates on the underlying auction rate securities. Should credit market disruptions continue or increase in magnitude or if our assessment of the counterparty risk indicates an increased potential for non-performance, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. We currently do not anticipate additional impairment of our investments; however, if we had to record any impairment, for every 1% decline in principal, a pre-tax decrease in value of approximately $0.5 million would occur.

There can be no assurance that the financial institution will have sufficient assets in the future to repurchase our auction rate bonds if and when we exercise our right to sell such bonds to the financial institution. While it is our current assessment that this financial institution is well capitalized and able to meet its obligations with regards to the settlement, given the current uncertainty in the financial services sector, we are subject to counterparty risk with regards to the settlement. Should this financial institution be unable to meet its obligation with regards to the settlement agreement, neither the credit ratings nor the guarantee of the Family Federal Education Loan Program would be directly affected; however, we may not be able to liquidate our investment in auction rate securities until after June 30, 2010 or at all.

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,

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products during the down portions of these cycles, which have sometimes been severe and prolonged. In the future, these downturns may prove to be as, or possibly even more, severe than past ones. Our ability to sell our products depends, in part, on continued demand in a large number of markets, including the mobile connectivity, automotive, telecommunications, computers/peripherals, defense and aerospace, space/satellite, industrial/commercial and medical markets. Each of these end-markets has in the past experienced reductions in demand, and future downturns in any of these markets may adversely affect our revenues, operating results and financial condition.

Current 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, the U.S. mortgage market, declining real estate values, increased energy costs, decreased consumer confidence and spending and added concerns fueled by the U.S. federal government s interventions in the U.S. financial and credit markets. These conditions have contributed to instability in both U.S. and international capital and credit markets and diminished expectations for the U.S. and global economy. In addition, these conditions make it extremely difficult for our customers to accurately forecast and plan future business activities and could cause U.S. and foreign businesses to slow spending on our products, which could cause our sales to decrease or result in an extension of our sales cycles. Further, given the current unfavorable economic environment, 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 the economy or markets in which we operate continue to be subject to these adverse economic conditions, our business, financial condition, cash flow and results of operations will be adversely affected.

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 in advance, 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, current unfavorable economic conditions, which have resulted in a tightening of the credit markets, may contribute to a decline in our average selling prices. In addition, our competitors have in the past, and may again in the future, lower prices in order to increase their market share. Continued downward price pressure in the industry may reduce our operating results and harm our financial and competitive position.

The semiconductor industry is highly competitive.

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

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

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competitiveness of designs that we have introduced, including integrated circuits and subsystems such as class D audio subsystems for newly-introduced home theatre DVD players supporting surround sound, power-over-ethernet, PDA backlighting subsystems, backlight control and power management solutions for the automotive notebook computer, monitors and the LCD TV market, LED driver solutions and power amplifiers for certain wireless LAN components, are subject to various risks and uncertainties that we are not able to control, including changes in customer demand and the introduction of new or superior technologies by others. Moreover, any failure by us in the future to develop new technologies or timely react to changes in existing technologies could materially delay our development of new products, which could result in product obsolescence, decreased revenues and a loss of our market share to our competitors. New technologies or products that we may develop may not lead to an incremental increase in revenues, and there is a risk that these new technologies or products will decrease the demand for our existing products and result in an offsetting reduction in revenues. In addition, products or technologies developed by others may render our products or technologies obsolete or non-competitive. A fundamental shift in technologies in our product markets could have a material adverse effect on our competitive position within the industry.

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

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

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

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

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

Our ability to fulfill our customer demand for our products is and will continue to be dependent in part on our order volumes, 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 commercial air / satellite, defense and 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.

Current unfavorable 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. Current unfavorable domestic and global economic conditions are likely to have an adverse impact on demand in these markets by reducing overall consumer spending or shifting consumer spending to products other than those made by our customers. 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.

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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 OEM s can also result in fluctuations in order rates.

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.

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.

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

Net sales from foreign markets represent a significant portion of total net sales. Our net sales to foreign customers represented approximately 33% of net sales for each of fiscal years 2006 and 2007 and 40% for fiscal year 2008. These sales were principally to customers in Europe and Asia. Foreign sales are classified as shipments to foreign destinations. We maintain facilities or contracts with entities in several foreign countries, including Korea, Japan, Singapore, 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 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;

- Transportation delays;

- Communication interruptions;

- Work stoppages or disruption of local labor supply and/or transportation services;

- Economic and political instability, particularly the current uncertainty in the global financial markets;

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

- Changes in import/export regulations, tariffs and freight rates;

- Difficulties in collecting receivables and enforcing contracts generally; and

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

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.

The concentration of the factories that service the semiconductor industry 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 factories that serve or supply this industry, tend to be concentrated in certain areas of the world. Disruptive events, such as natural disasters, epidemics and health advisories like those related to Sudden Acute Respiratory Syndrome or Avian Influenza, 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 our products and result in a loss of sales and revenue. Similarly, a localized health 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.

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.

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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 1 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, depend, in part, upon obtaining, in some instances, 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, given the recent downturn in domestic and global economic conditions, 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. While we believe that alternate suppliers for these materials, parts and equipment are available, an interruption could adversely affect our operations.

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.

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 81% of our assembly and packaging requirements and 16% of our wafer fabrication. We expect that these percentages may increase due, in part, to the manufacture of our next-generation products by third party subcontractors in Asia. The packaging of our products is performed by a limited group of subcontractors and some of the raw materials included in our products are obtained from a limited group of suppliers. Disruption or termination of any of these sources could occur and such disruptions or terminations could harm our business and operating results. In the event that any of our subcontractors were to experience financial, operational, production or quality assurance difficulties resulting in a reduction or interruption in supply to us, our operating results could suffer until alternate qualified subcontractors, if any, were to become available and active.

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

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

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, or DOD, and other U.S. government agencies. Future sales are subject to the uncertainties of governmental appropriations and national defense policies and priorities, and potential changes in these policies and priorities under a new administration. 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. Microsemi s aggregate net sales to defense markets represented approximately one-third of total net sales in fiscal years 2006, 2007 and 2008. From time to time, we have experienced declining defense-related sales, primarily as a result of contract award delays and reduced defense program funding. The timing and amount of an increase, if any, in defense-related business is uncertain. In the past, expected increases in defense-related spending has occurred at a rate that has been slower than expected. Our prospects for additional defense-related sales may be adversely affected in a material manner by numerous events or actions outside our control.

There may be unanticipated costs associated with adding to or supplementing our manufacturing capacity.

We anticipate that future growth of our business could 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;
- Delays in bringing new production equipment on-line;
- Delays in supplying satisfactory designs or products to our existing customers; and
- Unforeseen environmental, engineering or manufacturing qualification problems relating to existing or new facilities.

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

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 Capacity Optimization Enhancement Program, with 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.

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We may be unable to successfully 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. If we are unsuccessful in integrating these 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 the acquired companies, businesses or assets include those associated with:

- Unexpected losses of key employees or customers of the acquired company;
- Conforming the acquired company s standards, processes, procedures and controls with our operations;
- Coordinating new product and process development;
- Hiring additional management and other critical personnel;
- Increasing the scope, geographic diversity and complexity of our operations;
- Difficulties in consolidating facilities and transferring processes and know-how;
- Other difficulties in the assimilation of acquired operations, technologies or products;
- Diversion of management s attention from other business concerns; and
- Adverse effects on existing business relationships with customers.

In connection with acquisitions, we may:

- Use a significant portion of our available cash;
- Issue equity securities, which would dilute current stockholders percentage ownership;
- Incur substantial debt;
- Incur or assume contingent liabilities, known or unknown;

Incur impairment charges related to goodwill or other intangibles; and

Incur large, immediate accounting write-offs.

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.

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

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 20% and 13% of our annual net sales in fiscal years 2003 and 2004, respectively, 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 4% of our annual net sales in fiscal year 2008, had approximately 70 employees and occupied a 130,000 square foot owned facility.

We may make further specific determinations to consolidate, close or sell additional facilities, which could be announced at any time. Possible adverse consequences resulting from or related to such announcements may include various accounting charges such as for idle capacity, an inventory buildup in preparation for the transition of manufacturing, disposition costs, severance costs, impairments of goodwill and possibly an 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 fewer number of facilities. Our plans to minimize or eliminate any loss of revenues during consolidation may not be achieved.

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. While we plan generally to retain all of the 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 greater than anticipated costs incurred to achieve the hoped for longer-range savings.

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

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

There is at any time a risk that our products may be found to be defective or to contain, without the customer s knowledge, certain prohibited hazardous chemicals after we have already shipped the products in volume, perhaps requiring a product replacement or recall. We may be subject to product returns that could impose substantial costs and have a material and adverse effect on our business, financial condition and results of operations. Our aerospace (including aircraft), defense, medical and satellite 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 in turn 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 components 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 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 $530,000 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 $5,300,000; accordingly, we recorded a one-time charge of $530,000 for this project in fiscal year 2003. There has not been any significant development since September 28, 2003.

Litigation could adversely impact our consolidated financial position.

We are and have been involved in various pending litigation matters, including from time to time litigation relating to employment matters, commercial transactions, contracts, and environmental matters. 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 connected 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

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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 do so 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.

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 which 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, our certificate of incorporation and bylaws, and our Shareholder Rights Plan 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:

- The Shareholder Rights Plan, which provides that an acquisition of 20% or more of the outstanding shares without our Board s approval or ratification results in the exercisability of the Right accompanying each share of our common stock, thereby entitling the holder to purchase 1/4,000th of a share of Series A Junior Participating Preferred Stock for $100, resulting in dilution to the acquirer because each Right under some circumstances entitles the holder upon exercise to receive securities or assets valued at $200 and under other circumstances entitles the holder to ten (10) times the amount of any dividends or distributions on our common stock;

- 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.

In connection with our Shareholder Rights Plan, each share of our common stock, par value $0.20, also entitles the holder to one redeemable and cancellable Right (not presently exercisable), as adjusted from time to time, to a given fraction of a share of Series A Junior Participating Preferred Stock, at a given exercise price, as adjusted from time to time under the terms and conditions as set forth in a Shareholder Rights Agreement. The existence of the Rights may make it more difficult or impracticable for hostile change of control of us, which therefore may affect the anticipated return on an investor s investment in our common stock.

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

The market price of our stock has fluctuated widely. Between October 1, 2007 and December 28, 2008, the market sale price of our common stock ranged between a low of $10.34 and a high of $30.00. 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.

Our inventory levels have risen, which adversely affects cash flow.

Our inventory levels have recently risen. An increased inventory level adversely affects cash flow. The primary factor contributing to the increase in our inventory levels is work in progress in our satellite products because our satellite products require very long lead times for testing. A second factor impacting our inventory build up is the planned consolidation of our manufacturing operations between facilities. We built inventory cushions during the transition of manufacturing between facilities in order to maintain an uninterrupted supply of product. Obsolescence of any inventory could result in adverse effects on our future results of operations and future revenue.

There may be some potential effects of system outages.

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

Significant 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 also 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.

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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 Securities and Exchange Commission (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. This report is required to contain 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Inapplicable

Item 5. OTHER INFORMATION

We issued a press release and filed a Form 8-K on January 29, 2009 with respect to the results of the review by our Board of Directors and Governance and Nominating Committee into the academic credentials of Microsemi s President and Chief Executive Officer, James J. Peterson. On February 2, 2009, we received an informal inquiry from the Staff of the SEC s Division of Enforcement relating to the January 29, 2009 press release and Form 8-K. We are fully cooperating with the Staff of the SEC on this informal inquiry.

Item 6. EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Microsemi Corporation (1)
3.2	Certificate of Designation of Series A Junior Participating Preferred Stock (2)
3.2.1	Certificate of Amendment to Certificate of Designation of Series A Junior Participating Preferred Stock (3)
3.3	Amended and Restated Bylaws of Microsemi Corporation (4)
10.1	Executive Retention Agreement dated November 10, 2008 between John W. Hohener and Microsemi Corporation (5)*
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 7, 2008
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 7, 2008
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 7, 2008

Filed with this Report.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to applicable rules of the Securities and Exchange Commission.

(1) Incorporated by reference to the indicated Exhibit to the Registrant s Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on August 29, 2001.

(2) Incorporated by reference to the indicated Exhibit to the Registrant s Registration Statement on Form 8-A12G (File No. 0-08866) as filed with the Commission on December 29, 2000.

(3) Incorporated by reference to the indicated Exhibit to the Registrant s Annual Report on Form 10-K (File No. 0-08866) as filed with the Commission on December 16, 2005.

(4) Incorporated by reference to the indicated Exhibit to the Registrant s Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on September 3, 2008.

(5) Incorporated by reference to the indicated Exhibit to the Registrant s Current Report on Form 8-K (File No. 0-08866) as filed with the Commission on November 13, 2008.

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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: February 4, 2009

By: /s/ JOHN W. HOHENER
John W. Hohener
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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