# **MICROSEMI CORP**

# FORM 10-K (Annual Report)

# Filed 11/21/08 for the Period Ending 09/28/08

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549** 

# **FORM 10-K**

|   | TOKWI 10-K   |  |
|---|--|--|
| (Mark One)  ☑ ANNUAL REPORT PURSUAN'  OF 1934   | Γ TO SECTION 13 OR 15(d) OF T  | HE SECURITIES EXCHANGE ACT   |
| I   | For the fiscal year ended September 28, 200  | 08   |
|   | OR   |  |
| ☐ TRANSITION REPORT PURSU<br>ACT OF 1934  | UANT TO SECTION 13 OR 15(d) (  | OF THE SECURITIES EXCHANGE   |
| For the transition period from  | to   | _  |
|   | Commission file number # 000-08866   |  |
| MIC   | CROSEMI CORPORAT (Exact name of Registrant as specified in its charter)                              | TION   |
| Delaware  | (Exact name of registrant as specified in its charter)   | 95-2110371   |
| (State or other jurisdiction of incorporation or organization)  |  | (I.R.S. Employer<br>Identification No.)  |
|   | 2381 Morse Ave., Irvine, California 92614<br>(Address of principal executive offices) (Zip Code)     |  |
|   | (949) 221-7100<br>Registrant's telephone number, including area code                                 |  |
| Securit   | ies registered pursuant to Section 12(b) of  | the Act:   |
| Title of eac<br>Common Stock, \$<br>Rights to Purchase Series A Junio   | 0.20 par value;  | Name of each exchange on which registered NASDAQ Global Select Market                          |
| •   | ies registered pursuant to Section 12(g) of<br>None  | the Act:   |
| Indicate by check mark if the registrant is a $\Box$  | well-known seasoned issuer, as defined in R  | ule 405 of the Securities Act. Yes 🗵 No  |
| Indicate by check mark if the registrant is n   | ot required to file reports pursuant to Section  | 13 or Section 15(d) of the Act. Yes □ No   |
| Indicate by check mark whether the registra<br>Exchange Act of 1934 during the preceding 12 m<br>(2) has been subject to such filing requirements f |  |  |
| Indicate by check mark if disclosure of delicontained, to the best of registrant's knowledge, Form 10-K or any amendment to this Form 10-K          | in definitive proxy or information statements  | ion S-K is not contained herein, and will not be incorporated by reference in Part III of this |
| Indicate by check mark whether the registrate reporting company. See definitions of "large acc Exchange Act. (Check one):                           | ant is a large accelerated filer, an accelerated relerated filer," "accelerated filer" and "smaller" |  |
| Large Accelerated Filer ⊠ Non-Accelerated Filer □ (Do not check if a  | Accelerated Filer<br>Smaller Reporting<br>smaller reporting company)                                 |  |
| Indicate by check mark whether the registra   | ant is a shell company (as defined in Rule 12b   | o-2 of the Exchange Act. Yes □ No ⊠  |
| The aggregate market value of Common St 2008 was approximately \$1,752,441,000.   | ock held by non-affiliates of the registrant, ba   | ased upon the closing sale price on March 28,  |

# **Documents Incorporated by Reference**

The number of outstanding shares of Common Stock on November 18, 2008 was 81,064,373.

Part III: Incorporated by reference are portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on or about February 19, 2009. This proxy statement will be filed not later than 120 days after the close of the registrant's fiscal year ended

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

This Annual Report on Form 10-K 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," "forecast," "potential," "intend," "maintain," "continue" and variations of these words and comparable words. In addition, all of the information herein that does not state a historical fact is forward-looking, including any statement or implication about an estimate or a judgment, or an expectation as to a future time, future result or other future circumstance. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements in this Form 10-K 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, including in the defense, commercial air / satellite, industrial / semicap, medical, mobile / connectivity, and notebook / LCD television / display end markets;
- expectations regarding competitive conditions within the analog, mixed-signal and discrete semiconductor, integrated circuit or custom component assembly industries;
- new market opportunities and emerging applications for our products;
- expectations regarding the supply of raw materials;
- 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 below in this Annual Report on Form 10-K, 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.

### **PART I**

### ITEM 1. BUSINESS

# **INTRODUCTION**

Microsemi Corporation was incorporated in Delaware in 1960. Our name was changed from Microsemiconductor Corporation in February 1983. Unless the context otherwise requires, the "Company," "Microsemi," "we," "our," "ours" and "us" refer to Microsemi Corporation and its consolidated subsidiaries. Our principal executive offices are located at 2381 Morse Avenue, Irvine, California 92614 and our telephone number is (949) 221-7100.

We are 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 operate in a single industry segment as a manufacturer of semiconductors in different geographic areas.

We file Forms 10-Q, 10-K, 8-K and other reports to the SEC as required. The public may read and copy any materials that we filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding our electronic filings. The address of that site is <a href="http://www.sec.gov">http://www.sec.gov</a>.

Our website address is <a href="http://www.microsemi.com">http://www.microsemi.com</a>. Our filings with the SEC of annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to such forms, are made accessible on such website as soon as reasonably practicable after such documents are electronically filed with or furnished to the SEC and are always available free of charge. Also accessible on our website are our code of ethics, governance guidelines and charters for the Executive Committee, Governance and Nominating Committee, Compensation Committee and Audit Committee of our Board of Directors. Such website is not intended to constitute any part of this report.

Please read the information under the heading "IMPORTANT FACTORS RELATED TO FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS" above, which describes and refers to some of the important risks and uncertainties that could affect Microsemi's future business and prospects.

# **PRODUCTS**

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. The principal end markets that we serve include commercial air / satellite, defense, industrial / semicap, medical, mobile / connectivity and notebook / LCD TV / display.

Our integrated circuits ("IC') products offer light, sound and power management for desktop and mobile computing platforms, LCD TVs as well as other power control applications. Power management generally refers to a class of standard linear integrated circuits ("SLICs") that perform voltage regulation and reference in most

electronic systems. The definition of power management has broadened in recent years to encompass other devices and modules, often application specific standard products ("ASSPs"), which address particular aspects of power management, such as audio or display related ICs. This business is composed of both a core platform of traditional SLICs, such as low dropout regulators ("LDOs") and pulse width modulators ("PWMs"), and differentiated ASSPs such as backlight inverters, audio amplification ICs and small computer standard interface terminators. Over the last year, our shipments of SLICs, motherboard LDOs and PWMs have become a less significant component, and our shipments of differentiated ASSPs, dual LDOs, switching regulators and power amplifiers have become a more significant component of our total sales. Our IC products are used in notebook computers, data storage, wireless LAN, LCD backlighting, LCD TVs, LCD monitors, automobiles, telecommunications, test instruments, defense and aerospace equipment, high-quality sound reproduction and data transfer equipment.

Our individual component semiconductor products include silicon rectifiers, zener diodes, low leakage and high voltage diodes, temperature compensated zener diodes, transistors, subminiature high power transient suppressor diodes and pin diodes used in magnetic resonance imaging ("MRI") machines. We also manufacture semiconductors for commercial applications, such as automatic surge protectors, transient suppressor diodes used for telephone applications and switching diodes used in computer systems. Over the last year our shipments of traditional zener and voltage diodes products have become a less significant component and our shipments of transient suppressor diode products have become a more significant component of our total sales. A partial list of these products includes: implantable cardioverter defibrillator and heart pacer switching, charging and transient shock protector diodes (where we believe we are the leading supplier in that market), low leakage diodes, transistors used in jet aircraft engines and high performance test equipment, high temperature diodes used in oil drilling sensing elements operating at 200 degrees centigrade, temperature compensated zener or rectifier diodes used in missile systems and power transistors.

# **MARKETING**

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 / satellite 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.

Our products are marketed through domestic electronic component sales representatives and our inside sales force to original equipment manufacturers. We also have industrial distributors to service our customers' needs for standard catalog products. We have direct sales offices in the vicinities of metropolitan areas including Irvine, Los Angeles, San Jose, Phoenix, Denver, Chicago, Plano, Minneapolis, Boston, Taiwan, Hong Kong, Macau, France, Shanghai, Japan, South Korea, Ireland and Israel. Sales to foreign customers are made through our direct domestic sales force and overseas sales representatives and distributors. For fiscal year 2008, our domestic sales accounted for approximately 60 percent of our shipments. Domestic and foreign sales are classified based upon the destination of a shipment. Sales through sales representatives and distributors accounted for approximately 60 percent of our shipments.

Net sales were \$370.5 million, \$442.3 million and \$514.1 million in the fiscal years ended October 1, 2006, September 30, 2007 and September 28, 2008, respectively.

# RESEARCH AND DEVELOPMENT

We believe that continuing timely development and introduction of new products is essential to maintaining our competitive position. We currently conduct most of our product development effort in-house. We also employ outside consultants to assist with product design.

We expense the cost of research and development as incurred. Research and development expenses principally comprise payroll and related costs, supplies, and the cost of prototypes. In-process research and development (IPR&D) represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition date, had not yet reached technological feasibility.

We spent approximately \$25.0 million, \$42.2 million and \$45.0 million in fiscal years 2006, 2007 and 2008 respectively, for research and development. The principal focus of our research and development activities has been to improve processes and to develop new products that support the growth of our businesses.

The spending on research and development was principally to develop new higher-margin application-specific products, including, among others, PoE, CCFL and LED drivers, class-D audio amplifiers, InGaP RF power amplifiers for wireless LAN applications, development and adoption of silicon carbide technology, VDMOS products for high frequency communications and S-band products for RF applications.

# PATENTS, LICENSES, AND OTHER INTELLECTUAL PROPERTY RIGHTS

We rely to some extent upon confidential trade secrets and patents to develop and maintain our competitive position. It is our policy to seek patent protection for significant inventions that may be patented, though we may elect, in appropriate cases, not to seek patent protection even for significant inventions if other protection, such as maintaining the invention as a trade secret, is considered more advantageous or cost-effective. We believe that patent and mask work protection could grow in significance but presently is of less significance in our business than experience, innovation, and management skill. No individual patent contributed significantly to our fiscal year 2008 net sales.

We have registered several of our trademarks with the U.S. Patent and Trademark Office and in foreign jurisdictions.

Due to the many technological developments and the technical complexity of the semiconductor industry, it is possible that certain of our designs or processes may involve infringement of patents or other intellectual property rights held by others. From time to time, we have received, and in the future may receive, notice of claims of infringement by our products on intellectual property rights of third parties. If any such infringements were alleged to exist, we might be obligated to seek a license from the holder of the rights and might have liability for past infringement. In the past, it has been common semiconductor industry practice for patent holders to offer licenses on reasonable terms and rates. Although in some situations, typically where the patent directly relates to a specific product or family of products, patent holders have refused to grant licenses, though the practice of offering licenses appears to be generally continuing. However, no assurance can be given that we will be able to obtain licenses as needed in all cases or that the terms of any license that may be offered will be acceptable to us. In those circumstances where an acceptable license is not available, we would need either to change the process or product so that it no longer infringes or stop manufacturing the product or products involved in the infringement, which might be costly and could adversely affect our revenues and operating results.

Please see the information that is set forth under the subheading "Any failure by us to protect our proprietary technologies or maintain the right to use certain technologies may negatively affect our ability to compete," within the section below entitled "ITEM 1A. RISK FACTORS."

### MANUFACTURING AND SUPPLIERS

Our principal domestic manufacturing operations are located in Garden Grove and Santa Clara, California; Bend, Oregon; Broomfield, Colorado; Scottsdale, Arizona and Lawrence and Lowell, Massachusetts. We have wafer processing, assembly, testing and screening facilities at these locations. In addition, we have manufacturing operations in Ennis, Ireland; Shanghai, China; and Bordeaux, France.

Our domestic plants manufacture and process all products, starting from purchased silicon wafers and piece parts. After wafer level fabrication, the silicon wafers are separated into individual dice that are then assembled in packages and tested in accordance with our test procedures. A major portion of our semiconductor manufacturing effort takes place after the semiconductor is assembled. Parts are tested a number of times, visually screened and environmentally subjected to shock, vibration, "burn in" and electrical tests in order to prove and assure reliability. Certain subcontract suppliers provide packaging and testing for our products necessary to deliver finished products. We pay those suppliers for assembled or fully tested products meeting predetermined specifications. Manufacturing and processing operations are controlled in accordance with military as well as other rigid commercial and industrial specifications.

In 2001, we commenced our Capacity Optimization Enhancement Program. The objectives of this program are to increase company-wide capacity utilization and operating efficiencies through consolidations and realignments of operations. We believe that this program will result in future cost savings from the elimination of redundant resources and associated costs.

In connection with this program, in April 2005, we announced 1) the consolidation of the high-reliability products operations in Broomfield, Colorado ("Broomfield") into other Microsemi facilities and 2) the closure of the manufacturing operations of Microsemi Corp.-Ireland ("Ireland"). In May 2007 we announced that we will retain our manufacturing operations in Ennis, Ireland to meet the increasing demand for our high-reliability defense and commercial air/satellite products.

The consolidation of Broomfield is expected to result, subsequent to its completion, in annual cost savings of \$5.0 million to \$7.0 million from the elimination of redundant resources and related expenses and employee reductions. Costs associated with the consolidation of Broomfield are estimated to range from \$6.0 million to

\$8.0 million, excluding any gain or loss from future dispositions of the plant and property. Broomfield has approximately 70 employees and occupies a 130,000 square foot owned facility. Broomfield shipped approximately 4%, 3% and 4% of net sales in fiscal years 2006, 2007 and 2008, respectively. We currently anticipate that Broomfield will cease operations in fiscal year 2009.

We purchase silicon wafers, other semiconductor materials and packaging piece parts from domestic and foreign suppliers generally on long-term purchase commitments, which are cancelable on 30 to 90-days' notice. Significantly all materials are available from multiple sources. In the case of sole source items, we have never suffered production delays as a result of suppliers' inability to supply the parts. We believe that we stock adequate supplies for all materials, based upon backlog, delivery lead-time and anticipated new business. In the ordinary course of business, we enter into cancelable purchase agreements with some of our major suppliers to supply products over periods of up to 18 months. We also purchase a portion of our finished wafers from several foundry sources.

# **RAW MATERIALS**

Our manufacturing processes use certain key raw materials critical to our products. These include silicon wafers, certain chemicals and gases, ceramic and plastic packaging materials and various precious metals. We also rely on subcontractors to supply finished or semi-finished products, which are marketed through our various sales channels. We obtain raw materials and semi-finished or finished products from various sources, although the number of sources for any particular material or product may be limited. We feel that our current supply of essential materials is adequate; however, shortages have occurred from time to time and could occur again.

### **SEASONALITY**

Generally, we are affected by the seasonal trends of the semiconductor and related industries. The impacts of seasonality are to some extent dependent on product and market mix of products shipped. These impacts can change from time to time and are not predictable. Factors that increase seasonality include, for example, holiday work schedules during our first fiscal quarter that tend to limit production and holiday demand that tends to increase net sales in the Notebook/LCD TV/Display end market during our fiscal first and fourth quarters.

# **COMPETITIVE CONDITIONS**

The semiconductor industry, including the areas in which we do business, is highly competitive. We expect intensified competition from existing competitors and new entrants. Competition is based on price, product performance, product availability, quality, reliability and customer service. We compete in various markets with companies of various sizes, many of which are larger and have greater financial and other resources than we have, and thus may be better able to pursue acquisition candidates and to withstand adverse economic or market conditions. In addition, companies not currently in direct competition with us may introduce competing products in the future. 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., Mitel Corporation, RF Micro Devices, Inc., Anadigics, Inc. and Skyworks Solutions, Inc. We may not be able to compete successfully in the future or competitive pressures may harm our financial condition, operating results or cash flows.

# SALES TO U.S. GOVERNMENT

Our business with customers whose principal sales are to the U.S. Government or to subcontractors whose material sales are to the U.S. Government was approximately one-third of total net sales in fiscal year 2008. We,

as a subcontractor, sell our products to higher-tier subcontractors or to prime contractors based upon purchase orders that usually do not contain all of the conditions included in the prime contract with the U.S. Government. However these sales are usually subject to termination and/or price renegotiations by virtue of their reference to a U.S. Government prime contract. Therefore, we believe that all of our product sales that ultimately are sold to the U.S. Government may be subject to termination, at the convenience of the U.S. Government or to price renegotiations under the Renegotiation Act. We have never experienced a material loss due to termination of a U.S Government contract. We have never had to renegotiate our price under any government contract. There can be no assurance that we will not have contract termination or price renegotiation in the future.

# **ENVIRONMENTAL REGULATIONS**

To date, our compliance with federal, state and local laws or regulations that have been enacted to regulate the environment has not had a material adverse effect on our capital expenditures, earnings, or competitive or financial position.

Federal, state and local laws and regulations impose various restrictions and controls on the discharge of materials, chemicals and gases used in semiconductor manufacturing processes. In addition, under some laws and regulations, we could be held financially responsible for remedial measures if our 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 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 environmental laws or regulations could subject us to serious liabilities and could have material adverse effects on our operating results 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 or 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 or within or through property. These risks may give rise to claims. We may be financially responsible for third parties, who are responsible for contamination, if they do not have funds, or make funds available when needed, to pay remediation costs imposed 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.

### **EMPLOYEES**

On September 28, 2008, we employed approximately 1,500 persons domestically and 800 persons at our overseas facilities. None of our employees are represented by a labor union; however, our employees in Bordeaux, France are represented by an employee works council pursuant to French industrial relations law. We have experienced no work stoppages and believe our employee relations are good.

# **ACQUISITIONS**

In the first quarter of fiscal year 2008, we acquired substantially all the assets of Microwave Device Technology Corporation and all the common stock of TSI Microelectronics Corporation for \$8.8 million in cash, net of cash acquired. In the fourth quarter of fiscal year 2008, we acquired substantially all the assets of SEMICOA for approximately \$28.7 million, including \$26.7 million in cash consideration to SEMICOA and certain creditors, the assumption of approximately \$1.2 million in liabilities, \$0.6 million related to a lease agreement with a party related to SEMICOA shareholders and \$0.2 million in estimated transaction fees and expenses. We funded these acquisitions with cash on hand. Other than a \$0.4 million charge recorded in the first quarter of fiscal year 2008 for in process research and development, these transactions did not significantly impact results of operations and on a pro forma basis would not be material to our results of operations for the fiscal year ended September 28, 2008.

On October 24, 2006, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with PowerDsine Ltd. ("PowerDsine"), an Israeli corporation, and Pinnacle Acquisition Corporation, Ltd., an Israeli corporation that is an indirect wholly-owned subsidiary of Microsemi. The Merger Agreement provided for a merger of our subsidiary into PowerDsine. We completed the acquisition of PowerDsine on January 9, 2007 and under the terms of the Merger Agreement, we issued 0.1498 of a share of Microsemi common stock and paid \$8.25 in cash for each PowerDsine ordinary share, resulting in the issuance in the aggregate of approximately 3.1 million shares with a fair market value of approximately \$57.0 million, based on Microsemi's average closing price between October 20, 2006 and October 26, 2006 and a cash payment of approximately \$170.0 million. We converted equity awards issued by PowerDsine and valued vested awards at \$12.6 million. Direct transaction fees and expenses were \$3.6 million and an additional \$3.1 million was placed into escrow for the cash consideration on converted unvested PowerDsine restricted share awards. This amount will be paid to employees as their restricted share awards vest. An additional \$7.3 million in transaction costs were accrued by PowerDsine prior to the acquisition and subsequently paid by Microsemi. We financed this transaction with cash on hand and through additional borrowings of approximately \$18.0 million on our credit line.

# ITEM 1A. FACTORS RISK

# 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 September 28, 2008, our investment in auction rate securities consisted of auction rate preferred shares and 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 September 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. While some issuers of auction rate securities have announced intentions to call these securities at par plus accrued interest, there remains a high degree of uncertainty as to when complete liquidity may be restored.

We have entered into a settlement agreement with the financial institution where we hold our investments in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial

institution repurchased our \$15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our \$46.5 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 the auction rate bonds to cash within our normal operating cycle, and as such, we have classified these investments in current assets.

Should credit market disruptions continue or increase in magnitude, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. At September 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. 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 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. 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 \$0.6 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, 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.

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 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-overethernet, 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.

# 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.

### 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;
- 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 to 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.

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 derived from customers whose principal sales are to the United States Government. These sales are 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.

# 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 involved in various pending litigation matters, arising out of the ordinary routine conduct of our business, including from time to time litigation relating to employment matters, commercial transactions, contracts, and environmental matters. Litigation is inherently uncertain and unpredictable. An unfavorable resolution of any particular 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 death, incapacity, military service, personal issues, retirement, resignation or competing employers. Our ability to execute current plans could be adversely affected by such a loss. We may fail to attract and retain qualified technical, sales, marketing and managerial personnel required to continue to operate our business successfully. Personnel with the expertise necessary for our business are scarce and competition for personnel with proper skills is intense. Also, attrition in personnel can result from, among other things, changes related to acquisitions, retirement and disability. We may not be able to retain existing key technical, sales, marketing and managerial employees or be successful in attracting, assimilating or retaining other highly qualified technical, sales, marketing and managerial personnel, particularly at such times in the future as we may need to 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 1/4,000 th 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 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.

# 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 September 28, 2008, the market sale price of our common stock ranged between a low of \$18.60 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. 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.

# 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 1B. STAFF COMMENTS UNRESOLVED

None.

# ITEM 2. PROPERTIES

Our headquarters are located in a rented building complex in Irvine, California. This complex contains general office and engineering space. We own office, engineering and production facilities in Garden Grove, California; Broomfield, Colorado and Ennis, Ireland and lease office, engineering and/or production facilities in San Jose, Costa Mesa and Santa Clara, California; Scottsdale, Arizona; Lawrence and Lowell, Massachusetts; Bend, Oregon; Melville, New York; Shanghai, China, Singapore, Taiwan, Hong Kong, Macau, Israel, Ireland and France.

We believe that our existing facilities are well maintained and in good operating condition and that they are adequate for our foreseeable business needs.

# ITEM 3. LEGAL PROCEEDINGS

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.

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."

We are also involved in other pending litigation matters arising out of the normal conduct of our business, including litigation relating to commercial transactions and contracts. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, in the opinion of management, the final outcome of these matters, if they are adverse, will not have a material adverse effect on our financial position, results of operations or cash flows. However, there can be no assurance with respect to such result, and monetary liability or financial impact to us from these litigation matters could differ materially from those projected.

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

Inapplicable.

# PART II

# ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

# (a) Market Information

Our Common Stock is traded on the NASDAQ Global Select Market under the symbol MSCC. The following table sets forth the high and low sales prices at which our Common Stock traded as reported on the NASDAQ Global Select Market.

| Fiscal Year ended September 28, 2008               | HIGH                   | LOW            |
|--|------------------------|----------------|
| 1 st Quarter                                       | \$30.00                | \$21.09        |
| 2 <sup>nd</sup> Quarter                            | \$24.52                | \$18.60        |
| 3 <sup>rd</sup> Quarter                            | \$27.91                | \$22.28        |
| 4 <sup>th</sup> Quarter                            | \$28.50                | \$22.44        |
|  |                        |                |
|  |                        |                |
| Fiscal Year ended September 30, 2007               | HIGH                   | LOW            |
| Fiscal Year ended September 30, 2007  1 st Quarter | <u>нісн</u><br>\$21.98 | LOW<br>\$16.06 |
| <u> </u>   |                        |                |
| 1 st Quarter                                       | \$21.98                | \$16.06        |

# POSSIBLE VOLATILITY OF STOCK PRICES

The market prices of securities issued by technology companies, including ours, have been and will be volatile. The securities of many technology companies have experienced extreme price and volume fluctuations, which have often not necessarily been related to their respective operating performances. Quarter to quarter variations in operating results, changes in earnings estimates by analysts, announcements of technological innovations or new products, announcements of major contract awards, events involving other companies in or out of the industry, economic conditions, events involving war or terrorism, and other events or factors may have a significant impact (positive or negative) on the market price of our Common Stock.

# (b) Approximate Number of Common Equity Security Holders

|                                | Number of          |
|--------------------------------|--------------------|
|                                | Record             |
|                                | Holders (as of     |
| Title of Class                 | November 18, 2008) |
| Common Stock, \$0.20 Par Value | 338(1)             |

Annrovimate

# (c) Dividends

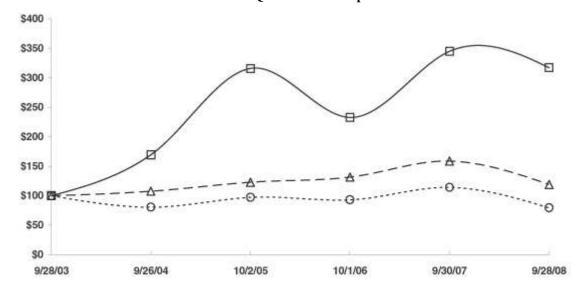
We have not paid cash dividends in the last five years and have no current plans to do so. Our credit facility contains covenants that restrict us from paying cash dividends.

<sup>1)</sup> The number of stockholders of record treats all of the beneficial holders of shares held in one "nominee" or "street name" as a unit.

# (d) Performance Graph

The following graph, which is furnished rather than filed, compares the five-year cumulative total return on the Company's Common Stock to the total returns of 1) NASDAQ Stock Market and 2) NASDAQ Stock Market – Electronics & Electrical Equipment & Components Index, excluding Computer Equipment. This comparison assumes in each case that \$100 was invested on or about September 30, 2003 and all dividends were reinvested. The Company's fiscal year ends on or about September 30 each year.

# COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\* Among Microsemi Corporation, The NASDAQ Composite Index And the NASDAQ Electronic Components Index





<sup>\* \$100</sup> invested on 9/28/2003 in stock or on 9/30/2003 in index – including reinvestment of dividends. Indexes calculated on month-end basis.

# RECENT SALES OF UNREGISTERED SECURITIES

Inapplicable

ITEM 6. MARKET SELECTED CONSOLIDATED FINANCIAL DATA

For the five fiscal years in the period ended on or about September 28, 2008 (Amounts in thousands, except per share data) 2008 2004 2007 2006 2005 **Selected Income Statement Data:** Net sales \$ 244,805 \$ 514,067 \$ 442,252 \$ 370,477 \$ 297,440 Gross profit \$ 125,692 \$ 77,539 \$ 228,972 \$ 181,038 \$ 164,801 Operating expenses \$ 165,429 \$ 159,850 \$ 106,991 \$ 84,410 \$ 69,080 Net income 49,654 9,818 35,665 29,223 5,636 Earnings per share: Basic 0.47 Net income 0.640.10 0.13 0.52 Diluted Net income 0.63 0.13 0.50 0.45 0.09 Weighted-average shares outstanding Basic 77,292 74,027 68,887 61,639 59,168 Diluted 79,400 76,154 71,816 65,233 61,987 **Selected Balance Sheet Data:** \$ 294,035 \$ 179,943 Working capital \$ 351,460 \$ 267,671 \$ 108,457 Total assets \$ 760,608 \$ 637,280 \$ 509,990 \$ 300,581 \$ 232,998 Long-term liabilities \$ 20,212 6,630 \$ 4,875 \$ 3,617 4,217 Stockholders' equity \$ 673,170 \$ 569,405 \$ 453,127 \$ 254,586 \$ 184,877

The selected financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K includes current beliefs, expectations and other forward looking statements, the realization of which may be adversely impacted by any of the factors discussed or referenced throughout this Form 10-K, including but not limited to, factors under the heading, "Item 1A. Risk Factors" in Part I above. This Form 10-K must be read in its entirety.

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. The principal markets that we serve include defense, commercial air / satellite, industrial / semicap, medical, mobile / connectivity and notebook / LCD television / display.

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

Our individual component semiconductor products include silicon rectifiers, zener diodes, low leakage and high voltage diodes, temperature compensated zener diodes, transistors, subminiature high power transient suppressor diodes and pin diodes used in magnetic resonance imaging ("MRI") machines. We also manufacture semiconductors for commercial applications, such as automatic surge protectors, transient suppressor diodes used for telephone applications and switching diodes used in computer systems. Over the last year our shipments of traditional zener and voltage diodes products have become a less significant component and our shipments of transient suppressor diode products have become a more significant component of our total sales. A partial list of these products includes: implantable cardioverter defibrillator and heart pacer switching, charging and transient shock protector diodes (where we believe we are the leading supplier in that market), low leakage diodes, transistors used in jet aircraft engines and high performance test equipment, high temperature diodes used in oil drilling sensing elements operating at 200 degrees centigrade, temperature compensated zener or rectifier diodes used in missile systems and power transistors.

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/satellite 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.

During the year ended September 28, 2008, we have actively taken steps to integrate the management of our various operations, including management of our recent acquisitions. Production has been transferred between our facilities to share resources and technology, as well as to more efficiently produce our products. We strive to make the best possible use of our engineering capabilities by sharing research and production methods across our divisions and, where appropriate, assigning engineers to the same project, regardless of the facility that incurs the personnel expense. Our manufacturing management team has also been reorganized to increase efficiency.

# **Restructuring and Severance Charges**

In April 2005, we announced 1) the consolidation of operations in Broomfield, Colorado ("Broomfield") into other Microsemi facilities and 2) the closure of the manufacturing operations of Microsemi Corp. - Ireland ("Ireland") in Ennis, Ireland.

In the second quarter of fiscal year 2005, we recorded estimated severance payments of \$1,134,000 in accordance with SFAS 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). The severance payments cover approximately 148 employees, including 14 management positions. Severance payments commenced in the second quarter of fiscal year 2006. In fiscal year 2006, we recorded \$32,000 in additional severance and \$1,345,000 for other restructuring related expenses. In fiscal year 2007, we recorded \$309,000 in additional severance and \$643,000 for other restructuring related expenses. In fiscal year 2008, we recorded \$250,000 in additional severance. The increase in severance relates to additional payments expected to be made due to a closing schedule that extended beyond initial estimates. Other restructuring related expenses, primarily for travel, planning and equipment relocation, were recorded in accordance with SFAS 146, "Accounting for Costs Associated with Exit of Disposal Activities" ("SFAS 146").

The consolidation of Broomfield is expected to result, subsequent to its completion, in annual cost savings of \$5.0 million to \$7.0 million from the elimination of redundant resources and related expenses and employee reductions. Costs associated with the consolidation of Broomfield are estimated to range from \$6.0 million to \$8.0 million, excluding any gain or loss from future dispositions of the plant and property. Broomfield has approximately 70 employees and occupies a 130,000 square foot owned facility. Broomfield shipped approximately 4%, 3% and 4% of net sales in fiscal years 2006, 2007 and 2008, respectively. We currently anticipate that Broomfield will cease operations in fiscal year 2009.

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<br>Severance | Other<br>Related<br>Costs | Total    |
|-------------------------------|-----------------------|---------------------------|----------|
| Balance at October 2, 2005    | \$ 1,134              | \$ —                      | \$ 1,134 |
| Provisions                    | 32                    | 1,345                     | 1,377    |
| Cash expenditures             | (286)                 | (1,345)                   | (1,631)  |
| Balance at October 1, 2006    | \$ 880                | <del>\$</del> —           | \$ 880   |
| Provisions                    | 309                   | 643                       | 952      |
| Cash expenditures             | (165)                 | (643)                     | (808)    |
| Balance at September 30, 2007 | \$ 1,024              | \$ —                      | \$ 1,024 |
| Provisions                    | 250                   | _                         | 250      |
| Cash expenditures             | (315)                 | _                         | (315)    |
| Balance at September 30, 2008 | \$ 959                | \$ —                      | \$ 959   |

In February 2006, Advanced Power Technology, Inc. ("APT") announced the planned closure of its facility in Montgomeryville, Pennsylvania and the relocation of remaining manufacturing activities to its Santa Clara, California facility. Microsemi acquired APT, which was renamed Microsemi Corp. – Power Products Group ("PPG"), in July 2006 and determined that the fair value of the restructuring liability at the time of acquisition was \$182,000. We did not substantially modify the restructuring plan subsequent to the acquisition. In fiscal year 2007, we recorded \$289,000 in additional severance expense in accordance with SFAS 146 and \$200,000 in lease termination fees. The lease termination was not contemplated at the time of the acquisition of PPG. There were no PPG facility closures in fiscal year 2008.

The following table reflects restructuring activities at PPG and the accrued liabilities in the consolidated balance sheets at the dates below (amounts in thousands):

|                               | Employee  | Other<br>Related |             |
|-------------------------------|-----------|------------------|-------------|
|                               | Severance | Costs            | Total       |
| Balance at October 1, 2006    | \$ 356    | \$ —             | \$ 356      |
| Provisions                    | 289       | 200              | 489         |
| Cash expenditures             | (645)     | (200)            | (845)       |
| Balance at September 30, 2007 | <u>\$</u> | \$ —             | <u>\$ —</u> |

In May 2007, we announced that that we will retain our manufacturing operations in Ennis, Ireland to meet the increasing demand for our high-reliability defense and commercial air/satellite products. In the third quarter of fiscal year 2007, we reversed accruals for severance totaling \$1,283,000.

In fiscal year 2007, in accordance with SFAS 146, we recorded \$940,000 in severance expense incurred in integrating existing Microsemi operations with PowerDsine. The severance payments cover approximately 30 employees and substantially all payments were made by the end of fiscal year 2007.

In fiscal year 2008, we recorded restructuring expenses of \$2,856,000. These expenses were for severance payments of approximately \$1,537,000 related to reductions in force, of which \$250,000 related to consolidation activities for the Broomfield facility noted above, and approximately \$1,319,000 (comprised of cash payments of salary and related expenses of \$686,000 and non-cash expenses of \$633,000 related to stock awards) related to the retirement of a former officer of the Company. The reductions in force impacted approximately 100 employees, substantially all of whom were in manufacturing departments at our various facilities. Severance payments related to these actions totaled approximately \$1,721,000, of which \$315,000 related to consolidation activities for the Broomfield facility noted above, and are expected to continue through September 2009.

Other consolidation associated costs such as inventory, workforce reduction, relocation and reorganization charges have been and will be reported, when incurred, as restructuring costs in accordance with SFAS 146, SFAS 112 or SFAS 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4" ("SFAS 151"), as applicable.

# Acquisitions

In the first quarter of fiscal year 2008, we acquired substantially all the assets of Microwave Device Technology Corporation and all the common stock of TSI Microelectronics Corporation for \$8.8 million in cash, net of cash acquired. In the fourth quarter of fiscal year 2008, we acquired substantially all the assets of SEMICOA for approximately \$28.7 million, including \$26.7 million in cash consideration to SEMICOA and certain creditors, the assumption of approximately \$1.2 million in liabilities, \$0.6 million related to a lease agreement with a party related to SEMICOA shareholders and \$0.2 million in estimated transaction fees and expenses. We funded these acquisitions with cash on hand. Other than a \$0.4 million charge recorded in the first quarter of fiscal year 2008 for in process research and development, these transactions did not significantly impact results of operations and on a pro forma basis would not be material to our results of operations for the fiscal year ended September 28, 2008.

On October 24, 2006, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with PowerDsine Ltd. ("PowerDsine"), an Israeli corporation, and Pinnacle Acquisition Corporation, Ltd., an Israeli corporation that is an indirect wholly-owned subsidiary of Microsemi. The Merger Agreement provided for a merger of our subsidiary into PowerDsine. We completed the acquisition of PowerDsine on January 9, 2007 and under the terms of the Merger Agreement, we issued 0.1498 of a share of Microsemi common stock and paid \$8.25 in cash for each PowerDsine ordinary share, resulting in the issuance in the aggregate of approximately 3.1 million shares with a fair market value of approximately \$57.0 million, based on Microsemi's average closing price between October 20, 2006 and October 26, 2006 and a cash payment of approximately \$170.0 million. We converted equity awards issued by PowerDsine and valued vested awards at \$12.6 million. Direct transaction fees and expenses were \$3.6 million and an additional \$3.1 million was placed into escrow for the cash consideration on converted unvested PowerDsine restricted share awards. This amount will be paid to employees as their restricted share awards vest. An additional \$7.3 million in transaction costs were accrued by PowerDsine prior to the acquisition and subsequently paid by Microsemi. We financed this transaction with cash on hand and through additional borrowings of approximately \$18.0 million on our credit line.

# CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The 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 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 herein.

Revenue recognition, sales returns and allowances

We recognize revenue to all customers, including distributors, when title and risk of loss have passed to the customer and provided that:

1) evidence of an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectability is reasonably assured. For substantially all sales, revenues are recognized at the time the product is shipped to customers.

We enter into contracts with certain distributors and these contracts permit very limited stock rotation returns. We provides an estimated allowance for such returns, and corresponding reductions in revenue are concurrently recorded, based on several factors including past history and notification from customers of pending returns. Actual returns have been within management's expectations.

In accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (including a Reseller of the Vendor's Products)", estimated reductions to revenue are also recorded for customer incentive programs consisting of price protection and volume purchase rebates. Such programs are limited and actual reductions to revenues have been within management's expectations.

We generally provide a one-year product defect warranty from the date of sale. Historically, warranty costs have been nominal and have been within management's expectations.

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 September 28, 2008, our investment in auction rate securities consisted of auction rate preferred shares and 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 September 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. While some issuers of auction rate securities have announced intentions to call these securities at par plus accrued interest, there remains a high degree of uncertainty as to when complete liquidity may be restored.

We have entered into a settlement agreement with the financial institution where we hold our investments in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased our \$15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our \$46.5 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 the auction rate bonds to cash within our normal operating cycle, and as such, we have classified these investments in current assets.

Should credit market disruptions continue or increase in magnitude, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. At September 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. 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 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. 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 \$0.6 million would occur.

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.

At September 28, 2008, all of our marketable securities were classified as available-for-sale and accounted for in accordance with Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses for available-for-sale securities are excluded from earnings and reported in other comprehensive income unless the decline in the fair values is below cost and deemed to be other-than-temporary, in which case the adjustment is recorded to earnings. If fair values were to decrease below cost for a prolonged period of time, we would consider various factors in determining whether to recognize an other-than-temporary impairment charge, including the length of time and the extent to which the fair value has been below the cost basis, the current financial condition of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded at the invoiced amounts and do not bear interest. The accounts receivable amounts shown in the balance sheet are trade account receivable balances at the respective dates, net of allowance for possible returns and doubtful accounts.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on our historical write-off experience and specifically identified accounts. We review our allowance for doubtful accounts quarterly. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers.

With the exception of one distributor who entered into bankruptcy and for whom we charged off approximately \$1.5 million against the allowance for doubtful accounts in fiscal 2007, actual bad debt has been within our expectations and the provisions established, and has been consistent with experience of prior years; however, any unexpected significant adverse change in the financial position of any of our major customers or any group of customers could have a material adverse impact on the collectability of accounts receivable and future operating results.

# Inventories

Inventories are stated at the lower of cost, as determined using the first-in, first-out method, or market. Costs include materials, labor and manufacturing overhead. We evaluate the carrying value of our inventories taking into account such factors as historical and anticipated future sales compared with quantities on hand and the price we expect to obtain for our products in their respective markets. We also evaluate the composition of our inventories to identify any slow-moving or obsolete products. The total evaluations require material management judgments, including estimates of future sales, continuing market acceptance of our products, and market and economic conditions. Additionally, inventory reserves are established based upon such judgments for any inventories that are identified as having a net realizable value less than their cost, which is further reduced by related selling expenses. Historically, the net realizable value of our inventories has generally been within management's estimates. However, if we are unable to meet our sales expectations, or if market conditions

deteriorate from management's estimates, reductions in the net realizable value of our inventories could have a material adverse impact on future operating results.

### Long-lived assets

We assess the impairment of property, plant and equipment and amortizable intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable from the estimated future cash flows expected to result from their use.

We are required to make judgments and assumptions in identifying those events or changes in circumstances that may trigger impairment. Some of the factors we consider include:

- Significant decrease in the market value of an asset.
- Significant changes in the extent or manner for which the asset is being used or in its physical condition.
- A significant change, delay or departure in our business strategy related to the asset.
- Significant negative changes in the business climate, industry or economic conditions.
- Current period operating losses or negative cash flow combined with a history of similar losses or a forecast that indicates continuing losses associated with the use of an asset.

An evaluation under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" includes an analysis of estimated future undiscounted net cash flows that the assets are expected to generate over their remaining estimated useful lives. If the estimated future undiscounted net cash flows are insufficient to recover the carrying value of the assets over the remaining estimated useful lives, we will recognize an impairment loss which equals to the excess of the carrying value of the assets over the fair value. Any such impairment charge could be significant and could have a material adverse effect on our financial position and results of operations. Major factors that influence our cash flow analysis are our estimates for future revenues and expenses associated with the use of the asset. Different estimates could have a significant impact on the results of our evaluation.

## Goodwill and Other Intangible Assets

We adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") at the beginning of fiscal year 2003, which changed the accounting for goodwill from an amortization method to an impairment-only approach. Accordingly, goodwill and other intangible assets with indefinite lives will no longer be amortized, while those intangible assets with known useful lives have continued to be amortized over their respective useful lives. At least annually, and whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has been incurred, we are required to reassess goodwill. Whenever we determine that there has been an impairment of goodwill or other intangible assets with indefinite lives, we will record an impairment charge against earnings, which equals the excess of the carrying value of goodwill over its then fair value, and a reduction in goodwill on our balance sheet. The identification of intangible assets and determination of the fair value and useful lives are subjective in nature and often involve the use of significant estimates and assumptions. The judgments made in determining the estimated useful lives assigned to each class of assets can significantly affect net income. We performed our annual review for goodwill impairment in the fourth quarter of fiscal year 2008 and determined that no impairment existed.

## Accounting for income taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS 109. Income tax positions must meet a

more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. We adopted FIN 48 effective October 1, 2007, and the provisions of FIN 48 will be applied to all income tax positions commencing from that date. We recognize potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense.

We account for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some or all of the deferred tax assets will not be realized.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2004 through 2008 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2003 through 2008 tax years generally remain subject to examination by tax authorities. We establish liabilities for possible assessments by tax authorities resulting from known tax exposures including, but not limited to, international tax issues and certain tax credits. We do not believe the results of these audits will have a material impact on our financial position, results of operations or cash flows.

### Stock-based compensation

Effective at the beginning of our fiscal year 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 "Share-Based Payment" ("FAS 123R") to account for stock-based compensation under the modified prospective transition method, fair value of new and previously granted but unvested stock options are recognized as compensation expense in the income statement, and prior period results are not restated. Under FAS 123R, we estimate the fair value of stock options granted using the Black-Scholes option pricing model. The fair value for awards that are expected to vest is then amortized on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The amount of expense attributed is net of an estimated forfeiture rate, which is updated as appropriate. This option pricing model requires the input of highly subjective assumptions, including the expected volatility of our common stock, pre-vesting forfeiture rate and an option's expected life. The financial statements include amounts that are based on our best estimates and judgments.

## RESULTS OF OPERATIONS FOR THE FISCAL YEAR 2007 COMPARED TO THE FISCAL YEAR 2008

Net sales increased \$71.8 million or 16% from \$442.3 million for fiscal year 2007 ("2007") to \$514.1 million for fiscal year 2008 ("2008"). Estimated sales by end markets are based on our understanding of end market uses of our products. We believe an estimated breakout of net sales by end markets for 2007 and 2008 is approximately as follows (amounts in thousands):

|                             | 2008      | 2007      |
|-----------------------------|-----------|-----------|
| Commercial Air / Satellite  | \$103,942 | \$ 86,084 |
| Defense                     | 167,737   | 138,225   |
| Industrial / Semicap        | 39,674    | 53,413    |
| Medical                     | 67,264    | 57,442    |
| Mobile / Connectivity       | 79,487    | 59,915    |
| Notebook / LCD TV / Display | 55,963    | 47,173    |
|                             | \$514,067 | \$442,252 |
|                             |           |           |

Net sales in the commercial air / satellite end market increased \$17.8 million from \$86.1 million in 2007 to \$103.9 million in 2008. 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. 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 \$29.5 million from \$138.2 million in 2007 to \$167.7 million in 2008. 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 \$13.7 million from \$53.4 million in 2007 to \$39.7 million in 2008, with the decrease primarily attributable to a decrease in sales for use in semicap applications. Net sales in our fiscal fourth quarter grew modestly, due to higher sales of industrial applications. We believe this market will be stable in the upcoming quarters with emerging alternative energy applications contributing to potential growth.

Net sales in the medical end market increased \$9.9 million, from \$57.4 million in 2007 to \$67.3 million in 2008. 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 approximately the twelve months 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 increased \$19.6 million, from \$59.9 million in 2007 to \$79.5 million in 2008. Net sales in this end market have grown due primarily to the addition of contributions from PowerDsine, which we acquired in the second quarter of 2007. We expect to see strong demand for our WLAN power amplifier products, especially with the ongoing ramp up of 802.11n networking solutions and an increase in our customer base. However, as enterprise demand has waned in the current economic environment, net sales of power-over-ethernet products are expected to decline and contribute to lower net sales in the upcoming quarters.

Net sales in the notebook / LCD television / display end market increased \$8.8 million, from \$47.2 million in 2007 to \$56.0 million in 2008. Compared to 2007, we gained market share in our LCD TV business for CCFL with notable design win strength with Tier 1 customers in Japan and Korea. We also 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.

We believe an estimated breakout of net sales by originating geographic area for 2007 and 2008 is approximately as follows (amounts in thousands):

|               | 2008      | 2007      |
|---------------|-----------|-----------|
| United States | \$223,690 | \$247,636 |
| Europe        | 129,605   | 57,964    |
| Asia          | 160,772   | 136,652   |
| Total         | \$514,067 | \$442,252 |

Between fiscal years 2007 and 2008, net sales originating from the United States decreased \$23.9 million while net sales originating from Europe and Asia increased \$71.6 million and \$24.1 million, respectively. This shift in originating geographic area was due primarily to our decision to shift the fulfillment of some customer orders directly from our locations in Europe and Asia rather than through our locations in the United States. Net sales originating in Asia also increased due to the contributions of PowerDsine, Ltd., which we acquired in the second quarter of 2007.

Gross profit increased \$48.0 million, from \$181.0 million (40.9% of sales) for 2007 to \$229.0 million (44.5% of sales) for 2008. The increase in gross profit was due to higher sales. Gross profit percentage increased primarily due to progress in our facility rationalization, which has reallocated production, particularly to our Ireland manufacturing facility, based on manufacturing costs, efficiencies and capabilities at each of our facilities.

Selling, general and administrative expenses increased \$17.4 million from \$87.9 million for 2007 to \$105.3 million for 2008. The changes were an \$11.0 million increase in stock based compensation and a \$6.4 million increase primarily related to higher selling costs to support increased sales.

Research and development expense increased \$2.8 million from \$42.2 million in 2007 to \$45.0 million in 2008, primarily due to the addition of research and development expense incurred at PowerDsine. The principal focus of our research and development activities has been to improve processes and to develop new products that support the growth of our businesses. The spending on research and development was principally to develop new higher-margin application-specific products, including, among others, PoE, CCFL and LED drivers, class-D audio amplifiers, InGaP RF power amplifiers for wireless LAN applications, development and adoption of silicon carbide technology, VDMOS products for high frequency communications and S-band products for RF applications.

We incurred a \$20.9 million charge from the PowerDsine acquisition in 2007 and \$15.3 million charge from the PPG acquisition in 2006 for in-process research and development ("IPR&D"). We incurred a further IPR&D charge of \$0.4 million in 2008 related to our acquisition of Microwave Device Technology Corporation. IPR&D represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition dates, had not yet reached technological feasibility, and was thus immediately expensed.

The IPR&D projects associated with the PowerDsine acquisition were valued through the application of discounted cash flow analyses, taking into account key characteristics of each technology including its future prospects, the rate of technological change in the industry, product life cycles, risks specific to the project, and the project's stage of completion. Stage of completion was estimated by considering the time, cost, and complexity of tasks completed prior to the acquisition, versus the project's overall expected cost, effort and risks required for achieving technological feasibility. In the application of the discounted cash flow analyses, PowerDsine's management provided a revenue forecast for each IPR&D project. The projection was based on the expected date of market introduction, an assessment of customer needs, the expected pricing and cost structure of the related products, product life cycles, and the importance of existing technology relative to the inprocess technology. In addition, the costs expected to complete the project were added to the operating expenses to calculate the operating income for each IPR&D project. As certain other assets contribute to the cash flow attributable to the assets being valued, returns to these other assets were calculated and deducted from the pre-tax operating income to isolate the economic benefit solely attributable to each of the inprocess technologies. The present value of IPR&D was calculated based on discount rates recommended by the American Institute of Certified Public Accountants IPR&D Practice Aid, which depends on the stage of completion and the additional risk associated with the completion of the IPR&D project. The earnings associated with the incomplete technologies were discounted at a rate of 14.6%, two percentage points higher than the PowerDsine's cost of capital.

Interest expense was \$0.7 million lower in 2008 versus 2007. In 2007, we incurred interest expense on borrowings from our credit facility for temporary funding of the PowerDsine acquisition. Interest income was \$1.8 million lower in 2008 versus 2007 primarily due to lower interest rates earned on our investments.

The effective income tax rate was 61.2% in 2007, primarily due to the non-deductibility of acquisition-related charges such as in-process research and development and other transactions related to the PowerDsine acquisition. These charges increased the income tax rate by 31.9 percentage points. The effective income tax rate was 25.3% in 2008. The 2008 effective tax rate was impacted by a shift of income earned to lower tax rate jurisdictions.

## CAPITAL RESOURCES AND LIQUIDITY

In 2008, we financed our operations with cash from operations.

Net cash provided by operating activities increased \$69.2 million from \$22.6 million in 2007 to \$91.8 million in 2008. Significant factors that increased net cash provided by operating activities included higher net income of \$39.8 million, which included a higher stock based compensation charge of \$11.5 million, and lower gain on disposition of assets of \$4.3 million, offset by lower charges for in process research and development of \$20.5 million. In addition, net cash from operating activities increased \$9.3 million due higher accounts payable and accrued liabilities, \$16.7 million due to lower inventories, \$15.9 million due to higher long-term liabilities primarily related to FIN 48, \$3.2 million due to higher income taxes payable and \$2.7 million due to lower other current assets, and decreased \$10.7 million due to higher accounts receivable, \$3.2 million due to lower deferred income taxes.

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 September 28, 2008, our investment in auction rate securities consisted of auction rate preferred shares and 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 September 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. While some issuers of auction rate securities have announced intentions to call these securities at par plus accrued interest, there remains a high degree of uncertainty as to when complete liquidity may be restored and there is currently no active secondary market. We have entered into a settlement agreement with the financial institution where we hold our investments in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased our \$15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our \$46.5 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 the auction rate bonds to cash within our normal operating cycle, and

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.

Accounts receivable increased \$22.5 million from \$81.0 million at September 30, 2007 to \$103.5 million at September 28, 2008. The increase in receivables was due primarily to an increase in net sales.

Inventories increased \$6.7 million from \$115.0 million at September 30, 2007 to \$121.7 million at September 28, 2008. Inventories increased primarily due to higher inventory levels to support higher net sales, offset by the filling of backlog on high-reliability parts and improvements in operational efficiencies.

Current liabilities increased \$6.0 million from \$61.2 million at September 28, 2007 to \$67.2 million at September 28, 2008 primarily due to a \$3.5 million increase in accounts payable, a \$1.8 million in accrued payroll, and a \$0.9 million increase in accrued restructuring.

Net cash used in investing activities was \$105.7 million for 2007 and \$123.2 million for 2008, respectively. Net cash used in investing activities in 2007 primarily consisted of \$157.3 million of PowerDsine acquisition costs, net of cash acquired, purchases of property and equipment for \$18.7 million, changes in other assets of \$4.0 million, including the transfer of \$3.1 million into an escrow account related to converted unvested PowerDsine restricted share awards, partially offset by \$63.0 million from the sale of investments in available for sale securities and \$11.2 million from the sale of property, plant and equipment. Net cash used in investing activities in 2008 primarily consisted of a net investment in available for sale securities of \$62.0 million, purchases of property and equipment for \$25.2 million and payments of \$35.7 million related to the acquisition of substantially all the assets of SEMICOA and Microwave Device Technology Corporation and all the outstanding shares of TSI Microelectronics Corporation. Purchases of property and equipment increased \$6.5 million primarily due an expansion at our Ireland facility.

Net cash provided by financing activities was \$25.4 million and \$30.9 million in 2007 and 2008, respectively. Net cash provided by financing activities in 2007 consisted primarily of \$21.5 million in proceeds from stock option exercises and \$3.9 million in excess tax benefits from stock awards. Net cash provided by financing activities in 2008 consisted of \$26.0 million in proceeds from stock option exercises and \$3.9 million in excess tax benefits from stock awards.

We had \$107.7 million and \$107.2 million in cash and cash equivalents at September 30, 2007 and September 28, 2008, respectively.

Current ratios were 5.4 to 1 and 6.2 to 1 at September 30, 2007 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 September 28, 2008, we were in the second year of the agreement and there were no borrowings outstanding against the Revolving Credit Agreement, \$0.4 million outstanding in the form of a letter of credit, and \$57.6 million 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 September 28, 2008, we were in compliance with the financial covenants required by the Revolving Credit Agreement.

As of September 28, 2008, we had no material commitments for capital expenditures.

On October 24, 2006, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with PowerDsine Ltd. ("PowerDsine"), an Israeli corporation, and Pinnacle Acquisition Corporation, Ltd., an Israeli corporation that is an indirect wholly-owned subsidiary of Microsemi. The Merger Agreement provided for a merger of our subsidiary into PowerDsine. We completed the acquisition of PowerDsine on January 9, 2007 and under the terms of the Merger Agreement, we issued 0.1498 of a share of Microsemi common stock and paid \$8.25 in cash for each PowerDsine ordinary share, resulting in the issuance in the aggregate of approximately 3.1 million shares with a fair market value of approximately \$57.0 million, based on Microsemi's average closing price between October 20, 2006 and October 26, 2006 and a cash payment of approximately \$170.0 million. We converted equity awards issued by PowerDsine and valued vested awards at \$12.6 million. Direct transaction fees and expenses were \$3.6 million and an additional \$3.1 million was placed into escrow for the cash consideration on converted unvested PowerDsine restricted share awards. This amount will be paid to employees as their restricted share awards vest. An additional \$7.3 million in transaction costs were accrued by PowerDsine prior to the acquisition and subsequently paid by Microsemi. We financed this transaction with cash on hand and through additional borrowings of approximately \$18.0 million on our credit line.

### Contractual Obligations

The following table summarizes our contractual payment obligations and commitments, excluding accrued taxes related to FIN 48, as of September 28, 2008:

|                             | Payments due by period (amounts in thousands) |           |          |         |           |           |
|-----------------------------|---|-----------|----------|---------|-----------|-----------|
|                             |   |           |          |         | More than |           |
|                             |   | Less than | 1-3      | 3-5     |           | Imputed   |
|                             | Total   | 1 year    | years    | years   | 5 years   | Interest  |
| Capital leases              | \$ 3,319                                      | \$ 331    | \$ 687   | \$ 614  | \$ 5,266  | \$(3,579) |
| Operating leases            | 18,799  | 5,831     | 7,392    | 3,068   | 2,508     | _         |
| Purchase obligations        | 32,359  | 25,012    | 6,936    | 411     | _         | _         |
| Other long-term liabilities | 4,948   | 75        | 791      | 104     | 3,978     |           |
| Total                       | \$59,425                                      | \$31,249  | \$15,806 | \$4,197 | \$ 11,752 | \$(3,579) |

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 line of credit.

We adopted the provisions of FIN 48 on October 1, 2007. As of September 28, 2008, we recorded \$12.4 million in long-term liabilities for accrued taxes related to uncertain tax positions under FIN 48. We are not able to reasonably estimate the timing of the long-term payments, or the amount by which our liability will increase or decrease over time; therefore, the FIN 48 liability has not been included in the contractual obligations table.

### RESULTS OF OPERATIONS FOR THE FISCAL YEAR 2006 COMPARED TO THE FISCAL YEAR 2007

Net sales increased \$71.8 million or 19% from \$370.5 million for fiscal year 2006 ("2006") to \$442.3 million for fiscal year 2007 ("2007"). Estimated sales by end markets are based on our understanding of end market uses of our products. We believe an estimated breakout of net sales by end markets for 2006 and 2007 is approximately as follows (amounts in thousands):

|                             | 2007      | 2006      |
|-----------------------------|-----------|-----------|
| Commercial Air / Satellite  | \$ 86,084 | \$ 82,579 |
| Defense                     | 138,225   | 117,738   |
| Industrial / Semicap        | 53,413    | 39,011    |
| Medical                     | 57,442    | 39,752    |
| Mobile Connectivity         | 59,915    | 34,195    |
| Notebook / LCD TV / Display | 47,173    | 57,202    |
|                             | \$442,252 | \$370,477 |
|                             |           |           |

Sales in the commercial air / satellite end market increased \$3.5 million from \$82.6 million in 2006 to \$86.1 million in 2007. The increase was driven by strong demand and order rates for commercial aircraft at aircraft manufacturers and tier one suppliers, as well as growing electronic content in current aircraft.

Sales in the defense end market increased \$20.5 million from \$117.7 million in 2006 to \$138.2 million in 2007. Sales in this end market continued to be solid during 2007, based on the strength of new programs, including military avionics, ground transportation, surveillance equipment, joint service communications systems, naval vessels, radars, missiles and advanced combat unit electronics, as well as the full year contribution from PPG, which we acquired in the third quarter of 2006.

Sales in the industrial / semicap market increased \$14.4 million from \$39.0 million in 2006 to \$53.4 million in 2007. The increase was due primarily to contributions from PPG, which we acquired in the third quarter of 2006.

Sales in the medical end market increased \$17.6 million, from \$39.8 million in 2006 to \$57.4 million in 2007. The full year contributions of PPG in 2007 from MRI sales and an improving defibrillator business were the primary drivers for this increase. Increasing functionality and device integration in the implantable medical devices such as defibrillators and pacemakers have resulted in increases in both dollars per unit and unit content per device.

Sales in the mobile / connectivity end market increased \$25.7 million, from \$34.2 million in 2006 to \$59.9 million in 2007. Sales in this end market have grown due primarily to the addition of contributions from PowerDsine, which we acquired in the second quarter of 2007.

Sales in the notebook / LCD television / display end market decreased \$10.0 million, from \$57.2 million in 2006 to \$47.2 million in 2007. Declines in hard disk drive and notebook demand, as well as some lower margin business that we exited, contributed to the decrease.

Gross profit increased \$16.2 million, from \$164.8 million (44.5% of sales) for 2006 to \$181.0 million (40.9% of sales) for 2007. The increase in gross profit was due primarily to the addition of PPG and PowerDsine and offset primarily by costs associated with transferring and consolidating manufacturing operations of approximately \$38.0 million in 2007 versus \$17.8 million in 2006. In 2007, cost of sales included \$0.7 million related to the expensing of manufacturing profit in acquired inventory as inventory acquired in the PowerDsine acquisition was sold to customers. In 2006, cost of sales included \$4.1 million related to the expensing of manufacturing profit in acquired inventory which was incurred as inventory acquired in the PPG acquisition was sold to customers.

Selling, general and administrative expenses increased \$27.5 million from \$60.4 million for 2006 to \$87.9 million for 2007. The primary increases were approximately \$15.5 million related to the addition of PPG and PowerDsine operations, and an increase in stock based compensation expense of \$8.4 million. We also charged \$1.5 million in bad debt expense related to the bankruptcy of one distributor.

Amortization expense of intangible assets increased \$8.0 million from \$3.9 million in 2006 to \$11.9 million in 2007 from amortization expense on intangible assets acquired in the PPG and PowerDsine acquisitions.

Research and development expense increased \$17.2 million from \$25.0 million in 2006 to \$42.2 million in 2007, primarily due to the addition of research and development expense incurred at PPG and PowerDsine.

We had higher short term investment balances in 2006 compared to 2005; consequently, interest income increased \$3.1 million, from \$1.8 million in 2005 to \$4.9 million in 2006.

The effective tax rates were 43.0% and 61.2% for 2006 and 2007, respectively. The increase in the effective tax rate was primarily attributable to non-deductible charges related to the PPG acquisition. The non-deductible in-process research and development charge of \$15.3 million related to the PPG acquisition had an 8.6 percentage point impact to our effective tax rate while the expiration of the research and development tax credit had an additional 0.9 percentage point impact. We also had increased taxable income in higher tax rate jurisdictions.

### 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"). 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 that 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). In October 2008, the FASB issued 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 157-3 provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. SFAS 157 is effective for financial assets and liabilities in financial statements for fiscal years beginning after November 15, 2007 and interim periods within those years (our fiscal year 2009). We are currently evaluating the impact of SFAS 157, FSP 157-1, FSP 157-2 and FSP 157-3.

# 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. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (our fiscal year 2009). We are currently evaluating the impact of SFAS 159.

## 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 that begins after November 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the 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 as of the beginning of an entity's first fiscal period that begins after December 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the impact of FAS 142-3.

## 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.

# ITEM 7A. AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK QUANTITATIVE

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 September 28, 2008, our investment in auction rate securities consisted of auction rate preferred shares and 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 September 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. While some issuers of auction rate securities have announced intentions to call these securities at par plus accrued interest, there remains a high degree of uncertainty as to when complete liquidity may be restored.

We have entered into a settlement agreement with the financial institution where we hold our investments in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased our \$15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our \$46.5 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 the auction rate bonds to cash within our normal operating cycle, and as such, we have classified these investments in current assets.

Should credit market disruptions continue or increase in magnitude, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. At September 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. 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 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. 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 \$0.6 million would occur.

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.

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

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 September 28, 2008, we were in the second year of the agreement and there were no borrowings outstanding against the Revolving Credit Agreement, \$0.4 million outstanding in the form of a letter of credit, and \$57.6 million 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 September 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. – Integrated Products, 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.

1.

2.

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

# MICROSEMI CORPORATION AND SUBSIDIARIES

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Financial statement schedules not listed above are either omitted because they are not applicable or the required information is shown in the consolidated financial statements or in the notes thereto.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Microsemi Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 8(1) present fairly, in all material respects, the financial position of Microsemi Corporation and its subsidiaries at September 28, 2008 and September 30, 2007, and the results of their operations and their cash flows for each of the three years in the period ended September 28, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 8(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, financial statement schedule and for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report to Stockholders on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, for the year ended September 28, 2008, the Company changed the manner in which it accounts for uncertain tax positions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP Orange County, CA November 21, 2008

# MICROSEMI CORPORATION AND SUBSIDIARIES

# CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except per share data)

|  | September 28, | September 30, |  |
|--|---------------|---------------|--|
|  | 2008          | 2007          |  |
| ASSETS   |               |               |  |
| Current assets:  |               |               |  |
| Cash and cash equivalents  | \$ 107,197    | \$ 107,685    |  |
| Investment in available for sale securities  | 62,000        |               |  |
| Accounts receivable, net of allowance for doubtful accounts of \$1,424 at September 30, 2007 and |               |               |  |
| \$1,731 at September 28, 2008  | 103,467       | 81,035        |  |
| Inventories  | 121,726       | 115,038       |  |
| Deferred income taxes  | 13,375        | 14,315        |  |
| Other current assets   | 10,921        | 10,843        |  |
| Total current assets   | 418,686       | 328,916       |  |
| Property and equipment, net  | 78,589        | 68,846        |  |
| Deferred income taxes  | 6,456         | 742           |  |
| Goodwill   | 201,183       | 177,668       |  |
| Intangible assets, net   | 49,242        | 54,714        |  |
| Other assets   | 6,452         | 6,394         |  |
| TOTAL ASSETS   | \$ 760,608    | \$ 637,280    |  |
| LIABILITIES AND STOCKHOLDERS' EQUITY   |               |               |  |
| Current liabilities:   |               |               |  |
| Accounts payable   | \$ 29,425     | \$ 25,923     |  |
| Accrued liabilities  | 37,395        | 34,598        |  |
| Current maturity of long-term liabilities  | 406           | 724           |  |
| Total current liabilities  | 67,226        | 61,245        |  |
| Long-term liabilities  | 20,212        | 6,630         |  |
| Commitments and contingencies (Note 9)   |               |               |  |
| Stockholders' equity:  |               |               |  |
| Preferred stock, \$1.00 par value; authorized 1,000 shares; none issued                          | _             | _             |  |
| Common stock, \$0.20 par value; issued and outstanding 77,154 and authorized 100,000 at          |               |               |  |
| September 30, 2007 and issued and outstanding 79,797 and authorized 250,000 September 28,        |               |               |  |
| 2008, respectively   | 15,959        | 15,431        |  |
| Capital in excess of par value of common stock   | 483,233       | 429,277       |  |
| Retained earnings  | 173,498       | 124,257       |  |
| Accumulated other comprehensive income   | 480           | 440           |  |
| Total stockholders' equity   | 673,170       | 569,405       |  |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ 760,608    | \$ 637,280    |  |
|  |               | ,             |  |

# MICROSEMI CORPORATION AND SUBSIDIARIES

# CONSOLIDATED INCOME STATEMENTS

For each of the three fiscal years in the period ended September 28, 2008 (amounts in thousands, except earnings per share)

|  | 2008      | 2007      | 2006      |
|--|-----------|-----------|-----------|
| Net sales  | \$514,067 | \$442,252 | \$370,477 |
| Cost of sales  | 285,095   | 261,214   | 205,676   |
| Gross profit   | 228,972   | 181,038   | 164,801   |
| Operating expenses:                                  |           |           |           |
| Selling and general and administrative               | 105,297   | 87,904    | 60,354    |
| In-process research & development                    | 440       | 20,940    | 15,300    |
| Amortization of intangible assets                    | 11,828    | 11,890    | 3,850     |
| Research and development costs                       | 45,008    | 42,163    | 25,030    |
| Restructuring charges                                | 2,856     | 1,098     | 2,444     |
| (Gain) loss on dispositions of operating assets, net |           | (4,145)   | 13        |
| Total operating expenses                             | 165,429   | 159,850   | 106,991   |
| Operating income                                     | 63,543    | 21,188    | 57,810    |
| Other income (expenses):                             |           |           |           |
| Interest expense                                     | (214)     | (943)     | (162)     |
| Interest income                                      | 3,414     | 5,153     | 4,922     |
| Other, net   | (272)     | (69)      | 7         |
| Total other income                                   | 2,928     | 4,141     | 4,767     |
| Income before income taxes                           | 66,471    | 25,329    | 62,577    |
| Provision for income taxes                           | 16,817    | 15,511    | 26,912    |
| Net income   | \$ 49,654 | \$ 9,818  | \$ 35,665 |
| Earnings per share:                                  |           |           |           |
| Basic  | \$ 0.64   | \$ 0.13   | \$ 0.52   |
| Diluted  | \$ 0.63   | \$ 0.13   | \$ 0.50   |
| Weighted-average common shares outstanding:          |           |           |           |
| Basic  | 77,292    | 74,027    | 68,887    |
| Diluted  | 79,400    | 76,154    | 71,816    |

# MICROSEMI CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY For each of the three fiscal years in the period ended September 28, 2008 (amounts in thousands)

|   | Commo  | on Stock | Capital in<br>Excess of<br>Par value of |                      | Accumulated<br>Other<br>Comprehensive |           |
|---|--------|----------|---|----------------------|---------------------------------------|-----------|
|   | Shares | Amount   | Common<br>Stock                         | Retained<br>Earnings | Income (Loss)                         | Total     |
| Balance at October 2, 2005                  | 63,504 | \$12,702 | \$ 163,134                              | \$ 78,774            | (\$ 24)                               | \$254,586 |
| Proceeds from exercise of stock options     | 3,204  | 641      | 25,977                                  |                      | _                                     | 26,618    |
| Shares exchanged for options exercised      | (31)   | (6)      | (872)                                   | _                    | _                                     | (878)     |
| Issuance of stock related to an acquisition | 4,895  | 979      | 118,978                                 | _                    | _                                     | 119,957   |
| Tax benefit – stock-based compensation      | _      | —        | 15,507                                  | _                    | _                                     | 15,507    |
| Stock-based compensation                    | _      | _        | 1,574                                   | _                    | _                                     | 1,574     |
| Comprehensive income                        |        |          |   | 35,665               | 98                                    | 35,763    |
| Balance at October 1, 2006                  | 71,572 | \$14,316 | \$324,298                               | \$114,439            | \$ 74                                 | \$453,127 |
| Proceeds from exercise of stock options     | 2,536  | 507      | 21,932                                  | _                    | _                                     | 22,439    |
| Shares exchanged for options exercised      | (45)   | (8)      | (953)                                   | _                    | _                                     | (961)     |
| Issuance of stock related to an acquisition | 3,091  | 616      | 68,248                                  | _                    | _                                     | 68,864    |
| Tax benefit – stock-based compensation      | _      | _        | 6,254                                   |                      | _                                     | 6,254     |
| Stock-based compensation                    | _      | _        | 9,498                                   | _                    | _                                     | 9,498     |
| Comprehensive income                        |        |          |   | 9,818                | 366                                   | 10,184    |
| Balance at September 30, 2007               | 77,154 | \$15,431 | \$429,277                               | \$124,257            | \$ 440                                | \$569,405 |
| Proceeds from exercise of stock options     | 2,658  | 531      | 25,832                                  | _                    | _                                     | 26,363    |
| Shares exchanged for options exercised      | (15)   | (3)      | (325)                                   | _                    | _                                     | (328)     |
| Tax benefit – stock-based compensation      |        |          | 7,903                                   | _                    | _                                     | 7,903     |
| Stock-based compensation                    | _      | _        | 20,546                                  | _                    | _                                     | 20,546    |
| Cumulative impact of the adoption of FIN 48 | _      |          | _                                       | (413)                | _                                     | (413)     |
| Comprehensive income                        | _      | _        | _                                       | 49,654               | 40                                    | 49,694    |
| Balance at September 28, 2008               | 79,797 | \$15,959 | \$483,233                               | \$173,498            | \$ 480                                | \$673,170 |

# MICROSEMI CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CASH FLOWS

# For each of the three fiscal years in the period ended September 28, 2008 (amounts in thousands)

|   | 2008       | 2007       | 2006      |
|---|------------|------------|-----------|
| Cash flows from operating activities:   |            |            |           |
| Net income  | \$ 49,654  | \$ 9,818   | \$ 35,665 |
| Adjustments to reconcile net income to net cash provided by operating activities: |            |            |           |
| Depreciation and amortization   | 28,840     | 27,047     | 16,527    |
| Provision for doubtful accounts   | 307        | 2,002      | 370       |
| (Gain) loss on disposition of assets  | 143        | (4,145)    |           |
| In process research and development   | 440        | 20,940     | 15,300    |
| Manufacturing profit in acquired inventory  | _          | _          | 4,115     |
| Deferred income taxes   | (4,775)    | (1,562)    | (2,991)   |
| Charge for stock based compensation   | 20,973     | 9,497      | 1,574     |
| Change in assets and liabilities (net of acquisition):                            |            |            |           |
| Accounts receivable   | (19,722)   | (9,029)    | (7,849)   |
| Inventories   | (4,134)    | (20,807)   | (18,697)  |
| Other current assets  | (37)       | (2,721)    | (420)     |
| Other assets  | 208        | _          | (13)      |
| Accounts payable  | 2,983      | 3,599      | 923       |
| Accrued liabilities   | 101        | (9,778)    | (13)      |
| Income taxes payable  | _          | (3,188)    | 5,948     |
| Other long-tem liabilities  | 16,812     | 909        |           |
| Net cash provided by operating activities   | 91,793     | 22,582     | 50,439    |
| Cash flows from investing activities:   |            |            |           |
| Purchases of property and equipment   | (25,202)   | (18,725)   | (13,857)  |
| Sale of short term investments  | _          | 63,045     | 16,951    |
| Purchases of available for sale securities  | (62,875)   | _          | _         |
| Proceeds from sale of available for sale securities                               | 875        | _          | _         |
| Proceeds from sales of property, plant and equipment                              | _          | 11,241     | _         |
| Acquisition of certain business assets and businesses, net of cash acquired       | (35,681)   | (157,305)  | (24,033)  |
| Changes in other assets   | (333)      | (3,989)    | 2,386     |
| Net cash used in investing activities   | (123,216)  | (105,733)  | (18,553)  |
| Cash flows from financing activities:   |            |            |           |
| Payments of long-term liabilities   | _          | _          | (160)     |
| Borrowings from loan facility   | 981        | _          | _         |
| Excess tax benefit from options   | 3,916      | 3,943      | 9,799     |
| Exercise of employee stock options  | 26,038     | 21,478     | 25,741    |
| Net cash provided by financing activities   | 30,935     | 25,421     | 35,380    |
| Net increase (decrease) in cash and cash equivalents                              | (488)      | (57,730)   | 67,266    |
| Cash and cash equivalents at beginning of year                                    | 107,685    | 165,415    | 98,149    |
| · · · · · · · · · · · · · · · · · · ·   | \$ 107,197 | \$ 107,685 | \$165,415 |
| Cash and cash equivalents at end of year  | \$ 107,197 | \$ 107,085 | \$105,415 |
| Supplemental disclosure of cash flow information                                  |            |            |           |
| Cash paid during the year for:  |            |            |           |
| Interest  | \$ 214     | \$ 943     | \$ 162    |
| Income taxes  | \$ 3,536   | \$ 16,319  | \$ 13,897 |

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

We are 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 reducing size, protecting circuits, improving performance, reliability, and battery optimization. The principal markets we serve include defense, commercial air / satellite, industrial / semicap, medical, mobile connectivity and notebook, LCD television and displays.

On November 2, 2005, we entered into a definitive Agreement and Plan of Merger with Advanced Power Technology, Inc., a Delaware corporation ("APT"), and APT Acquisition Corp., a Delaware corporation that is a wholly owned subsidiary of Microsemi, which was subsequently amended on or prior to March 23, 2006 (as so amended, the "APT Merger Agreement"). We completed the acquisition of APT on April 28, 2006 and subsequently renamed APT, Microsemi Corp. – Power Products Group ("PPG").

On October 24, 2006, we entered into a definitive agreement and plan of merger with PowerDsine Ltd. ("PowerDsine"), an Israeli corporation, and Pinnacle Acquisition Corporation, Ltd., an Israeli corporation that is an indirect wholly-owned subsidiary of Microsemi. We completed the merger on January 9, 2007 and subsequently renamed PowerDsine Ltd., Microsemi Corp. - Analog Mixed Signal Group, Ltd. ("AMSGL").

In the first quarter of fiscal year 2008, we acquired substantially all the assets of Microwave Device Technology Corporation and the outstanding shares of TSI Microelectronics Corporation. In the fourth quarter of fiscal year 2008, we acquired substantially all of the assets of SEMICOA. We have substantially integrated the assets or businesses from these acquisitions into our operations in Massachusetts.

Fiscal Year

We report results of operations on the basis of fifty-two and fifty-three week periods. Each of the fiscal years ended on October 1, 2006, September 30, 2007 and September 28, 2008 consisted of fifty-two weeks.

## Principles of Consolidation

The consolidated financial statements include the accounts of Microsemi and our subsidiaries. All intercompany transactions and balances have been eliminated.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates.

## Cash and Cash Equivalents

We consider all short-term, highly liquid investments with maturities of three months or less at date of acquisition to be cash equivalents.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The accounts receivable amount shown in the balance sheet are trade accounts receivable balances at the respective dates, net of allowance for doubtful accounts.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on our historical write-off experience. We review our allowance for doubtful accounts quarterly. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged off against the allowance when we determine that it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers. With the exception of one distributor who entered into bankruptcy and for whom we charged off approximately \$1.5 million against the allowance for doubtful accounts in fiscal 2007, actual bad debt has been within our expectations and the provisions established, and has been consistent with experience of prior years.

### Inventories

Inventories are stated at the lower of cost, as determined using the first-in, first-out ("FIFO") method, or market. Costs include materials, labor and manufacturing overhead. We evaluate the carrying value of our inventories taking into account such factors as historical and anticipated future sales compared with quantities on hand and the price we expect to obtain for our products in their respective markets. We also evaluate the composition of our inventories to identify any slow-moving or obsolete products. Additionally, inventory reserves are established based upon such judgments for any inventories that are identified as having a net realizable value less than their cost, which is further reduced by related selling expenses. Historically, the net realizable value of our inventories has generally been within management's estimates.

### Fair Value of Financial Instruments

The carrying values of cash equivalents, accounts receivable, investment in marketable securities, accounts payable, accrued liabilities, notes payable and certain other current assets approximate their fair values because of their short maturity or ability for us to convert them into cash. The carrying value of our long-term liabilities at September 30, 2007 and September 28, 2008 approximates fair value based upon the current rate offered to us for obligations of the same remaining maturities.

# 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 September 28, 2008, our investment in auction rate securities consisted of auction rate preferred shares and 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 September 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. While some issuers of auction rate securities have announced intentions to call these securities at par plus accrued interest, there remains a high degree of uncertainty as to when complete liquidity may be restored.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We have entered into a settlement agreement with the financial institution where we hold our investments in auction rate securities and per the terms of the settlement agreement: a) on November 3, 2008, the financial institution repurchased our \$15.5 million investment in auction rate preferred shares at par plus accrued interest; b) we hold rights to sell our \$46.5 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 the auction rate bonds to cash within our normal operating cycle, and as such, we have classified these investments in current assets.

Should credit market disruptions continue or increase in magnitude, we may be required to record an impairment on our investments or consider that an ultimate liquidity event may take longer than currently anticipated. At September 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. 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 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. 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 \$0.6 million would occur.

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.

At September 28, 2008, all of our marketable securities were classified as available-for-sale and accounted for in accordance with Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses for available-for-sale securities are excluded from earnings and reported in other comprehensive income unless the decline in the fair values is below cost and deemed to be other-than-temporary, in which case the adjustment is recorded to earnings. If fair values were to decrease below cost for a prolonged period of time, we would consider various factors in determining whether to recognize an other-than-temporary impairment charge, including the length of time and the extent to which the fair value has been below the cost basis, the current financial condition of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

# Property and Equipment

Property and equipment are stated at lower of cost or realizable values. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease terms or the estimated useful lives. Maintenance and repairs are charged to expense as incurred and the costs of additions and betterments that increase the useful lives of the assets are capitalized.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### Long-Lived Assets

We assess the impairment of property, plant and equipment and amortizable intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable from the undiscounted estimated future cash flows expected to result from their use.

We are required to make judgments and assumptions in identifying those events or changes in circumstances that may trigger impairment. Some of the factors we consider include:

- Significant decrease in the market value of an asset.
- Significant changes in the extent or manner for which the asset is being used or in its physical condition.
- A significant change, delay or departure in our business strategy related to the asset.
- Significant negative changes in the business climate, industry or economic conditions.
- Current period operating losses or negative cash flow combined with a history of similar losses or a forecast that indicates continuing losses associated with the use of an asset.

### Goodwill

We adopted FAS 142 at the beginning of fiscal year 2003, which changed the accounting for goodwill from an amortization method to an impairment-only approach. Accordingly, goodwill and other intangible assets with indefinite lives are no longer amortized, while those intangible assets with known useful lives have continued to be amortized over their respective useful lives. At least annually, we are required to reassess goodwill. We perform our annual review for goodwill impairment in the fourth quarter of each fiscal year. Whenever we determine that there has been an impairment of goodwill or other intangible assets with indefinite lives, we will record an impairment charge against earnings, which equals the excess of the carrying value of goodwill over its then fair value, and a reduction in goodwill on our balance sheet.

We are required by FAS 142 to reassess goodwill annually and whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has been incurred. We are required to record a charge to income if an impairment has been incurred. We performed our annual review for goodwill impairment in the fourth quarter of fiscal year 2008 and determined that no impairment existed.

## Preferred Stock

Our certificate of incorporation authorizes the Board of Directors to issue up to 1,000,000 shares of preferred stock and to designate the rights and terms of any such issuances. We have not issued any preferred stock.

# Shareholder Rights Plan

We adopted a 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 Common Stock, thereby entitling the holder to purchase 1/4,000 th 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 the common stock.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In connection with our Shareholder Rights Plan, each share of 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.

### Revenue Recognition, Sales Returns and Allowances

We recognize revenue to all customers, including distributors, when title and risk of loss have passed to the customer provided that:
1) evidence of an arrangement exists; 2) delivery has occurred; 3) the fee is fixed or determinable; and 4) collectability is reasonably assured. For substantially all sales, revenue is recognized at the time the product is shipped.

We enter into contracts with certain distributors, and these contracts may permit very limited stock rotation returns. We provide an estimated allowance for such returns, and corresponding reductions in revenue are concurrently recorded, based on several factors including past history and notification from customers of pending returns. Actual returns have been within management's expectations.

In accordance with EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (including a Reseller of the Vendor's Products)", estimated reductions to revenue are also recorded for customer incentive programs consisting of price protection and volume purchase rebates. Such programs are limited and actual reductions to revenue have been within management's expectations.

## Concentration of Credit Risk and Foreign Sales

We are potentially subject to concentrations of credit risk consisting principally of trade accounts receivable. Concentrations of credit risk exist because we rely on a significant portion of customers whose principal sales are to the U.S. Government.

Our business with customers whose principal sales are to the U.S. Government or to subcontractors whose sales are to the U.S. Government was approximately one-third of total net sales in fiscal year 2008. We, as a subcontractor, sell our products to higher-tier subcontractors or to prime contractors based upon purchase orders that usually do not contain all of the conditions included in the prime contract with the U.S. Government. However, these sales are usually subject to termination and/or price renegotiations by virtue of their reference to a U.S. Government prime contract. Therefore, we believe that all of our product sales that ultimately are sold to the U.S. Government may be subject to termination, at the convenience of the U.S. Government or to price renegotiations under the Renegotiation Act.

In addition, net sales to foreign customers represented approximately one-third of net sales for fiscal years 2006, 2007 and 2008. These sales were principally to customers in Europe and Asia. Foreign sales are classified for shipments to foreign destinations. We maintain reserves for potential credit losses and such losses have been within management's expectations.

### Research and Development

We expense the cost of research and development as incurred. Research and development expenses principally comprise payroll and related costs, supplies, and the cost of prototypes. In-process research and development (IPR&D) represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition date, had not yet reached technological feasibility.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## Stock-Based Compensation

Beginning in fiscal year 2006, we adopted FAS 123R under the modified prospective transition method to account for our employee stock options. Under the modified prospective transition method, fair value of new and previously granted but unvested stock options are recognized as compensation expense in the income statement, and prior period results were not restated.

## Accounting For Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS 109. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. We adopted FIN 48 effective October 1, 2007, and the provisions of FIN 48 will be applied to all income tax positions commencing from that date. We recognize potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense.

We account for income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate the need to establish a valuation allowance for deferred tax assets based upon the amount of existing temporary differences, the period in which they are expected to be recovered and expected levels of taxable income. A valuation allowance to reduce deferred tax assets is established when it is more likely than not that some or all of the deferred tax assets will not be realized.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2004 through 2008 tax years generally remain subject to examination by federal and most state tax authorities. In significant foreign jurisdictions, the 2003 through 2008 tax years generally remain subject to examination by tax authorities. We establish liabilities for possible assessments by tax authorities resulting from known tax exposures including, but not limited to, international tax issues and certain tax credits. We do not believe the results of these audits will have a material impact on our financial position, results of operations or cash flows.

## Segment Information

We use the management approach for segment disclosure, which designates the internal organization that is used by management for making operating decisions and assessing performance as the source of our reportable segments. 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.

## Foreign Currency

Our subsidiary in Ireland uses the United States Dollar ("USD") as its functional currency. Our subsidiary in China uses the Chinese RMB as its functional currency. Our subsidiary in France uses the European Union Euro as its functional currency. Assets and liabilities are translated to USD at the exchange rate in effect at the balance sheet date; revenues, expenses, gains and losses are translated at rates of exchange that approximate the rates in

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

effect at the transaction date. Resulting translation gains or losses are recognized as a component of other comprehensive income. We also 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.

### 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 consists of net income, the change of the cumulative foreign currency translation adjustment and for the fiscal year ended September 28, 2008, a \$413,000 reduction in comprehensive income as a result of applying the provisions of FIN 48. Accumulated other comprehensive income consists solely of the cumulative foreign currency translation adjustment.

## 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 options outstanding during the respective periods.

Earnings per share for the fiscal years 2006, 2007 and 2008 were calculated as follows (amounts in thousands, except per share data):

|   | Fiscal Years |          |          |
|---|--------------|----------|----------|
|   | 2008         | 2007     | 2006     |
| BASIC   |              |          |          |
| Net income  | \$49,654     | \$ 9,818 | \$35,665 |
| Weighted-average common shares outstanding                    | 77,292       | 74,027   | 68,887   |
| Basic earnings per share                                      | \$ 0.64      | \$ 0.13  | \$ 0.52  |
| DILUTED   |              |          |          |
| Net income  | \$49,654     | \$ 9,818 | \$35,665 |
| Weighted-average common shares outstanding for basic          | 77,292       | 74,027   | 68,887   |
| Dilutive effect of stock options                              | 2,108        | 2,127    | 2,929    |
| Weighted-average common shares outstanding on a diluted basis | 79,400       | 76,154   | 71,816   |
| Diluted earnings per share                                    | \$ 0.63      | \$ 0.13  | \$ 0.50  |

Approximately 1,189,000, 4,171,000 and 6,881,000 options in 2006, 2007 and 2008, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have been antidilutive.

## 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

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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"). 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 that 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). In October 2008, the FASB issued 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 157-3 provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. SFAS 157 is effective for financial assets and liabilities in financial statements for fiscal years beginning after November 15, 2007 and interim periods within those years (our fiscal year 2009). We are currently evaluating the impact of SFAS 157, FSP 157-1, FSP 157-2 and FSP 157-3.

# 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. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007 (our fiscal year 2009). We are currently evaluating the impact of SFAS 159.

## 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

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 that begins after November 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the impact on our financial position 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 as of the beginning of an entity's first fiscal period that begins after December 15, 2008 (our second quarter of fiscal year 2009). We are currently evaluating the impact of FAS 142-3.

## 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.

## 2. INVENTORIES

Inventories are summarized as follows (amounts in thousands):

|                  | September 28, | September 30, |
|------------------|---------------|---------------|
|                  | 2008          | 2007          |
| Raw materials    | \$ 35,693     | \$ 42,524     |
| Work in progress | 59,434        | 44,467        |
| Finished goods   | 26,599        | 28,047        |
|                  | \$ 121,726    | \$ 115,038    |

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following components (amounts in thousands):

|                          |               | September 28, | September 30, |
|--------------------------|---------------|---------------|---------------|
|                          | Asset Life    | 2008          | 2007          |
| Buildings                | 20-40 years   | \$ 36,946     | \$ 33,968     |
| Property and equipment   | 3-10 years    | 122,153       | 104,230       |
| Furniture and fixtures   | 5-10 years    | 3,556         | 3,244         |
| Leasehold improvements   | Shorter of    |               |               |
|                          | asset life or |               |               |
|                          | life of lease | 19,300        | 14,818        |
|                          |               | 181,955       | 156,260       |
| Accumulated depreciation |               | (108,971)     | (98,776)      |
| Land                     |               | 2,363         | 2,363         |
| Construction in progress |               | 3,242         | 8,999         |
|                          |               | \$ 78,589     | \$ 68,846     |

Depreciation expense was \$12,678,000, \$15,158,000 and \$17,012,000 in fiscal years 2006, 2007 and 2008, respectively.

## 4. GOODWILL AND INTANGIBLE ASSETS, NET:

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

|                                  | Septemb                    | per 28, 2008 September 30 |                            | er 30, 2007               |                    |
|----------------------------------|----------------------------|---------------------------|----------------------------|---------------------------|--------------------|
|                                  | Gross<br>Carrying<br>Value | Accumulated  Amortization | Gross<br>Carrying<br>Value | Accumulated  Amortization | Life<br>(in years) |
| Amortizable intangible assets    |                            |                           |                            |                           |                    |
| Completed technology             | \$ 66,034                  | \$ (24,818)               | \$ 62,663                  | \$ (14,794)               | 2 to 15            |
| Customer relationships           | 7,555                      | (2,156)                   | 6,390                      | (1,379)                   | 4 to 15            |
| Backlog                          | 3,240                      | (1,744)                   | 3,450                      | (3,095)                   | 1 to 2             |
| Other                            | 1,740                      | (609)                     | 2,228                      | (749)                     | 5                  |
|                                  | \$ 78,569                  | \$ (29,327)               | \$ 74,731                  | \$ (20,017)               |                    |
| Non-amortizing intangible assets |                            |                           |                            |                           |                    |
| Goodwill                         | \$201,183                  |                           | \$177,668                  |                           |                    |

During fiscal year 2007, goodwill increased \$129,993,000 as a result of our acquisition of AMSGL and decreased \$3,871,000 primarily as a result of the reversal of income tax valuation allowances established in connection with the AMSGL and PPG acquisitions and the tax benefit from the exercise of vested options assumed in the AMSGL and PPG acquisitions. During fiscal year 2008, goodwill increased related to our acquisitions of SEMICOA, Microwave Device Technology Corporation and TSI Microelectronics Corporation in the amounts of \$21,974,000, \$1,697,000 and \$442,000, respectively. Goodwill decreased \$598,000 related to the revaluation of an acquired income tax valuation allowance of deferred tax assets and from tax benefits recorded on exercises of options vested at the time of acquisition.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization expense for intangible assets in fiscal years 2006, 2007 and 2008 was \$3,850,000, \$11,890,000 and \$11,828,000, respectively. Estimated amortization in each of the five succeeding years is as follows (amounts in thousands):

|         |          | Fiscal Year |         |         |         |  |
|---------|----------|-------------|---------|---------|---------|--|
|         | 2009     | 2010        | 2011    | 2012    | 2013    |  |
| expense | \$11,210 | \$11,108    | \$7,712 | \$5,680 | \$5,593 |  |

### 5. ACCRUED LIABILITIES

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

|  | Septem | September 28, |    | tember 30, |
|--|--------|---------------|----|------------|
|  | 20     | 08            |    | 2007       |
| Payroll, bonus, vacation, sick and other employee benefits | \$ 2   | 0,655         | \$ | 18,496     |
| Restructuring  |        | 1,949         |    | 1,024      |
| Other  | 1      | 4,791         |    | 12,903     |
|  | \$ 3   | 7,395         | \$ | 34,598     |

## 6. INCOME TAXES

Pretax income was taxed under the following jurisdictions (amounts in thousands):

|          | the pe   | the period ended on or about<br>September 28, 2008 |          |  |  |
|----------|----------|--|----------|--|--|
|          | 2008     | 2007   | 2006     |  |  |
| Domestic | \$14,370 | \$ 37,929  | \$58,946 |  |  |
| Foreign  | 52,101   | (12,600)   | 3,631    |  |  |
| Total    | \$66,471 | \$ 25,329  | \$62,577 |  |  |

For each of the three fiscal years in

The provision for income taxes consisted of the following components (amounts in thousands):

|          | the per  | the period ended on or about<br>September 28, 2008 |          |  |  |
|----------|----------|--|----------|--|--|
|          | 2008     | 2007   | 2006     |  |  |
| Current: |          |  |          |  |  |
| Federal  | \$12,292 | \$13,162   | \$26,198 |  |  |
| State    | 3,260    | 2,401  | 2,954    |  |  |
| Foreign  | 6,040    | 1,510  | 751      |  |  |
| Deferred | (4,775)  | (1,562)  | (2,991)  |  |  |
|          | \$16,817 | \$15,511   | \$26,912 |  |  |

We have federal and state net operating losses acquired with PPG of approximately \$2,867,000 that begin expiring in 2020, foreign NOLs of approximately \$48,096,000, state research and experimentation credits of approximately \$5,236,000 and enterprise zone credits of approximately \$160,000 that have an indefinite carry forward, and other state tax credits of approximately \$167,000 that begin expiring in 2009. A valuation allowance of \$3,963,000 has been set up against a portion of the state tax credit carryforwards.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We have provided a valuation allowance of approximately \$11,254,000 as of September 28, 2008 on all of our net deferred tax assets related to AMSGL as we have determined that it was more likely than not that the deferred tax assets would not be realized. Additionally, under the provisions of SFAS No. 109, "Accounting for Income Taxes," and related interpretations, future period reductions to the valuation allowance related to AMSGL's deferred tax assets that existed as of the date of acquisition are first credited against goodwill, then to the other identifiable intangible assets existing at the date of acquisition, and then, once these assets have been reduced to zero, credited to the income tax provision. Effective at the start of our fiscal year 2010, SFAS 141R provides that any reduction to the valuation allowance established in purchase accounting is to be accounted for as a reduction in income tax expense.

The utilization of the NOLs acquired with APT will be subject to limitations due to the ownership change. At this time, based upon the purchase price of APT, we do not believe that these limitations will affect the utilization of the NOLs.

No provision has been made for future U.S. income taxes on certain undistributed earnings of foreign operations since they have been indefinitely reinvested in these operations. Determination of the amount of unrecognized deferred tax liability for temporary differences related to these undistributed earnings is not practicable. At September 30, 2007 and September 28, 2008, these undistributed earnings aggregated approximately \$36,328,000 and \$94,700,000, respectively.

The following is a reconciliation of income tax computed at the federal statutory rate to our actual tax expense (amounts in thousands):

For each of the three fiscal

|   |             | years in the period ended<br>September 28, 2008 |          |  |  |
|---|-------------|---|----------|--|--|
|   | 2008        | 2007  | 2006     |  |  |
| Tax computed at federal statutory rate  | \$ 23,264   | \$ 8,864  | \$21,902 |  |  |
| State taxes, net of federal impact      | 1,947       | 1,105   | 2,366    |  |  |
| Foreign income taxed at different rates | (11,742)    | 1,159   | (573)    |  |  |
| Tax credits                             | (512)       | (3,898)   | (1,356)  |  |  |
| Stock award compensation                | 3,183       | 2,342   | 206      |  |  |
| In process research and development     | <del></del> | 6,073   | 5,355    |  |  |
| Accrued taxes                           | 1,022       | _   | _        |  |  |
| Other differences, net                  | (345)       | (134)   | (988)    |  |  |
|   | \$ 16,817   | \$15,511  | \$26,912 |  |  |

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The tax affected deferred tax assets (liabilities) are comprised of the following components (amounts in thousands):

|                                   | September 28, | September 30, |
|-----------------------------------|---------------|---------------|
|                                   | 2008          | 2007          |
| Accounts receivable, net          | \$ 1,939      | \$ 2,103      |
| Inventories                       | 8,392         | 7,952         |
| Accrued employee benefit expenses | 2,164         | 2,219         |
| Net operating losses              | 13,085        | 14,052        |
| Tax credits                       | 4,078         | 3,828         |
| Accrued other expenses            | 2,590         | 2,510         |
| Deferred equity compensation      | 7,069         | 3,065         |
| Property and equipment, net       | 435           | _             |
| Other assets                      | 2,895         | 906           |
| Total deferred tax assets         | 42,647        | 36,635        |
| Intangible assets                 | (8,985)       | (11,090)      |
| Property and equipment, net       |               | (328)         |
| Total deferred tax liabilities    | (8,985)       | (11,418)      |
| Less valuation allowance          | (13,831)      | (10,160)      |
|                                   | \$ 19,831     | \$ 15,057     |

We adopted the provisions of FIN 48 on October 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$5,308,000 increase to the liability for unrecognized tax benefits, which was accounted for as a net \$413,000 reduction to the October 1, 2007 balance of retained earnings. As of the adoption date, the Company had estimated accrued interest and penalties related to the unrecognized tax benefits of \$1,470,000. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in thousands):

September 28.

|  | БСР |         |
|--|-----|---------|
|  |     | 2008    |
| Gross unrecognized tax benefits at September 30, 2007        | \$  | 12,713  |
| Additions based on tax positions related to the current year |     | 2,532   |
| Additions based on tax positions of prior years              |     | 1,541   |
| Reductions for tax positions for prior years                 |     | (3,967) |
| Gross unrecognized tax benefit at September 28, 2008         | \$  | 12,819  |

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. During the year ended September 28, 2008, the Company recognized approximately \$1,054,000 in interest and penalties.

Substantially all the unrecognized tax benefits of \$12,819,000 at September 28, 2008 would impact the effective tax rate if recognized. We are unaware of any positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2003 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

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

### 7. LONG-TERM LIABILITIES

Long-term liabilities consisted of (amounts in thousands):

|                              | September 28, | September 30, |
|------------------------------|---------------|---------------|
|                              | 2008          | 2007          |
| Capital leases               | \$ 3,319      | \$ 3,218      |
| Other long-term liabilities: |               |               |
| Accrued taxes                | 12,351        | _             |
| Severance                    | 3,725         | 2,866         |
| Environmental                | 357           | 1,025         |
| Other                        | 866           | 245           |
| Total long-term liabilities  | 20,618        | 7,354         |
| Current portion              | (406)         | (724)         |
| Long-term portion            | \$ 20,212     | \$ 6,630      |

We lease a building in Santa Ana, California, under a long-term capital lease obligation. We also lease certain equipment under a capital lease with terms ranging from three to seven years. Building and equipment under capital lease obligations are reflected in property and equipment, net, in the accompanying consolidated balance sheets. Other long-term liabilities include severance, environmental reserves and supplemental retirement benefits.

Payments for capital lease obligations and other long-term liabilities, including the current portion, that are due in each of five succeeding years are as follows, (amounts in thousands):

|                             |           | Fiscal Year |       |       |       |  |
|-----------------------------|-----------|-------------|-------|-------|-------|--|
|                             | 2009      | 2010        | 2011  | 2012  | 2013  |  |
| Capital leases              | \$331     | \$ 344      | \$343 | \$305 | \$309 |  |
| Other long-term liabilities | <u>75</u> | 735         | 56    | 48    | 56    |  |
| Total                       | \$406     | \$1,079     | \$399 | \$353 | \$365 |  |

As of September 28, 2008, we recorded \$12,351,000 in long-term liabilities for accrued taxes related to uncertain tax positions under FIN 48. We are not able to reasonably estimate the timing of the long-term payments, or the amount by which our liability will increase or decrease over time; therefore, the FIN 48 liability has not been included in the payment table.

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 September 28, 2008, we were in the second year of the agreement and there were no borrowings outstanding against the Revolving Credit Agreement, \$0.4 million outstanding in the form of a letter of credit, and \$57.6 million available for borrowing under the Revolving Credit Agreement. The Revolving

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 September 28, 2008, we were in compliance with the financial covenants required by the Revolving Credit Agreement.

## 8. STOCK BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

Stock Based Compensation

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.

Beginning in fiscal year 2006, we adopted FAS 123R under the modified prospective transition method to account for our employee stock options. Under the modified prospective transition method, fair value of new and previously granted but unvested stock options are recognized as compensation expense in the income statement, and prior period results are not restated. In the years ended September 28, 2008, September 30, 2007, and October 1, 2006, operating income decreased by \$20,973,000, \$9,497,000 and \$1,574,000, respectively, net income decreased by \$16,126,000, \$8,749,000 and \$1,214,000, respectively, basic earnings per share decreased by \$0.21, \$0.12 and \$0.02, respectively, and diluted earnings per share decreased \$0.20, \$0.11 and \$0.02, respectively.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Compensation expense for stock awards were 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 A             | ward          | Risk         | Expected          | Expected        |                        |
|--|----------------|-------------------|---------------|--------------|-------------------|-----------------|------------------------|
| Fiscal Year Ended                            | # of<br>Awards | Exercise<br>Price | Fair<br>Value | Free<br>Rate | Dividend<br>Yield | Life<br>(Years) | Expected<br>Volatility |
| September 28, 2008                           |                |                   |               |              |                   |                 |                        |
| Option grants                                | 2,295,340      | \$26.76           | \$ 7.57       | 3.6%         | 0.0%              | 2.7             | 38.3%                  |
| Restricted stock award                       | 515,672        |                   | \$28.40       |              |                   |                 |                        |
| September 30, 2007                           |                |                   |               |              |                   |                 |                        |
| Option grants                                | 2,893,700      | \$19.26           | \$ 6.41       | 4.5%         | 0.0%              | 3.0             | 41.2%                  |
| Restricted stock award                       | 100,000        |                   | \$20.99       |              |                   |                 |                        |
| Converted PowerDsine options                 | 1,813,560      | \$ 9.71           | \$ 9.14       | 5.0%         | 0.0%              | 0.8             | 37.6%                  |
| Converted PowerDsine restricted stock awards | 56,505         |                   | \$17.88       |              |                   |                 |                        |
| October 2, 2006                              |                |                   |               |              |                   |                 |                        |
| Option grants                                | 816,565        | \$26.19           | \$ 9.86       | 4.9%         | 0.0%              | 3.2             | 46.8%                  |
| Converted PPG options                        | 568,363        | \$17.51           | \$12.01       | 4.9%         | 0.0%              | 1.2             | 31.6%                  |

Options and restricted stock awards are granted at a price equal to the closing price of our common stock on the date of the grant and are subject to forfeiture if employment terminates.

Converted PowerDsine options and restricted stock awards were issued in connection with the acquisition of PowerDsine, Ltd. Each PowerDsine restricted stock award was converted into 0.1498 Microsemi restricted stock awards which were valued at \$17.88 per award and \$8.25 in cash. The cash component is payable upon the vesting of the related reward. Compensation expense related to the vesting of the cash component during fiscal year 2008 and 2007 was \$620,000 and \$500,000, respectively.

Expected term was estimated based on historical exercise data that was stratified between members of the Board of Directors, executive employees and non-executive employees. Expected volatility was estimated based on historical volatility using equally weighted daily price observations over a period approximately equal to the expected term 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.

Activity and price information related to stock options are as follows:

|                                | Stock<br>Options | A  | eighted-<br>verage<br>rcise Price |
|--------------------------------|------------------|----|-----------------------------------|
| Outstanding October 1, 2006    | 10,077,180       | \$ | 17.06                             |
| Granted or Converted           | 4,707,260        |    | 15.58                             |
| Exercised                      | (2,535,722)      |    | 8.84                              |
| Expired or Canceled            | (440,355)        |    | 21.96                             |
| Outstanding September 30, 2007 | 11,808,363       | \$ | 18.05                             |
| Granted                        | 2,295,340        |    | 26.76                             |
| Exercised                      | (1,993,554)      |    | 13.22                             |
| Expired or Canceled            | (338,099)        |    | 23.97                             |
| Outstanding September 28, 2008 | 11,772,050       | \$ | 20.39                             |
| Vested                         | 7,387,966        | \$ | 18.96                             |
| Unvested                       | 4,384,084        | \$ | 22.81                             |

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock options exercisable under the Plan were 9,420,103, 8,322,940 and 7,387,966 at October 1, 2006, September 30, 2007 and September 28, 2008, respectively, at weighted-average exercise prices of \$16.43, \$17.45 and \$18.96, respectively.

The total intrinsic value of options exercised during the fiscal years ended October 1, 2006, September 30, 2007 and September 28, 2008 was approximately \$62,693,000, \$31,329,000 and \$24,145,000, respectively.

At October 1, 2006, the intrinsic value and average remaining life were \$46,626,000 and 7.6 years for outstanding options and \$46,314,000 and 7.6 years for unvested options. At September 30, 2007, the intrinsic value and average remaining life were \$116,712,000 and 6.4 years for outstanding options and \$33,085,000 and 5.7 years for unvested options. At September 28, 2008, the intrinsic value and average remaining life were \$78,853,000 and 5.4 years for outstanding options and \$24,501,000 and 4.8 years for unvested options.

Activity and price information related to restricted stock awards are as follows:

|   | Restricted      |                                     |
|---|-----------------|-------------------------------------|
|   | Stock<br>Awards | Weighted-<br>Average<br>Grant Price |
| Outstanding October 1, 2006                 | _               | \$ —                                |
| Granted or Converted                        | 156,505         | 19.87                               |
| Vested                                      | (4,422)         | 17.88                               |
| Expired or Canceled                         | (2,352)         | 17.88                               |
| Outstanding and Unvested September 30, 2007 | 149,731         | \$ 19.96                            |
| Granted                                     | 515,672         | 28.40                               |
| Vested                                      | (70,233)        | 24.57                               |
| Expired or Canceled                         | (1,641)         | 17.88                               |
| Outstanding and Unvested September 28, 2008 | 593,529         | \$ 26.75                            |

During the third quarter of 2007, we granted one new restricted stock award consisting of 100,000 shares that vest after two years. During the restriction period, the shares have the same voting rights as common stock but are non-transferable. The remaining 56,505 restricted share awards granted in 2007 were converted in connection with the acquisition of PowerDsine. During the fiscal year ended September 28, 2008, we granted 49,000 shares to non-employee directors with restrictions that lapsed immediately at grant, 16,667 shares with restrictions that lapse annually in nearly equal amounts over two years, 175,000 shares with restrictions that lapse in the amounts of 50,000 after one year, 100,000 after two years and 175,000 after three years and 275,005 shares with restrictions that lapse annually in nearly equal amounts over three years. During the restriction period, the shares have the same voting rights as common stock but are non-transferable. There were no restricted stock awards granted prior to October 1, 2006.

At September 28,2008, unamortized compensation expense related to unvested options and restricted stock awards, net of forfeitures, was approximately \$29,225,000. The weighted average period over which compensation expense related to these grants will be recognized is 1.4 years.

Remaining shares available for grant at October 1, 2006, September 30, 2007 and September 28, 2008 under the Plan were 2,833,000, and 3,145,000 and 3,061,000, respectively.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### Cash Bonus Plan

Our Cash Bonus Plan, first adopted by the Board of Directors in fiscal year 1984, covers substantially all full-time employees who meet certain minimum employment requirements and provides terms and conditions for current bonuses based upon our earnings. The Compensation Committee of the Board of Directors determines annual contributions to the plan. Total charges to income were \$7,250,000, \$7,340,000 and \$8,141,000 in fiscal years 2006, 2007 and 2008, respectively.

### 401(k) Plan

We sponsor a 401(k) Savings Plan whereby participating employees may elect to contribute up to 50% of their eligible wages up to the statutory contribution limit. We are committed to match 100% of the first 3% and 50% of the next 2% of an employee's contribution. Employees 50 years of age and older may contribute a further 75% of their eligible wages up to the statutory contribution limit. We do not match this supplemental contribution. We contributed \$1,893,000, \$2,566,000 and \$3,114,000 to this plan during fiscal years 2006, 2007 and 2008, respectively.

## Supplemental Retirement Plan

In fiscal year 1994, we adopted a supplemental retirement plan, which provides certain then long-term employees with retirement benefits based upon a certain percentage of the respective employee's salaries. Included in other long-term liabilities at September 30, 2007 and September 28, 2008 were \$245,000 and \$202,000, respectively, related to our estimated liability under the plan. All participants in this plan have retired from the Company.

## . COMMITMENTS AND CONTINGENCIES

## Operating Leases

We occupy premises and lease equipments under operating lease agreements expiring through 2017. The aggregate undiscounted future minimum rental payments under these leases are as follows (amounts in thousands):

| Payments due by period |         |         |         |         |         |            |  |  |  |  |
|------------------------|---------|---------|---------|---------|---------|------------|--|--|--|--|
| Total                  | 2009    | 2010    | 2011    | 2012    | 2013    | Thereafter |  |  |  |  |
| \$18,799               | \$5,831 | \$4,942 | \$2,450 | \$1,742 | \$1,326 | \$ 2,508   |  |  |  |  |

Lease expense charged to income was \$3,796,000, \$5,986,000 and \$5,769,000 in fiscal years 2006, 2007 and 2008, respectively. Lease expense increased between 2006 and 2007 primarily due to the acquisition of PPG and AMSGL.

## Purchase Obligations

We have entered into agreements to buy material with certain vendors. The minimum annual payments are as follows (amounts in thousands):

| Payments due by period |          |         |       |       |      |            |  |
|------------------------|----------|---------|-------|-------|------|------------|--|
| Total                  | 2009     | 2010    | 2011  | 2012  | 2013 | Thereafter |  |
| \$32,359               | \$25,012 | \$6,015 | \$921 | \$411 | \$   | \$ —       |  |

## MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### Contingencies

In Broomfield, Colorado, the owner of a property located adjacent to a manufacturing facility owned by one of our subsidiaries, Microsemi Corp. - Colorado had notified the subsidiary and other parties of a claim that contaminants migrated to his property, thereby diminishing its value. In August 1995, the subsidiary, together with Coors Porcelain Company, FMC Corporation and Siemens Microelectronics, Inc. (former owners of the manufacturing facility), agreed to settle the claim and to indemnify the owner of the adjacent property for remediation costs. Although 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 charge of \$530,000 for 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."

We are generally self-insured for losses and liabilities related to Workers' Compensation and Employer's Liability Insurance, effective April 1, 2003. The agreement requires us to set up a claim payment fund of \$60,000 and to obtain a letter of credit of \$400,000 for this fund. Accrued workers' compensation liability was \$852,000 and \$848,000 at September 30, 2007 and September 28, 2008, respectively. Our self-insurance accruals are based on estimates and, while we believe that the amounts accrued are adequate, the ultimate claims may be in excess of the amounts provided.

Additionally, we are involved in various pending litigation matters, arising out of the normal 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 matters will not have a material adverse effect on our financial position, results of operations or cash flows.

## MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### 10. RESTRUCTURING CHARGES AND ASSET IMPAIRMENTS

Restructuring and Severance Charges

In April 2005, we announced 1) the consolidation of operations in Broomfield, Colorado ("Broomfield") into other Microsemi facilities and 2) the closure of the manufacturing operations of Microsemi Corp. - Ireland ("Ireland") in Ennis, Ireland.

In the second quarter of fiscal year 2005, we recorded estimated severance payments of \$1,134,000 in accordance with SFAS 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). The severance payments cover approximately 148 employees, including 14 management positions. Severance payments commenced in the second quarter of fiscal year 2006. In fiscal year 2006, we recorded \$32,000 in additional severance and \$1,345,000 for other restructuring related expenses. In fiscal year 2007, we recorded \$309,000 in additional severance and \$643,000 for other restructuring related expenses. In fiscal year 2008, we recorded \$250,000 in additional severance. The increase in severance relates to additional payments expected to be made due to a closing schedule that extended beyond initial estimates. Other restructuring related expenses, primarily for travel, planning and equipment relocation, were recorded in accordance with SFAS 146, "Accounting for Costs Associated with Exit of Disposal Activities" ("SFAS 146").

The consolidation of Broomfield is expected to result, subsequent to its completion, in annual cost savings of \$5.0 million to \$7.0 million from the elimination of redundant resources and related expenses and employee reductions. Costs associated with the consolidation of Broomfield are estimated to range from \$6.0 million to \$8.0 million, excluding any gain or loss from future dispositions of the plant and property. Broomfield has approximately 70 employees and occupies a 130,000 square foot owned facility. Broomfield shipped approximately 4%, 3% and 4% of net sales in fiscal years 2006, 2007 and 2008, respectively. We currently anticipate that Broomfield will cease operations in fiscal year 2009.

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):

|                               | <b>Employee Severance</b> | Other<br>Related<br>Costs | Total    |
|-------------------------------|---------------------------|---------------------------|----------|
| Balance at October 2, 2005    | \$ 1,134                  | \$ —                      | \$ 1,134 |
| Provisions                    | 32                        | 1,345                     | 1,377    |
| Cash expenditures             | (286)                     | (1,345)                   | (1,631)  |
| Balance at October 1, 2006    | \$ 880                    | \$ —                      | \$ 880   |
| Provisions                    | 309                       | 643                       | 952      |
| Cash expenditures             | (165)                     | (643)                     | (808)    |
| Balance at September 30, 2007 | \$ 1,024                  | \$ —                      | \$ 1,024 |
| Provisions                    | 250                       | _                         | 250      |
| Cash expenditures             | (315)                     |                           | (315)    |
| Balance at September 30, 2008 | \$ 959                    | <u>\$</u>                 | \$ 959   |

In February 2006, Advanced Power Technology, Inc. ("APT") announced the planned closure of its facility in Montgomeryville, Pennsylvania and the relocation of remaining manufacturing activities to its Santa Clara, California facility. Microsemi acquired APT, which was renamed Microsemi Corp. - Power Products Group ("PPG"), in July 2006 and determined that the fair value of the restructuring liability at the time of acquisition was \$182,000. We did not substantially modify the restructuring plan subsequent to the acquisition. In fiscal year

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2007, we recorded \$289,000 in additional severance expense in accordance with SFAS 146 and \$200,000 in lease termination fees. The lease termination was not contemplated at the time of the acquisition of PPG. There were no PPG facility closures in fiscal year 2008.

The following table reflects restructuring activities at PPG and the accrued liabilities in the consolidated balance sheets at the dates below (amounts in thousands):

|                               | Employee  | Other<br>Related |              |
|-------------------------------|-----------|------------------|--------------|
|                               | Severance | Costs            | Total        |
| Balance at October 1, 2006    | \$ 356    | _                | Total \$ 356 |
| Provisions                    | 289       | 200              | 489          |
| Cash expenditures             | (645)     | (200)            | (845)        |
| Balance at September 30, 2007 | \$ —      | <u>\$ —</u>      | <u>\$ —</u>  |

In May 2007, we announced that that we will retain our manufacturing operations in Ennis, Ireland to meet the increasing demand for our high-reliability defense and commercial air/satellite products. In the third quarter of fiscal year 2007, we reversed accruals for severance totaling \$1,283,000.

In fiscal year 2007, in accordance with SFAS 146, we recorded \$940,000 in severance expense incurred in integrating existing Microsemi operations with PowerDsine. The severance payments cover approximately 30 employees and substantially all payments were made by the end of fiscal year 2007.

In fiscal year 2008, we recorded restructuring expenses of \$2,856,000. These expenses were for severance payments of approximately \$1,537,000 related to reductions in force, of which \$250,000 related to consolidation activities for the Broomfield facility noted above, and approximately \$1,319,000 (comprised of cash payments of salary and related expenses of \$686,000 and non-cash expenses of \$633,000 related to stock awards) related to the retirement of a former officer of the Company. The reductions in force impacted approximately 100 employees, substantially all of whom were in manufacturing departments at our various facilities. Severance payments related to these actions totaled approximately \$1,721,000, of which \$315,000 related to consolidation activities for the Broomfield facility noted above, and are expected to continue through September 2009.

Other consolidation associated costs such as inventory, workforce reduction, relocation and reorganization charges have been and will be reported, when incurred, as restructuring costs in accordance with SFAS 146, SFAS 112 or SFAS 151, "Inventory Costs—an amendment of ARB No. 43, Chapter 4" ("SFAS 151"), as applicable.

#### 11. SEGMENT INFORMATION

We manage our business on the basis of one reportable segment, as a manufacturer of semiconductors in different geographic areas, including the United States, Europe and Asia. We derive revenue from sales of our high-performance analog/mixed signal integrated circuits and power and high-reliability individual component semiconductors. These products include individual components as well as integrated circuit solutions that enhance customer designs by improving performance, reliability and battery optimization, reducing size or protecting circuits. The principal markets that we serve include commercial air/satellite, defense, industrial/semicap, medical, mobile connectivity and notebook / LCD TVs / displays. We evaluate sales by end-market based on our understanding of end market uses of our products and sales by channel.

## MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

|                             | 2008       | 2007       | 2006       |
|-----------------------------|------------|------------|------------|
| Net Sales:                  |            |            |            |
| United States               | \$ 223,690 | \$ 247,636 | \$ 323,330 |
| Europe                      | 129,605    | 57,964     | 41,896     |
| Asia                        | 160,772    | 136,652    | 5,251      |
| Total                       | \$ 514,067 | \$ 442,252 | \$ 370,477 |
| Commercial Air / Satellite  | \$ 103,942 | \$ 86,084  | \$ 82,579  |
| Defense                     | 167,737    | 138,225    | 117,738    |
| Industrial / Semicap        | 39,674     | 53,413     | 39,011     |
| Medical                     | 67,264     | 57,442     | 39,752     |
| Mobile Connectivity         | 79,487     | 59,915     | 34,195     |
| Notebook / LCD TV / Display | 55,963     | 47,173     | 57,202     |
| Total                       | \$ 514,067 | \$ 442,252 | \$ 370,477 |
| Long lived assets:          |            |            |            |
| United States               | \$ 64,674  | \$ 63,460  | \$ 62,548  |
| Europe                      | 10,030     | 2,397      | 1,335      |
| Asia                        | 3,885      | 2,989      | 1,135      |
| Total                       | \$ 78,589  | \$ 68,846  | \$ 65,018  |

Between fiscal years 2007 and 2008, net sales originating from the United States decreased \$23.9 million while net sales originating from Europe and Asia increased \$71.6 million and \$24.1 million, respectively. This shift in originating geographic area was due primarily to our decision to shift the fulfillment of some customer orders directly from our locations in Europe and Asia rather than through our locations in the United States. Net sales originating in Asia also increased due to the contributions of PowerDsine, Ltd., which we acquired in the second quarter of 2007.

Between fiscal years 2006 and 2007, we shifted more originating sales through our Asian locations than through our locations in the United States. Sales originating in Asia also increased due to the contributions of AMSGL, which we acquired in the second quarter of 2007. Between fiscal years 2006 and 2007, sales originating in Europe increased, due to shipments from PPG's facility in Europe that we acquired in the third quarter of 2006 and due to increased shipments from our Ireland facility.

#### 12. ACQUISITIONS

On October 24, 2006, we entered into a definitive agreement and plan of merger (the "Merger Agreement") with PowerDsine Ltd. ("PowerDsine"), an Israeli corporation, and Pinnacle Acquisition Corporation, Ltd., an Israeli corporation that is an indirect wholly-owned subsidiary of Microsemi. The Merger Agreement provided for a merger of our subsidiary into PowerDsine. We completed the acquisition of PowerDsine on January 9, 2007 and under the terms of the Merger Agreement, we issued 0.1498 of a share of Microsemi common stock and paid \$8.25 in cash for each PowerDsine ordinary share, resulting in the issuance in the aggregate of approximately 3.1 million shares with a fair market value of approximately \$57.0 million, based on Microsemi's average closing price between October 20, 2006 and October 26, 2006 and a cash payment of approximately \$170.0 million. We converted equity awards issued by PowerDsine and valued vested awards at \$12.6 million. Direct transaction fees and expenses were \$3.6 million and an additional \$3.1 million was placed into escrow for

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the cash consideration on converted unvested PowerDsine restricted share awards. This amount will be paid to employees as their restricted share awards vest. An additional \$7.3 million in transaction costs were accrued by PowerDsine prior to the acquisition and subsequently paid by Microsemi. We financed this transaction with cash on hand and through additional borrowings of approximately \$18.0 million on our credit line.

The purchase price is as follows (amounts in thousands):

| Cash consideration to PowerDsine stockholders                          | \$169,997 |
|--|-----------|
| Direct transaction fees and expenses                                   | 3,582     |
| Fair value of 3,085 Microsemi shares issued to PowerDsine stockholders | 56,953    |
| Fair value of vested equity awards assumed by Microsemi                | 12,573    |
| Total consideration  | \$243,105 |
|  |           |

The purchase price 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):

| \$ 16,274 |
|-----------|
| 20,356    |
| 3,748     |
| 5,588     |
| 1,811     |
| 42,689    |
| 1,868     |
| 129,993   |
| 21,300    |
| 20,940    |
| (1,793)   |
| (9,545)   |
| (7,656)   |
| (2,468)   |
| \$243,105 |
|           |

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

| Asset                         |       |
|-------------------------------|-------|
| Amount (Y                     | ears) |
| Completed technology \$17,030 | 4     |
| Backlog 1,420                 | 1     |
| Customer relationships 1,110  | 4     |
| Trade name                    | 5     |
| <u>\$21,300</u>               |       |

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Identification and allocation of value to the identified intangible assets was based on the provisions of Statement of Financial Accounting Standard No. 141, "Business Combinations," ("FAS 141"). The fair value of the identified intangible assets was estimated by performing a discounted cash flow analysis using the "income" approach. This method includes a forecast of direct revenues and costs associated with the respective intangible assets and charges for economic returns on tangible and intangible assets utilized in cash flow generation. Net

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

cash flows attributable to the identified intangible assets are discounted to their present value at a rate commensurate with the perceived risk. The projected cash flow assumptions considered contractual relationships, customer attrition, eventual development of new technologies and market competition.

The estimates of expected useful lives are based on guidance from FAS 141. The useful lives of completed technologies rights are based on the number of years in which net cash flows have been projected. The useful life of backlog is estimated based upon the fulfillment period. The useful lives of customer relationships are estimated based upon the length of the relationships currently in place, historical attrition patterns and natural growth and diversification of other potential customers. The useful life of trade name was estimated based on the period in which a benefit could be ascribed to the PowerDsine trade name.

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

- Historical performance including sales and profitability.
- Business prospects and industry expectations.
- Estimated economic life of asset.
- Development of new technologies.
- Acquisition of new customers.
- Attrition of existing customers.
- Obsolescence of technology over time.

The acquired goodwill is not deductible for tax purposes.

In-process research and development ("IPR&D") represents the present value of the estimated after-tax cash flows expected to be generated by purchased technologies that, as of the acquisition dates, had not yet reached technological feasibility. Accordingly, the \$20,940,000 preliminarily allocated to IPR&D was immediately expensed. This amount was not deductible for tax purposes which has impacted our effective tax rate for fiscal year 2007.

The IPR&D projects were valued through the application of discounted cash flow analyses, taking into account key characteristics of each technology including its future prospects, the rate of technological change in the industry, product life cycles, risks specific to the project, and the project's stage of completion. Stage of completion was estimated by considering the time, cost, and complexity of tasks completed prior to the acquisition, versus the project's overall expected cost, effort and risks required for achieving technological feasibility. In the application of the discounted cash flow analyses, PowerDsine's management provided a revenue forecast for each IPR&D project. The projection was based on the expected date of market introduction, an assessment of customer needs, the expected pricing and cost structure of the related products, product life cycles, and the importance of existing technology relative to the in-process technology. In addition, the costs expected to complete the project were added to the operating expenses to calculate the operating income for each IPR&D project. As certain other assets contribute to the cash flow attributable to the assets being valued, returns to these other assets were calculated and deducted from the pre-tax operating income to isolate the economic benefit solely attributable to each of the in-process technologies. The present value of IPR&D was calculated based on discount rates recommended by the American Institute of Certified Public Accountants IPR&D Practice Aid, which depends on the stage of completion and the additional risk associated with the completion of the IPR&D project. The earnings associated with the incomplete technologies were discounted at a rate of 14.6%, two percentage points higher than the PowerDsine's cost of capital.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On November 2, 2005, we entered into a definitive Agreement and Plan of Merger with Advanced Power Technology, Inc., a Delaware corporation ("APT"), and APT Acquisition Corp., a Delaware corporation that is a wholly owned subsidiary of Microsemi, which was subsequently amended on or prior to March 23, 2006 (as so amended, the "APT Merger Agreement"). The APT Merger Agreement provides for a merger of our wholly-owned subsidiary with and into APT with APT surviving the merger as a wholly owned subsidiary of Microsemi. We believe that the merger created a more diverse semiconductor company and provided us with an expanded product portfolio of analog and mixed-signal products, including radio frequency products, as well as high-reliability products to address the needs of the commercial air / satellite, defense and medical markets, which represent key factors that resulted in us recording goodwill. We completed the acquisition of APT on April 28, 2006. The total purchase price was \$146,257,000, of which we allocated \$48,288,000 to goodwill, \$44,360,000 to other intangible assets and \$15,300,000 to IPR&D.

The following pro forma data summarizes the results of operations for the fiscal years ended October 1, 2006 and September 30, 2007 as if the mergers with AMSGL and PPG had been completed on October 3, 2005 and October 2, 2006. The unaudited pro-forma data has been prepared for informational purposes only and does not purport to represent what the results of operations would have been had the acquisition occurred as of the dates indicated, nor of future results of operations. The unaudited pro-forma data reports actual operating results, adjusted to include the pro-forma effect of, among others, elimination of sales and cost of sales between APT and Microsemi, manufacturing profit in ending inventory, amortization expense of identified intangible assets, stock option compensation from converted PowerDsine and APT options, foregone interest income, additional interest expense and the related tax effect of these items (amounts in thousands, except per share data):

|                           |     | Fiscal Year Ended |     |                  |
|---------------------------|-----|-------------------|-----|------------------|
|                           | Sep | otember 30,       |     |                  |
|                           |     | 2007              |     | tober 1,<br>2006 |
| Net sales                 | \$  | 450,790           | \$4 | 44,474           |
| Net income (loss)         | \$  | 4,328             | \$  | (7,599)          |
| Earnings (loss) per share |     |                   |     |                  |
| Basic                     | \$  | 0.06              | \$  | (0.11)           |
| Diluted                   | \$  | 0.06              | \$  | (0.11)           |

Pro-forma net loss and loss per share for the fiscal years ended October 1, 2006 and September 30, 2007 include IPR&D charges from the PPG and PowerDsine acquisitions of \$15,300,000 and \$20,940,000, respectively. The IPR&D charges were not deductible for tax purposes, which caused the effective tax rate to increase in fiscal years 2006 and 2007.

In the first quarter of fiscal year 2008, we acquired substantially all the assets of Microwave Device Technology Corporation and all the outstanding shares of TSI Microelectronics Corporation for \$8.8 million in cash, net of cash acquired. In the fourth quarter of fiscal year 2008, we acquired substantially all of the assets of SEMICOA for an estimated purchase consideration of \$28.7 million in cash, lease consideration and assumption of certain liabilities. We have substantially integrated the assets or businesses from these acquisitions into our operations in Massachusetts. We funded these acquisitions with cash on hand. Other than a \$440,000 charge recorded in the first quarter of fiscal year 2008 for in process research and development, these transactions did not significantly impact results of operations and on a pro forma basis would not be material to our results of operations for the fiscal year ended September 28, 2008.

## MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The estimated purchase price for SEMICOA is as follows (amounts in thousands):

| Cash consideration to SEMICOA and SEMICOA creditors, net of cash acquired | \$26,682 |
|---|----------|
| Estimated direct transaction fees and expenses                            | 200      |
| Excess lease consideration  | 618      |
| Assumed liabilities   | 1,181    |
| Estimated total consideration   | \$28,681 |

Excess lease consideration was calculated based on contracted expenditures during the period in excess of when we intend to vacate the SEMICOA facility. Microsemi executed a lease with a party with common shareholders to SEMICOA.

The estimated purchase price for SEMICOA has been allocated based on the estimated fair values of assets acquired. The final valuation of net assets is expected to be completed within one year from the acquisition date in accordance with generally accepted accounting principles. Management's estimate of the purchase price allocation is as follows (amounts in thousands):

| Accounts receivable    | \$ 2,156 |
|------------------------|----------|
| Inventories            | 1,575    |
| Property and equipment | 1,196    |
| Intangible assets      | 1,780    |
| Goodwill               | 21,974   |
|                        | \$28,681 |

Other intangible assets and their estimated useful lives related to the SEMICOA acquisition are estimated as follows (amounts in thousands):

|                        |                | Useful Life |
|------------------------|----------------|-------------|
|                        | Asset          |             |
|                        | Amount         | (Years)     |
| Completed technology   | \$ 70          | 2           |
| Backlog                | 210            | 2           |
| Customer relationships | _1,500         | 8           |
|                        | <u>\$1,780</u> |             |

Initial identification and allocation of value to the identified intangible assets for the SEMICOA acquisition was based on the provisions of Statement of Financial Accounting Standard No. 141, "Business Combinations," ("FAS 141"). The fair value of the identified intangible assets was estimated by performing a discounted cash flow analysis using the "income" approach. This method includes a forecast of direct revenues and costs associated with the respective intangible assets and charges for economic returns on tangible and intangible assets utilized in cash flow generation. Net cash flows attributable to the identified intangible assets are discounted to their present value at a rate commensurate with the perceived risk. The projected cash flow assumptions considered contractual relationships, customer attrition, eventual development of new technologies and market competition.

# MICROSEMI CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The estimates of expected useful lives are based on guidance from FAS 141. The useful lives of completed technologies rights are based on the number of years in which net cash flows have been projected. The useful life of backlog is estimated based upon the fulfillment period.

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

- Historical performance including sales and profitability.
- Business prospects and industry expectations.
- Estimated economic life of asset.
- Obsolescence of technology over time.

The acquired goodwill is not deductible for tax purposes.

#### 13. UNAUDITED SELECTED QUARTERLY FINANCIAL DATA

Selected quarterly financial data are as follows (amounts in thousands, except earnings per share):

|                            | Quarters ended in fiscal year 2008 |          |              |                  |      |                 |     |            |
|----------------------------|------------------------------------|----------|--------------|------------------|------|-----------------|-----|------------|
|                            | December 30,                       |          | December 30, |                  |      |                 | Sep | tember 28, |
|                            | 2                                  | 2007 (b) | М            | arch 30,<br>2008 |      | ine 29,<br>2008 |     | 2008       |
| Net sales                  | \$                                 | 123,474  | \$1          | 26,665           | \$12 | 29,255          | \$  | 134,673    |
| Gross profit               | \$                                 | 52,534   | \$           | 55,199           | \$ : | 58,152          | \$  | 63,087     |
| Net Income                 | \$                                 | 8,613    | \$           | 9,815            | \$   | 13,937          | \$  | 17,289     |
| Basic earnings per share   | \$                                 | 0.11     | \$           | 0.13             | \$   | 0.18            | \$  | 0.22       |
| Diluted earnings per share | \$                                 | 0.11     | \$           | 0.12             | \$   | 0.17            | \$  | 0.21       |

|                                      | Quarters ended in fiscal year 2007 |             |           |               |  |  |
|--------------------------------------|------------------------------------|-------------|-----------|---------------|--|--|
| D                                    | ecember 31,                        |             |           | September 30, |  |  |
|                                      |                                    | April 1,    | July 1,   |               |  |  |
| _                                    | 2006                               | 2007 (a)    | 2007      | 2007 (a)      |  |  |
| Net sales \$                         | 102,289                            | \$106,677   | \$113,553 | \$ 119,733    |  |  |
| Gross profit \$                      | 44,158                             | \$ 41,838   | \$ 47,635 | \$ 47,407     |  |  |
| Net Income (loss) \$                 | 10,594                             | \$ (19,585) | \$ 8,711  | \$ 10,098     |  |  |
| Basic earnings (loss) per share \$   | 0.15                               | \$ (0.26)   | \$ 0.11   | \$ 0.13       |  |  |
| Diluted earnings (loss) per share \$ | 0.14                               | \$ (0.26)   | \$ 0.11   | \$ 0.13       |  |  |

<sup>(</sup>a) The quarter ended April 1, 2007 included a charge of \$21,770,000 for in process research and development related to the acquisition of PowerDsine, Ltd. In the quarter ended September 30, 2007, the estimated charge for in process research and development was reduced to \$20,940,000.

#### 14. SUBSEQUENT EVENT

In the first quarter of fiscal year 2009, we acquired all the shares of Babcock, Inc. and its parent company Electro Module, Inc. for an estimated purchase consideration of \$20 million in cash. We expect to report a preliminary allocation of the estimated purchase consideration when we file our Form 10-Q for the first quarter of fiscal year 2009.

<sup>(</sup>b) The quarter ended December 30, 2007 included a charge of \$440,000 for in process research and development related to the acquisition of Microwave Device Technology Corporation.

# MICROSEMI CORPORATION AND SUBSIDIARIES SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

| Column A                        | Column B                | Column C<br>Charged | Column D            | Column E  Deductions- | Column F             |
|---------------------------------|-------------------------|---------------------|---------------------|-----------------------|----------------------|
|                                 | Balance at<br>beginning | to costs and        | Charged<br>to other | recoveries and        | Balance<br>at end of |
| Classification                  | of period               | expenses            | accounts            | write-offs            | period               |
| Allowance for doubtful accounts |                         |                     |                     |                       |                      |
| October 1, 2006                 | <u>\$ 727</u>           | \$ 370              | <u>\$ 230</u>       | <u>\$ (177)</u>       | \$ 1,150             |
| September 30, 2007              | \$ 1,150                | \$ 2,002            | \$ —                | \$ (1,728)            | \$ 1,424             |
| September 28, 2008              | \$ 1,424                | \$ 307              | \$ —                | \$ —                  | \$ 1,731             |
| Tax valuation allowance         |                         |                     |                     |                       |                      |
| October 1, 2006                 | \$ 640                  | \$                  | \$ 1,344            | \$ (30)               | \$ 1,954             |
| September 30, 2007              | \$ 1,954                | \$ 16               | \$ 8,190            | \$ —                  | \$10,160             |
| September 28, 2008              | \$10,160                | \$ 1,721            | \$ 1,949            | \$                    | \$13,830             |

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

## ITEM 9A. AND PROCEDURES. CONTROLS

(a) Evaluation of disclosure controls and procedures.

As of September 28, 2008, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). These disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that the information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 28, 2008.

(b) Changes in internal control over financial reporting.

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 28, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company maintains internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included an assessment of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Based on the Company's evaluation, management concluded that the Company's internal control over financial reporting was effective as of September 28, 2008.

PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm that audited the financial statements included in this Form 10-K, has issued an attestation report regarding the Company's internal control over financial reporting, which appears herein.

ITEM 9B. INFORMATION OTHER

None.

#### **PART III**

Except to the extent set forth below, items 10, 11, 12, 13 and 14 are omitted since the Company intends to file a definitive proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the Company's fiscal year ended September 28, 2008. We set forth herein some of the information required by such items. The other information required by those items shall be set forth in that definitive proxy statement and such information is hereby incorporated by reference into such respective items in this Form 10-K.

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference from the Company's Proxy Statement for the 2009 Annual Meeting of Stockholders under the headings "Election of Directors," "Executive Officers," "Corporate Governance, Board Meetings and Committees," and "Section 16(a) Beneficial Ownership Reporting Compliance."

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the Company's Proxy Statement for the 2009 Annual Meeting of Stockholders under the headings "Executive Compensation" and "Director Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report."

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item is incorporated by reference from the Company's Proxy Statement for the 2009 Annual Meeting of Stockholders under the heading "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference from the Company's Proxy Statement for the 2009 Annual Meeting of Stockholders under the heading "Corporate Governance, Board Meetings and Committees" and "Transactions with Related Persons."

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is incorporated by reference from the Company's Proxy Statement for the 2009 Annual Meeting of Stockholders under the heading "Audit Matters."

#### PART IV

## ITEM 15. AND FINANCIAL STATEMENT SCHEDULES EXHIBITS

- (a) 1. Financial Statements. See Index under Item 8.
  - 2. Financial Statement Schedule. See Index under Item 8.
- (b) Exhibits

The exhibits to this report are listed in the Exhibit Index

(c) Financial statements of unconsolidated affiliates.
None

#### **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

M ICROSEMI C ORPORATION

/s/ J OHN W. H OHENER
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)

Dated: November 21, 2008

#### POWER OF ATTORNEY

The undersigned hereby constitutes and appoints James J. Peterson and John W. Hohener, or either of them, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, to sign the report on Form 10-K and any or all amendments thereto and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof in any and all capacities.

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                   | <u>Title</u>   | <u>Date</u>       |
|--|--|-------------------|
| /s/ D ENNIS R. L EIBEL  Dennis R. Leibel           | Chairman of the Board  | November 21, 2008 |
| /s/ J AMES J. P ETERSON  James J. Peterson         | President, Chief Executive Officer and Director (Principal Executive Officer)  | November 21, 2008 |
| /s/ J OHN W. H OHENER John W. Hohener              | Vice President, Chief Financial Officer, Secretary<br>and Treasurer ( Principal Financial and<br>Accounting Officer) | November 21, 2008 |
| /s/ W ILLIAM E. B ENDUSH William E. Bendush        | Director   | November 21, 2008 |
| /s/ W ILLIAM L. H EALEY William L. Healey          | Director   | November 21, 2008 |
| /s/ M ATTHEW E. M ASSENGILL  Matthew E. Massengill | Director   | November 21, 2008 |
| /s/ T HOMAS R. A NDERSON Thomas R. Anderson        | Director   | November 21, 2008 |
| /s/ P AUL F. F OLINO Paul F. Folino                | Director   | November 21, 2008 |

#### EXHIBIT INDEX

| Exhibit<br>Number | <u>Description</u>   |
|-------------------|--|
| 2.1               | Agreement and Plan of Merger dated as of November 2, 2005 by and among Microsemi Corporation, APT Acquisition Corp. and Advanced Power Technology, Inc., including the following exhibits:  Form of Voting Agreement Form of Non-Competition Agreement Form of Lock-up Agreement Form of Option Assumption Agreement Exhibits omitted but to be made available to the SEC at the SEC's request: Form of Employment Agreement Form of Certificate of Merger List of Parties to Ancillary Agreements(13) |
| 2.1.1             | Amendment No. 1 to Agreement and Plan of Merger dated April 25, 2006(18)   |
| 2.2               | Agreement and Plan of Merger dated October 24, 2006 by and among Microsemi Corporation, PowerDsine Ltd. and Pinnacle Acquisition Ltd.(20)  |
| 3.1               | Amended and Restated Certificate of Incorporation of Microsemi Corporation(5)*   |
| 3.2               | Certificate of Designation of Series A Junior Participating Preferred Stock(3)   |
| 3.2.1             | Certificate of Amendment to Certificate of Designation of Series A Junior Participating Preferred Stock(14)  |
| 3.3               | Amended and Restated Bylaws of Microsemi Corporation(27)*  |
| 4.1               | Rights Agreement dated December 22, 2000 between Microsemi Corporation and Mellon Investor Services, as Rights Agent, and the exhibits thereto(3)  |
| 4.1.1             | Amendment No. 1 dated December 16, 2005 to Rights Agreement dated December 22, 2000 between Microsemi Corporation and Mellon Investor Services, LLC, as Rights Agent, and the exhibits thereto(14)   |
| 4.2               | Specimen certificate for the shares of common stock of Microsemi Corporation(14)   |
| 10.1              | Advanced Power Technology, Inc. Stock Option Plan dated December 31, 1995, as amended by Amendments Nos. 1 and 2(2)3   |
| 10.1.1            | Amendments Nos. 3, 4 and 5 to Advanced Power Technology Stock Option Plan dated December 31, 1995, as amended(9)*  |
| 10.1.2            | Form of Non-Qualified Stock Option Letter Agreement under the Advanced Power Technology, Inc. Stock Option Plan dated December 31, 1995(19)*   |
| 10.1.3            | Form of Incentive Stock Option Letter Agreement under the Advanced Power Technology, Inc. Stock Option Plan dated December 31, 1995(19)*   |
| 10.1.4            | Form of Non-Qualified Option Letter Agreement for Members of the Board of Directors under the Advanced Power Technology, Inc. Stock Option Plan dated December 31, 1995(19)*   |
| 10.2              | Advanced Power Technology, Inc. Equity Incentive Plan dated May 3, 2005(10)*   |
| 10.2.1            | Form of Incentive Stock Option Letter Agreement under the Advanced Power Technology, Inc. Equity Incentive Plan dated May 3, 2005(19)*   |
| 10.2.2            | Form of Non-Qualified Stock Option Letter Agreement for Members of the Board of Directors under the Advanced Power Technology, Inc. Equity Incentive Plan dated May 3, 2005(19)*   |
| 10.3              | Form of Option Assumption Agreement, entered into between Microsemi Corporation and each of the holders of Advanced Power Technology, Inc. options assumed by Microsemi Corporation(19)*   |

| Exhibit<br>Number | <u>Description</u>  |
|-------------------|---|
| 10.4              | Microsemi Corporation 1987 Stock Plan, and amendments thereto(11)*  |
| 10.4.1            | Form of Employee Stock Option Agreement prior to August 17, 2004(8)*  |
| 10.4.2            | Form of Employee Stock Option Agreement from and after August 17, 2004(8)*  |
| 10.4.3            | Form of Employee Stock Option Agreement from and after September 26, 2005(12)*  |
| 10.4.4            | Form of Employee Stock Option Agreement from and after February 22, 2006(15)*   |
| 10.4.5            | Form of Employee Stock Option Agreement from and after March 28, 2006(17)*  |
| 10.4.6            | Form of Non-Employee Stock Option Agreement prior to February 22, 2006(8)*  |
| 10.4.7            | Form of Non-Employee Stock Option Agreement from and after February 22, 2006(15)*   |
| 10.4.8            | Form of Stock Option Exchange Grant and Replacement Option Agreement(6)*  |
| 10.4.9            | Form of Amendment of Eligible Unvested Options(11)*   |
| 10.4.10           | Form of Notice of Restricted Stock Award and Restricted Stock Agreement(22)*  |
| 10.4.11           | Form of Notice of Restricted Stock Award and Employee Restricted Stock Agreement(24)*   |
| 10.4.12           | Form of Notice of Restricted Stock Award and Non-Employee Restricted Stock Agreement(24)*   |
| 10.4.13           | Summary of Automatic Annual Additions under 1987 Stock Plan(22)*  |
| 10.5              | Microsemi Corporation 2008 Performance Incentive Plan(26)*  |
| 10.5.1            | Form of Notice of Grant of Restricted Stock Award under Terms and Conditions of 2008 Performance Incentive Plan†*   |
| 10.5.2            | Form of Notice of Grant of Stock Option under Terms and Conditions of 2008 Performance Incentive Plan†*   |
| 10.6              | Microsemi Corporation Cash Bonus Plan†*   |
| 10.7              | Microsemi Corporation 2007 Executive Cash Bonus Plan(22)*   |
| 10.8              | Agreement dated November 10, 2008 between James J. Peterson and Microsemi Corporation†*   |
| 10.9              | Agreement dated January 12, 2001 between David R. Sonksen and Microsemi Corporation(4)*   |
| 10.10             | Separation Agreement dated November 14, 2007 between David R. Sonksen and Microsemi Corporation(25)   |
| 10.11             | Executive Retention Agreement dated November 10, 2008 between John W. Hohener and Microsemi Corporation (28)*   |
| 10.12             | Form of Executive Retention Agreement†*   |
| 10.13             | Supplemental Executive Retirement Plan(1)*  |
| 10.14             | Supplemental Medical Plan(8)*   |
| 10.15             | Summary of Compensation Arrangements for Named Executive Officers*†   |
| 10.16             | Directors' Compensation Policy(24)*   |
| 10.17             | Board Member Retirement Process(7)*   |
| 10.18             | Form of Officers and Directors Indemnification Agreement(27)*   |
| 10.19             | Motorola-Microsemi PowerMite ® Technology Agreement(14)   |
| 10.20             | Revolving Credit Agreement dated as of December 29, 2006 among Microsemi Corporation, certain subsidiaries of Microsemi Corporation named therein, the Lenders from time to time party thereto and Comerica Bank, as Administrative Agent(21) |

| Exhibit<br><u>Number</u> | <u>Description</u>  |
|--------------------------|---|
| 10.20.1                  | First Amendment to Revolving Credit Agreement dated July 25, 2007 among Microsemi Corporation, certain subsidiaries of Microsemi Corporation named therein, the Lenders from time to time party thereto and Comerica Bank, as Administrative Agent(23)    |
| 10.20.2                  | Second Amendment to Revolving Credit Agreement dated September 25, 2008 among Microsemi Corporation, certain subsidiaries of Microsemi Corporation named therein, the Lenders from time to time party thereto and Comerica Bank, as Administrative Agent† |
| 10.21                    | Form of Voting Agreement entered into between the Registrant and each of Patrick P.H. Sireta, Russell Crecraft, Dah Weh Tsang, Greg Haugen and Thomas Loder(14)   |
| 10.22                    | Form of Lock-up Agreement entered into between the Registrant and each of Patrick P.H. Sireta, Russell Crecraft, Dah Weh Tsang, Greg Haugen and Thomas Loder(14)  |
| 10.23                    | Form of Non-Competition Agreement entered into between the Registrant and Patrick P.H. Sireta(14)   |
| 10.24                    | Settlement Agreement dated July 8, 1998 by and between Microsemi Corp Colorado, FMC Corporation, Siemens Microelectronics, Inc. and Coors Porcelain Company(16)   |
| 21                       | List of Subsidiaries†   |
| 23                       | Consent of Independent Registered Public Accounting Firm†   |
| 24                       | Power of Attorney (see signature page)  |
| 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 November 21, 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 November 21, 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 November 21, 2008†  |

<sup>†</sup> Filed with this report.

- (1) Incorporated by reference to the indicated Exhibit to the Registrant's Quarterly Report on Form 10-Q (File No. 0-08866) as filed with the Commission on February 9, 1998.
- (2) Previously filed by Advanced Power Technology, Inc. (File No. 1-16047) on June 2, 2000 as Exhibit 10.1 to its Registration Statement on Form S-1 (Registration No. 333-38418) and incorporated herein by reference.
- (3) 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.
- (4) Incorporated by reference to the indicated Exhibit to the Registrant's Quarterly Report on Form 10-Q (File No. 0-08866) as filed with the Commission on February 13, 2001.
- (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 August 29, 2001.
- (6) Incorporated by reference to Exhibit 99(D)(2) to the Registrant's Tender Offer Statement on Schedule TO (File No. 005-20930) as filed on November 1, 2002.
- (7) 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 19, 2002.
- (8) 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 24, 2004.

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

- (9) Previously filed by Advanced Power Technology, Inc. on March 8, 2005 as Exhibit 10.21 to its Annual Report on Form 10-K (File No. 1-16047) and incorporated herein by reference.
- (10) Previously filed by Advanced Power Technology, Inc. on May 6, 2005 as Exhibit 10.35 to its Current Report on Form 8-K (File No. 1-16047) and incorporated herein by reference.
- (11) Incorporated by reference to Exhibit 99(D)(1) to the Registrant's Tender Offer Statement on Schedule TO (File No. 005-30432) as filed with the Commission on August 17, 2005.
- (12) 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 28, 2005.
- (13) 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 7, 2005.
- (14) 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.
- (15) 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 February 28, 2006.
- (16) Incorporated by reference to the indicated Exhibit to the Registrant's Pre-Effective Amendment No. 2 to Form S-4 (Reg. No. 333-130655) as filed with the Commission on March 3, 2006.
- (17) 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 April 3, 2006.
- (18) Incorporated by reference to the indicated Exhibit to the Registrant's Post-Effective Amendment No. 1 to Form S-4 (Reg. No. 333-130655) as filed with the Commission on April 27, 2006.
- (19) Incorporated by reference to the indicated Exhibit to the Registrant's Post-Effective Amendment No. 2 to Form S-4 on Form S-8 (Reg. No. 333-135678) as filed with the Commission on July 10, 2006.
- (20) 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 October 30, 2006.
- (21) 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 January 4, 2007.
- (22) 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 April 4, 2007.
- Incorporated by reference to the indicated Exhibit to the Registrant's Quarterly Report on Form 10-Q (File No. 0-08866) as filed with the Commission on August 10, 2007.
- 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 October 3, 2007.
- (25) 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 16, 2007.
- (26) Incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A as filed with the Commission on January 18, 2008.
- (27) 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.
- (28) 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.

## NOTICE OF GRANT OF RESTRICTED STOCK AWARD UNDER TERMS AND CONDITIONS OF 2008 PERFORMANCE INCENTIVE PLAN

| Name of Grantee:   |   |
|--|---|
| Total Number of Shares Subject to this Grant:                                  |   |
| Date of Grant:   |   |
| This Notice evidences that you have been granted shares of commo               | on stock, par value \$.20 per share (the " <b>Restricted Shares</b> ") of |
| Microsemi Corporation (the "Corporation") pursuant and subject to the          | e terms and conditions of the Microsemi Corporation 2008                  |
| Performance Incentive Plan (as amended from time to time, the "Plan"           |   |
| a substantial risk of forfeiture. Pending the lapse of these restrictions, the | Restricted Shares shall bear applicable restrictive legends and shall be  |
| held in the custody of a custodian acceptable to the Corporation. Restrict     | ions lapse with respect to one-third $(1/3)$ of the total number of       |
| Restricted Shares subject to this grant on each of the first, second and this  | rd anniversaries of the Award date.                                       |

By your acceptance of this award, you agree that the award of Restricted Shares is granted under and governed by the terms and conditions of the Plan and the Terms and Conditions of Restricted Stock Award (the "**Terms**"), which are attached and incorporated herein by this reference. This notice of Grant of Restricted Stock Award, together with the Terms, will be referred to as your Award Agreement. The award has been granted to you in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to you. Capitalized terms are defined in the Plan if not defined herein or in the Terms. You acknowledge receipt of a copy of the Terms. The Plan, Prospectus and Prospectus Supplement are currently available to view or download on Employease / My Benefits / Stock Awards. Alternatively, you may call the Corporation to obtain the Plan, Prospectus, and/or Prospectus Supplement at: (949) 221-7102.

The date and number of shares subject to this grant will be reflected on the Merrill Lynch AwardChoice administration system. To access the AwardChoice system, login to http://www.benefits.ml.com. By accepting this award, you agree to execute any documents and take such further actions that the Corporation may reasonably request in order to establish and/or maintain a brokerage account to hold the shares subject to this grant.

If this is your first Microsemi stock award, Merrill Lynch will mail you a personal identification number ("PIN"). You will use this PIN to create an account with Merrill Lynch and manage your stock award. Should you have any questions regarding account setup, you may contact Merrill Lynch at (877) 767-2404 within the United States or (609) 818-8894 outside the United States.

# By: Name: James J. Peterson Title: President and CEO Accepted and Agreed:

MICROSEMI CORPORATION

#### MICROSEMI CORPORATION 2008 PERFORMANCE INCENTIVE PLAN TERMS AND CONDITIONS OF RESTRICTED STOCK AWARD

#### 1. General.

These Terms and Conditions of Restricted Stock Award (these "**Terms**") apply to a particular award of Restricted Shares (the "**Award**") if incorporated by reference in the Notice of Grant of Restricted Stock Award (the "**Grant Notice**") corresponding to that particular grant. The recipient of the Award identified in the Grant Notice is referred to as the "**Grantee**." The effective date of grant of the Award as set forth in the Grant Notice is referred to as the "**Date of Grant**." The number of shares covered by the Award is subject to adjustment under Section 7.1 of the Plan.

The Award was granted under and subject to the Microsemi Corporation 2008 Performance Incentive Plan (the "Plan"). Capitalized terms are defined in the Plan if not defined herein. The Award has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. The Grant Notice and these Terms are collectively referred to as the "Award Agreement" applicable to the Award.

#### 2. <u>Vesting</u>.

Subject to Section 7 below, the restrictions applicable to the Restricted Shares shall lapse at the times and in the respective amounts set forth in the Grant Notice.

#### 3. Continuance of Employment/Service Required; No Employment/Service Commitment.

The vesting schedule applicable to the Award requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Award Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

Nothing contained in this Award Agreement or the Plan constitutes a continued employment or service commitment by the Corporation or any of its Subsidiaries, affects the Grantee's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Grantee's other compensation.

#### 4. Dividends and Voting Rights .

After the Date of Grant, the Grantee shall be entitled to cash dividends and voting rights with respect to the Restricted Shares subject to the Award even though such shares are not vested, provided that such rights shall terminate immediately as to any Restricted Shares that are forfeited pursuant to Section 7 below.

#### 5. Non-Transferability.

Prior to the time that they have become vested pursuant to Section 2 hereof or Section 7 of the Plan, neither the Restricted Shares, nor any interest therein, amount payable in respect thereof, or Restricted Property (as defined in Section 8 hereof) may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

#### 6. Issuance of Shares.

- (a) <u>Book Entry Form</u>. The Corporation shall, in its discretion, issue the Restricted Shares subject to the Award either: (a) in certificate form as provided in Section 6(b) below; or (b) in book entry form, registered in the name of the Grantee with notations regarding the applicable restrictions on transfer imposed under this Award Agreement.
- (b) <u>Certificates to be Held by Corporation; Legend</u>. Any certificates representing Restricted Shares that may be delivered to the Grantee by the Corporation prior to vesting shall be immediately redelivered by the Grantee to the Corporation to be held by the Corporation (or a custodian acceptable to the Corporation) until the restrictions on such shares shall have lapsed and the shares shall thereby have become vested or the shares represented thereby have been forfeited hereunder. Such certificates shall bear the following legend:

"The ownership of this certificate and the shares of stock evidenced hereby and any interest therein are subject to substantial restrictions on transfer under an Agreement entered into between the registered owner and Microsemi Corporation. A copy of such Agreement is on file in the office of the Secretary of Microsemi Corporation."

- (c) <u>Delivery of Certificates Upon Vesting</u>. Promptly after the vesting of any Restricted Shares pursuant to Section 2 and the satisfaction of any and all related tax withholding obligations pursuant to Section 9, the Corporation shall, as applicable, either remove the notations on any Restricted Shares issued in book entry form which have vested or deliver to the Grantee a certificate or certificates evidencing the number of Restricted Shares which have vested (or, in either case, such lesser number of shares as may be permitted pursuant to Section 9). The Grantee (or the beneficiary or personal representative of the Grantee in the event of the Grantee's death or incapacity, as the case may be) shall deliver to the Corporation any representations or other documents or assurances as the Corporation may deem necessary or reasonably desirable to ensure compliance with all applicable legal and regulatory requirements. The shares so delivered shall no longer be restricted shares hereunder.
- (d) <u>Power of Attorney</u>. The Grantee, by acceptance of the Award, shall be deemed to irrevocably appoint, and does so irrevocably appoint, the Corporation and each of its authorized representatives as the Grantee's true and lawful attorney(s)-in-fact (with full power of substitution) with irrevocable power and authority in the name of and on behalf of the Grantee to (1) effect any transfer of unvested, forfeited shares (or shares otherwise reacquired by the Corporation hereunder) to the Corporation as may be required pursuant to the Plan or this Award Agreement, and (2) execute and deliver of behalf of the Grantee any and all documents and instruments as the Corporation or such representatives may determine to be necessary or advisable in connection with any such transfer.

#### 7. Effect of Termination of Employment or Services.

If the Grantee ceases to be employed by or ceases to provide services to the Corporation or a Subsidiary (the date of such termination of employment or service is referred to as the Grantee's "Severance Date"), the Grantee's Restricted Shares (and related Restricted Property as defined in Section 8 hereof) shall be forfeited to the Corporation to the extent such shares have not become vested pursuant to Section 2 hereof or Section 7 of the Plan upon the Severance Date (regardless of the reason for such termination of employment or service, whether with or without cause, voluntarily or involuntarily, or due to death or disability); provided, however, that if the Grantee's employment with the Corporation and its Subsidiaries terminates due to the Grantee's death, any Restricted Shares (and related Restricted Property) that are outstanding and otherwise unvested immediately prior to the time of such termination of employment shall thereupon become fully vested. Upon the occurrence of any forfeiture of Restricted Shares hereunder, such unvested, forfeited shares and related Restricted Property shall be automatically transferred to the Corporation as of the Severance Date, without any other action by the Grantee (or the Grantee's beneficiary or personal representative in the event of the Grantee's death or disability, as applicable). No consideration shall be paid by the Corporation with respect to such transfer. The Corporation may exercise its powers under Section 6(d) hereof and take any other action

necessary or advisable to evidence such transfer. The Grantee (or the Grantee's beneficiary or personal representative in the event of the Grantee's death or disability, as applicable) shall deliver any additional documents of transfer that the Corporation may request to confirm the transfer of such unvested, forfeited shares and related Restricted Property to the Corporation.

#### 8. Adjustments Upon Specified Events.

Upon the occurrence of certain events relating to the Corporation's stock contemplated by Section 7.1 of the Plan, the Administrator shall make adjustments in accordance with such section in the number and kind of securities that may become vested under the Award. If any adjustment shall be made under Section 7.1 of the Plan or an event described in Section 7.2 of the Plan shall occur and the Restricted Shares are not fully vested upon such event or prior thereto, the restrictions applicable to such Restricted Shares shall continue in effect with respect to any consideration, property or other securities (the "Restricted Property" and, for the purposes of this Award Agreement, "Restricted Shares" shall include "Restricted Property", unless the context otherwise requires) received in respect of such Restricted Shares. Such Restricted Property shall vest at such times and in such proportion as the Restricted Shares to which the Restricted Property is attributable vest, or would have vested pursuant to the terms hereof if such Restricted Shares had remained outstanding. To the extent that the Restricted Property includes any cash (other than regular cash dividends), such cash shall be invested, pursuant to policies established by the Administrator, in interest bearing, FDIC-insured (subject to applicable insurance limits) deposits of a depository institution selected by the Administrator, the earnings on which shall be added to and become a part of the Restricted Property.

#### 9. Tax Withholding.

The Corporation shall reasonably determine the amount of any federal, state, local or other income, employment, or other taxes which the Corporation or any of its Subsidiaries may reasonably be obligated to withhold with respect to the grant, vesting, making of an election under Section 83(b) of the Code, or other event with respect to the Restricted Shares. The Grantee shall be solely responsible for the satisfaction of such withholding requirements. If such withholding event occurs as a result of the vesting of Restricted Shares and the Corporation so permits and such sale can be made in compliance with all applicable laws, the Grantee may enter into appropriate arrangements with Merrill Lynch (or other broker administering the Award at the relevant time) to provide for the sale of the appropriate number of whole Restricted Shares, valued at their then fair market value, to satisfy any withholding obligations of the Corporation or its Subsidiaries with respect to such vesting at the minimum applicable withholding rates, and Merrill Lynch's (or other applicable broker's) irrevocable obligation to remit the portion of such proceeds required to satisfy such obligations to the Company. The Grantee shall execute such documents as may reasonably be requested by the broker in order to effect such a transaction and shall otherwise comply with the administrative rules and procedures established by the Corporation with respect to such transactions. The Grantee shall be solely responsible for ensuring that any such sale of stock is in compliance with all applicable legal requirements. If, however, the Grantee makes an election under Section 83(b) of the Code with respect to the Restricted Shares, if any other withholding event occurs with respect to the Restricted Shares other than the vesting of such stock, or if the Grantee for any reason is not permitted or cannot satisfy the tax withholding obligations arising in connection with the vesting of the shares in such a "cashless" transaction with a broker as described in the preceding sentence, the Corporation shall be entitled to require a cash payment by or on behalf of the Grantee and/or to deduct from other compensation payable to the Grantee the amount of any such withholding obligations.

#### 10. Notices.

Any notice to be given under the terms of this Award Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Grantee at the Grantee's last address reflected on the Corporation's payroll records. Any notice shall be delivered in person or shall be enclosed in a properly sealed envelope, addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Grantee is no longer an Eligible Person, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 10.

#### 11. Plan.

The Award and all rights of the Grantee under this Award Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Grantee agrees to be bound by the terms of the Plan and this Award Agreement. The Grantee acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Award Agreement. Unless otherwise expressly provided in other sections of this Award Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not (and shall not be deemed to) create any rights in the Grantee unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

#### 12. Entire Agreement.

This Award Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan may be amended pursuant to Section 8.6 of the Plan. This Agreement may be amended by the Board from time to time. Any such amendment must be in writing and signed by the Corporation. Any such amendment that materially and adversely affects the Grantee's rights under this Agreement requires the consent of the Grantee in order to be effective with respect to the Award. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

#### 13. Section Headings.

he section headings of this Award Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

#### 14. Governing Law.

This Award Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

## NOTICE OF GRANT OF STOCK OPTION UNDER TERMS AND CONDITIONS OF 2008 PERFORMANCE INCENTIVE PLAN

Non-Qualified Stock Option

Name of Grantee:

**Type of Option:** 

**Date of Grant:** 

**Exercise Price Per Share:** 

**Total Number of Shares Subject to this Option:** 

| <b>Expiration Date:</b>  |  |
|--|--|
| <b>Dates First Exercisable:</b>  | Until the first anniversary of the Date of Grant, this Option may not be exercised with respect to any of the Shares covered hereby.   |
|  | During the second year, this Option may be exercised as to not more than one-third of the total number of Shares covered hereby.   |
|  | During the third year, this Option may be exercised as to an additional one-third, but cumulatively not more than two-thirds of the total number of Shares covered hereby.   |
|  | On or after the third anniversary of the Date of Grant, this Option may be exercised up to one hundred percent of the total number of Shares covered hereby.   |
| the terms and conditions of<br>Stock Option (the "Terms"<br>the Terms, will be referred<br>of compensation otherwise | d the Corporation's signature below, you and the Corporation agree that the Option is granted under and governed by f the Corporation's 2008 Performance Incentive Plan (the "Plan") and the Terms and Conditions of Nonqualified'), which are attached and incorporated herein by this reference. This notice of Grant of Stock Option, together with to as your Option Agreement. The Option has been granted to you in addition to, and not in lieu of, any other form a payable or to be paid to you. Capitalized terms are defined in the Plan if not defined herein or in the Terms. You |
| acknowledge receipt of a   | copy of the Terms. The Plan is currently available to view or download on EmployEase / MSCC Company Guide /  |

The date, amount and exercise price of this grant will be reflected on the Merrill Lynch AwardChoice administration system and you must accept or decline this grant via the AwardChoice system. To access the AwardChoice system, login to http://www.benefits.ml.com.

2008 Performance Incentive Plan. Alternatively, you may call the Company to obtain the Plan at: (949) 221-7102.

If this is your first Microsemi stock option grant, Merrill Lynch will mail you a personal identification number ("PIN"). You will use this PIN to create an account with Merrill Lynch and manage your stock option exercises. Should you have any questions regarding account setup, you may contact Merrill Lynch at (877) 767-2404 within the United States or (609) 818-8894 outside the United States.

MICROSEMI CORPORATION

By:

Name: James J. Peterson Title: President & CEO

#### MICROSEMI CORPORATION 2008 PERFORMANCE INCENTIVE PLAN TERMS AND CONDITIONS OF NONQUALIFIED STOCK OPTION

#### 1. General.

These Terms and Conditions of Nonqualified Stock Option (these "Terms") apply to a particular stock option (the "Option") if incorporated by reference in the Notice of Grant of Stock Option (the "Grant Notice") corresponding to that particular grant. The recipient of the Option identified in the Grant Notice is referred to as the "Grantee." The per share exercise price of the Option as set forth in the Grant Notice is referred to as the "Exercise Price." The effective date of grant of the Option as set forth in the Grant Notice is referred to as the "Award Date." The exercise price and the number of shares covered by the Option are subject to adjustment under Section 7.1 of the Plan.

The Option was granted under and subject to the Microsemi Corporation 2008 Performance Incentive Plan (the "Plan"). Capitalized terms are defined in the Plan if not defined herein. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. The Grant Notice and these Terms are collectively referred to as the "Option Agreement" applicable to the Option.

#### 2. Vesting; Limits on Exercise; Incentive Stock Option Status.

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth on the Grant Notice. The Option may be exercised only to the extent the Option is vested and exercisable.

- <u>Cumulative Exercisability</u>. To the extent that the Option is vested and exercisable, the Grantee has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.
- No Fractional Shares. Fractional share interests shall be disregarded, but may be cumulated.
- <u>Nonqualified Stock Option</u>. The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

#### 3. Continuance of Employment/Service Required; No Employment/Service Commitment.

The vesting schedule applicable to the Option requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 5 below or under the Plan.

Nothing contained in this Option Agreement or the Plan constitutes a continued employment or service commitment by the Corporation or any of its Subsidiaries, affects the Grantee's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Corporation or any Subsidiary, interferes in any way with the right of the Corporation or any Subsidiary at any time to terminate such employment or service, or affects the right of the Corporation or any Subsidiary to increase or decrease the Grantee's other compensation.

#### 4. Method of Exercise of Option .

The Option shall be exercisable by (a) completing such Option exercise notification and procedural requirements as the Administrator may require from time to time, and (b) paying the full Exercise Price of the shares to be purchased on exercise of the Option (and satisfying all applicable tax withholding requirements as set forth in Section 8.5 of the Plan) in cash or by such non-cash or "cashless exercise" procedure with a third party as the Administrator may permit from time to time. While the Administrator reserves the right to change these procedures from time to time without advance notice and without the Grantee's consent, as of the Award Date the Company's outside stock option recordkeeper is Merrill Lynch and individual option records with Merrill Lynch may be accessed in the following ways:

Online at www.benefits.ml.com

**By telephone** using the Interactive Voice Response System (IVR) or through a Merrill Lynch Participant Service Representative. The telephone numbers are: (877) 767-2404 within the United States, Puerto Rico and Canada. All others dial: (609) 818-8894.

#### **By standard mail** at:

Merrill Lynch Client Account Services ESOP, P.O. Box 1540, Pennington, NJ 08534-9953

#### By overnight delivery at:

Merrill Lynch Client Account Services ESOP, 1800 Merrill Lynch Drive, MSC 0802, Pennington, NJ 08534-9953

After contacting Merrill Lynch, you will be notified as to the method(s) available to exercise your vested and exercisable options at that time.

#### 5. Early Termination of Option.

- **5.1 Expiration Date** . Subject to earlier termination as provided below in this Section 5, the Option will terminate on the "Expiration Date" set forth in the Grant Notice (the "Expiration Date").
- **5.2 Possible Termination of Option upon Certain Corporate Events** . The Option is subject to termination in connection with certain corporate events as provided in Section 7.2 of the Plan.
- **5.3 Termination of Option upon a Termination of Grantee's Employment or Services**. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 5.2 above, if the Grantee ceases to be employed by or ceases to provide services to the Corporation or a Subsidiary, the following rules shall apply (the last day that the Grantee is employed by or provides services to the Corporation or a Subsidiary is referred to as the Grantee's "Severance Date"):
  - other than as expressly provided below in this Section 5.3, (a) the Grantee will have until the date that is 3 months after his or her Severance Date to exercise the Option (or portion thereof) to the extent that it was vested on the Severance Date, (b) the Option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) the Option, to the extent exercisable for the 3-month period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the 3-month period;
  - if the termination of the Grantee's employment or services is the result of the Grantee's death or Total Disability (as defined below), (a) the Grantee (or his beneficiary or personal representative, as the case may be) will have until the date that is 12 months after the Grantee's Severance Date to exercise the Option, (b) the Option, to the extent not vested on the Severance Date, shall terminate on the Severance Date, and (c) the Option, to the extent exercisable for the 12-month period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the 12-month period.

For purposes of the Option, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Administrator).

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 5.2. The Administrator shall be the sole judge of whether the Grantee continues to render employment or services for purposes of this Option Agreement.

#### 6. <u>Non-Transferability</u>.

The Option and any other rights of the Grantee under this Option Agreement or the Plan are nontransferable and exercisable only by the Grantee, except as set forth in Section 5.7 of the Plan.

#### 7. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Grantee at the address last reflected on the Corporation's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Grantee is no longer employed by the Corporation or a Subsidiary, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 7.

#### 8. Plan.

The Option and all rights of the Grantee under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Grantee agrees to be bound by the terms of the Plan and this Option Agreement. The Grantee acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Option Agreement. Unless otherwise expressly provided in other sections of this Option Agreement, provisions of the Plan that confer discretionary authority on the Board or the Administrator do not and shall not be deemed to create any rights in the Grantee unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Administrator so conferred by appropriate action of the Board or the Administrator under the Plan after the date hereof.

#### 9. Entire Agreement.

This Option Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 8.6 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

#### 10. Governing Law.

This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

#### 11. Effect of this Agreement.

Subject to the Corporation's right to terminate the Option pursuant to Section 7.2 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to the Corporation.

#### 12. Counterparts.

This Option Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

#### 13. Section Headings.

The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

#### MICROSEMI CASH BONUS PLAN

#### SECTION 1 PURPOSE OF THE PLAN

The Microsemi Cash Bonus Plan ("Plan") is intended to increase stockholder value and the success of Microsemi Corporation ("Company") by motivating Plan Participants to perform to the best of their abilities and to achieve the Company's objectives. The Plan's goals are to be achieved by providing Plan Participants with incentive Awards based on the achievement of goals relating to the performance of the Company and individualized goals relating to the Plan Participant's performance. Another purpose of the Plan is to foster the Company's retention of Plan Participants as employees.

#### SECTION 2 SUBPLANS; PARTICIPANTS

Insofar as the Committee will be responsible for establishing performance goals and conditions under this Plan for each Performance Period for each employee of the Company and its subsidiaries, and because different goals and conditions may be appropriate for different groups of employees for purposes of the Plan, the Committee shall annually establish one or more subplans, each together with this Plan constituting, effective on its own effective date, a separate cash compensation plan (each a "Subplan" or collectively "Subplans"). Except as the Committee may by rule or specifically provide otherwise, each Plan Participant shall participate in only one Subplan during a Performance Period, and each Subplan during a Performance Period shall have different Plan Participants. For each Subplan, the Committee shall select or define the criteria to select the Plan Participants from among persons who are actively employed by the Company during the Performance Period. Participation in the Plan or a Subplan during one Performance Period does not guarantee a Plan Participant the ability to participate in the Plan or the Subplan in any future Performance Periods.

#### SECTION 3 THE BONUS POOL

- 3.1 Conditions to the Company's Obligation to Fund the Bonus Pool. The Company shall not have any obligation in any event whatsoever to fund the Bonus Pool unless all of the following conditions shall have been satisfied: (i) the Company shall have attained its Operating Margin Minimum for the Performance Period; and (ii) the Company shall have satisfied any such additional conditions as the Committee may in its discretion impose upon Bonus Pool funding in respect to this Plan or a Subplan.
- 3.2 Bonus Pool Formulae and Calculations . The amount of the Bonus Pool of each Subplan shall be determined by the Committee in its sole and absolute discretion after the end of each Performance Period. The Committee's determination shall be final and binding.

Effective: March 29, 2007

Last Update: 03/29/2007

- 3.3 Committee Determinations Binding. The determination of whether the Company's relevant Reported Non-GAAP Financial Measures or other measures of performance shall have satisfied the conditions to funding a Bonus Pool shall be made by the Committee in each instance in its sole discretion. The Committee shall base its determinations upon its own good faith interpretations insofar as applicable and shall be entitled also to rely upon any advice of professionals, experts, officers and other sources of information of its choice believed reliable. The Committee's determinations shall always be final and binding on all Plan Participants.
- 3.4 Adjustments for Acquisitions or Changes in Fiscal Year . If the Company makes any Acquisition or if any change of the Company's fiscal year ("Change") occurs during a Performance Period, the Committee may, in its sole and absolute discretion, determine whether (i) to adjust the Performance Goals and financial measures described in the Subplans under this Plan to take into account the effects of Acquisitions or Changes on the Operating Income or the Operating Margin or any other relevant factor, (ii) to substitute different terms as the Committee deems appropriate in its sole and absolute discretion, or (iii) to make no changes.

## SECTION 4 DETERMINATION OF AWARDS

- 4.1 Performance Evaluations . All Plan Participants shall be subject to individual Performance Evaluations.
- 4.2 Award Amounts . A Plan Participant's Award shall take into account, among other things, (a) the amount of the Bonus Pool of the relevant Subplan, taking into account and subject to all limitations and conditions of this Plan and the Subplan, and (b) the Plan Participant's Performance Evaluation. All limitations and conditions to funding of the Bonus Pool of any Subplan will also directly and similarly affect the Awards of all Plan Participants in the Subplan. Also as provided more specifically in each Subplan, based on a Plan Participant's Performance Evaluation, the Committee may make or ratify and approve an adjustment affecting a Plan Participant's Award upward or downward by a factor in the range of from zero (0) to two (2) times. Under no circumstances will the sum of all Awards for a Subplan in any Performance Period exceed the Bonus Pool for that Subplan in that Performance Period, and therefore when some Plan Participants receive adjustments increasing their Awards, the other Plan Participants must receive less unless the Bonus Pool were to increase.
- 4.3 Changes in Control. Upon a Change in Control, Awards shall vest and become payable immediately prior to the Change in Control, all on terms the Committee may deem appropriate for the purpose of providing an Award for the partial Performance Period ending on the day before the Change in Control, on such terms and subject to such provisions as deemed appropriate by the Committee in its sole and absolute discretion. In addition, all conditions to the Company's obligation of funding the Bonus Pool shall be deemed satisfied upon a Change in Control. The requirement of a Plan Participant's continuing service to the date of the Change in Control shall continue to be a condition to earning an Award, except as and to the extent the Committee may otherwise specifically determine. In all events, any Award that becomes payable under this Section 4.3 shall be paid not later than five (5) business days after the Change in Control.

Effective: March 29, 2007 Last Update: 03/29/2007

4.4 Payment in the Event of Death or Disability. In the event a Plan Participant's employment by the Company terminates after the Performance Period and before the date for payment of Awards in the normal course due to the Plan Participant's death or permanent disability, the Plan Participant's Award, if any, shall be paid in the normal course as provided in Section 5.2; provided, however the Committee may for humanitarian reasons determine in its sole discretion to agree with the Plan Participants or their future personal representatives, on terms the Committee deems appropriate in the particular instance, to pay or settle an Award before the normal date for Award payments. The Committee shall have sole and absolute discretion in any particular circumstance to pay an Award to a Plan Participant whose employment by the Company terminates during the Performance Period due to the Plan Participant's death or permanent disability, provided that such payment shall be made within the time period prescribed in Section 5.2.

#### SECTION 5 PAYOUT OF AWARDS

- 5.1 Employment Requirement. A Plan Participant must be employed by the Company at the time the Awards are paid in the ordinary course under the relevant Subplan under this Plan in order to be entitled to receive payment of an Award, except as otherwise specifically provided in Section 4.4. The Committee may waive this employment condition in its sole and absolute discretion in any instance and from time to time.
- 5.2 Timing of Bonus Payouts. Awards will be paid to Plan Participants through normal payroll or otherwise as soon as reasonably practicable after the Reported Non-GAAP Financial Measures for the Performance Period shall have been publicly released, provided that, in no event shall an Award be paid later than 2.5 months following the end of the fiscal year in which the applicable Performance Period ends.
- 5.3 Withholding of Taxes. The Company will have the right to deduct from any Award any foreign, federal, state or local taxes required by law to be withheld.

Effective: March 29, 2007

Last Update: 03/29/2007

#### SECTION 6 ADDITIONAL TERMS

- 6.1 Plan Administration . The Committee will have the authority to administer and interpret the Plan, and approve or determine the amounts to be distributed under the Plan as Awards. Any interpretation or construction of the Plan or approval or determination of Awards by the Committee will be final and binding on all Plan Participants and their personal representatives. No member of the Board or any of its affiliates, or any committee of the Board or any affiliate, will be liable for any action or determination made in good faith regarding the Plan or any Award.
- 6.2 No Right to Employment . The Plan does not give any Plan Participant any right to continued employment, or limit in any way the right of the Company or any affiliated company to terminate his or her employment at any time.
- 6.3 Amendment of the Plan . The Plan may be amended from time to time by the Committee, without the consent of any Plan Participant, other employee or past employee, for each of the following reasons or any combination thereof: (i) to the extent required to comply with applicable law; (ii) to make reasonable adjustments for any acquisition or sale of a business, merger, reorganization, or restructuring, change in accounting principles or their application, or special charges or extraordinary items, that materially affect the Company or any of its consolidated subsidiaries; or (iii) to make any changes that do not materially and adversely affect the Award payable to any eligible Plan Participant.
- 6.4 Governing Law. The validity, construction and interpretation of the Plan will be determined in accordance with the laws of the State of Delaware.
- 6.5 Construction . The Plan is intended to comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) so as not to subject any Plan Participant to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of the Plan shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Plan Participant.
- 6.6 Effective Date. This Plan is adopted on and has an effective date of March 29, 2007. For each Subplan in each Performance Period, there shall also be an effective date upon which the Committee shall approve the Subplan.

## SECTION 7 DEFINITIONS

- 7.1 "Acquisition" shall mean any acquisition by the Company that would materially change the Company's Operating Income, operating margin, or Performance Goals as determined by the Committee in its sole discretion.
- 7.2 "Award" shall mean a cash Award made to a Plan Participant under the Plan.
- 7.3 "Board" shall mean the Board of Directors of the Company.
- 7.4 "Bonus Pool" shall mean the total amount of funds finally designated by the Committee for distribution under a Subplan of the Plan for a Performance Period.

Effective: March 29, 2007
Cash Bonus Plan

Last Update: 03/29/2007

- 7.5 "Change in Control" shall mean each occurrence of any of the following events in one or a series of transactions: (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by all of the Company's then outstanding voting securities; or (ii) consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) a majority of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iii) the stockholders of the Company approving a plan of complete liquidation of the Company; or (iv) a consummation of the sale or disposition by the Company of all or substantially all of the Company's assets.
- 7.6 "Code" shall mean the U.S. Internal Revenue Code of 1986, as amended.
- 7.7 "Committee" shall mean the Board or the Company's Compensation Committee or any other committee appointed by the Board to administer the Plan.
- 7.8 "Company" shall mean Microsemi Corporation, a Delaware corporation, or any successors or assigns, and shall include all subsidiaries.
- 7.9 "Operating Income" shall mean the non-GAAP operating income of the Company for the Performance Period based on the Reported Non-GAAP Financial Measures.
- 7.10 "Operating Margin Minimum" shall mean the minimum Operating Margin (based on the Reported Non-GAAP Financial Measures) which is set by the Committee for the Performance Period for the Subplan. The Operating Margin Minimum must be achieved or exceeded in order for there to be any payout whatsoever of Awards under the Plan.
- 7.11 "Performance Evaluations" shall mean those Performance Evaluations referred to in Section 4.1 and further described in each Subplan.
- 7.12 "Performance Goals" shall be established by the Committee and set forth in each Subplan. These Performance Goals may include, but may not be limited to, goals for (i) net income (loss) (either before or after interest, taxes, depreciation and/or amortization), (ii) sales or revenue, (iii) acquisitions or strategic transactions, (iv) operating income (loss), (v) cash flow (including, without limitation, operating cash flow and free cash flow), (vi) return on capital, (vii) return on assets (including, without limitation, return on net assets), (viii) return on stockholders' equity, (ix) economic value added, (x) stockholder returns, (xi) return on sales, (xii) gross or net profit margin, (xiii) productivity, (xiv) expenses, (xv) margins, (xvi) operating efficiency, (xvii) customer satisfaction, (xviii) working capital, (xix) earnings (loss) per share, (xx) price per share of equity securities, (xxi) market share and (xxii) number of customers, any of which may be measured either in absolute terms, on a GAAP or non-GAAP basis, as compared to any previous results or with respect to any incremental increase or decrease, or as compared to results of any peer group determined in the Committee's sole discretion.

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- 7.13 "Performance Period" shall mean the Company's fiscal year (or other relevant period) as referred to in the respective Subplan.
- 7.14 "Plan Participant" shall mean an employee of the Company or a direct or indirect subsidiary who is selected by the Committee to participate in a Subplan of the Plan for a Performance Period.
- 7.15 "Reported Non-GAAP Financial Measures" shall mean the non-GAAP financial measures, as they may be amended from time to time, that the Company publicly releases and furnishes to the Securities and Exchange Commission most closely corresponding to the measures referred to in this Plan or a Subplan.

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#### AMENDED AND RESTATED AGREEMENT

THIS AMENDED AND RESTATED AGREEMENT dated as of November 10, 2008 (this "Agreement") is made by and between James J. Peterson ("Executive") and MICROSEMI CORPORATION, a Delaware corporation ("Company"). This Agreement amends and restates in its entirety that certain Agreement by and between the Company and Executive dated as of January 12, 2001 (the "Prior Agreement").

NOW, THEREFORE, for good and valuable considerations, receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. <u>Term</u>. The term of this Agreement shall commence on the date hereof. The term of this Agreement shall be renewed automatically on a daily basis so that the outstanding term is always two (2) years after the date on which notice of non-renewal or termination of this Agreement is given by the Executive to the Company or by the Company to the Executive. This Agreement relates to Executive's employment with the Company, or any subsidiary, successor, assign or affiliate of the Company, under any written or oral agreement. For purposes of the following provisions "Date of Termination" means the effective date of termination of Executive's employment with any of the entities described above, after notice and lapse of the notice period as required herein.

#### 2. Terminations by Executive .

- a. <u>Termination by Executive for "Good Reason</u>." Following a Change in Control, Executive may terminate his active employment under his oral or written employment agreement with the Company upon five (5) days' written notice to the Company given within ninety (90) days following the date on which the Executive becomes aware of any of the following events, each of which shall be deemed to be good reason for termination by Executive:
- (i) any reduction in, or limitation upon, the compensation, reimbursable expenses or other benefits provided in this Agreement, other than (A) as generally effected by valid public law or regulation or (B) as results from change in the amount of the incentive compensation pool if not resulting from changes in the incentive pool formula or allocations and not resulting from accounting or operational effects of the acquisition;
- (ii) any change in assignment of Executive's primary duties to a work location more than 50 miles from the Company's principal executive office at 2830 South Fairview Street, Santa Ana, California 92704, without Executive's prior written consent;
  - (iii) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company;
  - (iv) any material breach by the Company of any provision of this Agreement; or
- (v) any action taken by the Board or a standing Committee of the Board in connection with, or the formation of a special Committee of the Board for the purpose of, effecting any of the events listed in subparagraphs (i) through (iv) immediately above;
  - b. Change of Control . For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events:
- (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities;
- (ii) Consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty-one percent (51%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approving a plan of complete liquidation of the Company or a consummation of the sale or disposition by the Company of all or substantially all of the Company's assets.
- c. <u>Voluntary Termination by Executive</u>. After a Change in Control, without reason or for any reason other than one set forth in Section 2.a above, Executive may voluntarily terminate his employment with the Company under any oral or written employment agreement upon a minimum of one (1) month's written notice to the Company.

- 3. Executive's Benefits Following Termination.
- a. Executive's Benefits in Termination by Executive without "Good Reason" following Change in Control . If Executive terminates his active employment under his oral or written employment agreement with the Company following a Change in Control without "Good Reason":
- (i) <u>Salary</u>. Executive or his estate shall be entitled to receive 100% of his latest base salary for a period of n months (where n is equal to the sum of three (3) months plus a number of months equal to the number of years elapsed from the Hire Date to the date notice of termination is given; provided, however that n shall be at least 12 and not more than 18) in accordance with the Company's regular payroll practices, such payments to commence (subject to Section 3(x) below) not later than the fifteenth (15th) day following Executive's Separation from Service .
- (ii) Incentive Compensation. Executive or his estate will be entitled to receive a prorated portion of the incentive compensation for the partial year ending on the Date of Termination, such payment to be made (subject to Section 3(x) below) not later than the fifteenth (15th) day following Executive's Separation from Service.
- (iii) <u>Car Allowance</u>. Executive's car allowance shall continue for a period of n months (where n is equal to the sum of three (3) months plus a number of months equal to the number of years elapsed from the Hire Date to the date the Company gives notice of termination; provided, however that n shall be at least 12 and not more than 18), such payment to be made (subject to Section 3(x) below) not later than the fifteenth (15th) day following Executive's Separation from Service, subject to termination as described in Section 7.
- (iv) <u>Equity Awards</u>. The restricted stock granted by the Company to Executive under all plans and all stock options and general stock appreciation rights granted by the Company to Executive will remain in existence, and continue to vest and remain exercisable for a period ending n months after the Date of Termination (where n is equal to the sum of three (3) months plus a number of months equal to the number of years elapsed from the Hire Date to the date the Company gives notice of termination; provided, however that n shall be at least 12 and not more than 18), subject in either case to the latest expiration date specified in the restricted stock or option agreements.
- (v) Medical and Life Insurance. Payment of premiums for medical, dental and vision insurance and life insurance by the Company shall continue on and subject to the terms of this Agreement for a period ending n months after the Date of Termination (where n is equal to the sum of three (3) months plus a number of months equal to the number of years elapsed from the Hire Date to the date the Company gives notice of termination; provided, however that n shall be at least 12 and not more than 18), subject to termination under Section 7. To the extent that the payment of any premiums pursuant to this Section 3(v) is taxable to Executive, any such payment shall be paid to Executive on or before the last day of Executive's taxable year following the taxable year in which the related expense was incurred. Executive's right to payment of such premiums is not subject to liquidation or exchange for another benefit and the amount of such benefits that Executive receives in one taxable year shall not affect the amount of such benefits that Executive receives in any other taxable year.
- (vi) Retirement Plans; Unvested Company Contribution. The Executive shall be entitled to receive, not later than the fifteenth (15th) day following the Date of Termination (or, if so required under the provisions of the applicable plan, program or arrangement and/or to comply with Section 409A of the Code, not later than the fifteenth (15 th) day following Executive's Separation from Service), all benefits payable to him upon or on account of termination under any of the Company's tax-qualified employee benefit plans and any other plan, program or arrangement relating to deferred compensation, retirement or other benefits including, without limitation, any profit sharing, 401(k), employee stock ownership plan, or any plan established as a supplement to any of the aforementioned plans. The Company shall not be required to pay Executive any amount of unvested Company contributions credited to the Executive's account under any tax-qualified employee benefit plan maintained by the Company as of the Date of Termination. In the event that this paragraph should conflict with the provisions of any of the Company's tax-qualified employee benefit plans and any other plan, program or arrangement relating to deferred compensation, retirement or other benefits including, without limitation, any profit sharing, 401(k), employee stock ownership plan, or any plan established as a supplement to any of the aforementioned plans, then the provisions of the plan shall govern.
- (vii) <u>Vacation and Sick Leave</u>. The Company shall also pay Executive, not later than the second day following the Date of Termination, a pro rata amount of his base salary under his employment agreement, in effect on the Date of Termination, for each day of vacation leave which has accrued as of the Date of Termination, but which is unpaid as of such date, to which Executive is entitled under the Company's vacation leave policy. The Company shall be required to pay for sick leave days only to the extent that Executive has taken sick leave on or prior to the Date of Termination to which Executive is entitled under the Company's sick leave policy.
- (viii) <u>General</u>. Executive or his estate shall also be entitled to any other amounts then owing or accrued but unpaid to the Executive pursuant to any plans or arrangements of the Company.
- (ix) <u>Separation from Service</u>. As used herein, a "Separation from Service" occurs when Executive dies, retires, or otherwise has a termination of employment with the Company that constitutes a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

- (x) Specified Employee. Notwithstanding any provision of this Agreement to the contrary, if Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of Executive's Separation from Service, Executive shall not be entitled to any payment or benefit pursuant to this Section 3 or Section 4 until the earlier of (i) the date which is six (6) months after Executive's Separation from Service for any reason other than death, or (ii) the date of Executive's death. Any amounts otherwise payable to Executive upon or in the six (6) month period following Executive's Separation from Service that are not so paid by reason of this Section 3 (x) shall be paid as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after Executive's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of Executive's death) and, in the event of such a delay, the amount of the benefit that is so delayed shall include interest from the date the amount was otherwise payable (but for such delay) through the date upon which payment is actually made. For this purpose, interest shall be simple interest calculated using a rate equal to 200% of the Short-term Applicable Federal Rate (annual compounding) published by the Internal Revenue Service for the month in which the Executive's Separation from Service occurs. The provisions of this Section 3(x) shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code").
- b. Executive's Benefits in Termination by Executive for "Good Reason" or by Company following Change in Control. If Executive terminates his active employment under his oral or written employment agreement with the Company for "Good Reason" following a Change in Control or the Company terminates his active employment under his oral or written employment agreement with the Company following a Change in Control:
- (i) <u>Salary</u>. Executive or his estate shall be entitled to payment, to be received (subject to Section 3(x) above) not later than the fifteenth (15th) day following Executive's Separation from Service, of an amount equal to two (2) times his base salary as of the Date of Termination.
- (ii) <u>Incentive Compensation</u>. Executive or his estate will be entitled to receive, not later than (subject to Section 3(x) above) the fifteenth (15th) day following Executive's Separation from Service, an incentive compensation payment of two (2) times the highest annual incentive compensation amount paid during any of the preceding three (3) full plan years.
- (iii) <u>Car Allowance</u>. Executive or his estate will be entitled to receive, not later than (subject to Section 3(x) above) the fifteenth (15th) day following Executive's Separation from Service, a lump-sum amount equal to X times his annual car allowance in effect as of the Date of Termination.
- (iv) <u>Equity Awards</u>. The restriction or forfeiture period on any restricted stock granted by the Company to Executive under all plans and all stock options and general stock appreciation rights granted by the Company to Executive shall lapse or accelerate, as the case may be, and become fully vested and exercisable on the Date of Termination, and shall remain exercisable for a period of two (2) years following the Date of Termination, subject to the latest expiration date specified in the restricted stock or option agreements.
- (v) <u>Medical and Life Insurance</u>. Payment of premiums for medical, dental and vision insurance and life insurance by the Company shall continue on and subject to the terms of this Agreement for a period of two (2) years following the Date of Termination, subject to termination under Section 7. To the extent that the payment of any premiums pursuant to this Section 4(v) is taxable to Executive, any such payment shall be paid to Executive on or before the last day of Executive's taxable year following the taxable year in which the related expense was incurred. Executive's right to payment of such premiums is not subject to liquidation or exchange for another benefit and the amount of such benefits that Executive receives in one taxable year shall not affect the amount of such benefits that Executive receives in any other taxable year.
- (vi) Retirement Plans; Unvested Company Contribution. The Executive shall be entitled to receive, not later than the fifteenth (15th) day following the Date of Termination (or, if so required under the provisions of the applicable plan, program or arrangement and/or to comply with Section 409A of the Code, not later than the fifteenth (15th) day following Executive's Separation from Service), all benefits payable to him upon or on account of termination under any of the Company's tax-qualified employee benefit plans and any other plan, program or arrangement relating to deferred compensation, retirement or other benefits including, without limitation, any profit sharing, 401(k), employee stock ownership plan, or any plan established as a supplement to any of the aforementioned plans. The Company shall also pay Executive, not later than the fifteenth (15th) day following the Date of Termination, an amount equal to all unvested Company contributions credited to the Executive's account under any tax-qualified employee benefit plan maintained by the Company as of the Date of Termination. In the event that this paragraph should conflict with the provisions of any of the Company's tax-qualified employee benefit plans and any other plan, program or arrangement relating to deferred compensation, retirement or other benefits including, without limitation, any profit sharing, 401(k), employee stock ownership plan, or any plan established as a supplement to any of the aforementioned plans, then the provisions of the plan shall govern, provided that the Company's contribution shall vest pursuant to this Section.
- (vii) <u>Vacation and Sick Leave</u>. The Company shall also pay Executive, not later than the second day following the Date of Termination, a pro rata amount of his base salary under his employment agreement, in effect on the Date of Termination, for each day of vacation leave which has accrued as of the Date of Termination, but which is unpaid as

of such date, to which Executive is entitled under the Company's vacation leave policy. The Company shall be required to pay for sick leave days only to the extent that Executive has taken sick leave on or prior to the Date of Termination to which Executive is entitled under the Company's sick leave policy.

- (viii) <u>General</u>. Executive or his estate shall also be entitled to any other amounts then owing or accrued but unpaid to the Executive pursuant to any plans or arrangements of the Company.
- 4. Other Benefits Following Termination. Executive shall also be entitled to the following additional benefits upon or following any such termination following a Change in Control as described in Section 3:
- a. To the extent required by law, Executive shall have the rights under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), or any successor statute.
- 5. Excise Taxes. If all or any portion of the amounts payable to Executive or on Executive's behalf under this Agreement or otherwise are subject to the excise tax imposed by Section 4999 of Code (or similar state tax and/or assessment), the Company shall pay to Executive an amount necessary to place Executive in the same after-tax position as Executive would have been had no such excise tax been imposed. The amount payable pursuant to the preceding sentence shall be grossed-up to the extent necessary to pay income and excise taxes due on such amount. The determination of the amount of any such tax indemnity shall initially be made by the independent accounting firm then employed by the Company. If at a later date it is determined (pursuant to final regulations or published rulings of the IRS, final judgment of a court of competent jurisdiction or otherwise) that the amount of excise taxes payable by Executive is greater than the amount initially so determined, then the Company (or its successor) shall pay Executive an amount equal to the sum of (1) such additional excise taxes, (2) any interest, fines and penalties resulting from such underpayment, plus (3) a gross-up amount necessary to reimburse Executive for any income, excise or other taxes payable by Executive with respect to the amounts specified in (1) and (2) above, and the reimbursement provided by this clause (3). Any payment due to Executive pursuant to this Section 5 shall be made as soon as reasonably practicable following the date the related tax was remitted and in all events not later than the end of Executive's taxable year following Executive's taxable year in which the tax was remitted.
- 6. Indemnification. For at least ten (10) years following the Date of Termination for any reason, Executive shall continue to be indemnified under the Company's Certificate of Incorporation and Bylaws at least to the same extent indemnification was available prior to the Date of Termination and permitted by law, and Executive shall be insured under the directors' and officers' liability insurance, the fiduciary liability insurance and the professional liability insurance policies that are the same as, or provide coverage at least equivalent to, those applicable or made available by the Company to the then members of senior management of the Company. Independent of such provision, if at any time Executive is made, or threatened to be made, a party to any legal action or proceeding, whether civil or criminal, by reason of the fact that Executive is or was a director or officer of the Company or serves or served any other corporation fifty percent (50%) or more owned or controlled by the Company in any capacity at the Company's request, Executive shall be indemnified by the Company, and the Company shall pay Executive's related expenses when and as incurred, all to the full extent permitted by law.
- 7. Obligatory Restrictions on Executive. Executive agrees that during the period of the commencing on the Date of Termination and extending n months (where n is equal to the sum of three (3) months plus a number of months equal to the number of years elapsed from the Hire Date to the date notice of termination is given; provided, however that n shall be at least 12 and not more than 18), except as provided below or with the Company's written consent, he will be bound by the following restrictive covenants:
- a. Non-Competition. Following any involuntary termination following a Change in Control or a termination by Executive for Good Reason following a Change in Control, the restrictions in this paragraph, and any similar restrictions under any employment agreement between the Company and Executive or otherwise shall be of no force or effect. In the event of a voluntary termination (other than for Good Reason) by Executive following a Change in Control, Executive will not, directly or indirectly, engage for his own account in, or own, manage, operate, control, be employed as an employee or consultant, buy, participate in, or be connected in any manner with the ownership, management, operation or control of any firm, corporation, association, or other business entity which is in competition with the business of the Company; provided that Executive may invest in a business competitive with the Company to an extent not exceeding five percent (5%) of the total outstanding shares at the time of such investment in each one or more companies. A business will be considered for this purpose in competition with the Company if and only if the products of such business include more than one-third of the Company's products as of immediately prior to the Change in Control. In the event of a breach or threatened breach by Executive of the provisions of this paragraph, the Company shall be entitled to an injunction restraining Executive from violating the provisions of this paragraph.
- b. No Solicitation of Employees . Executive will not solicit or, with the exception of any persons related to Executive by blood, marriage, or adoption, not more remote than first cousin, employ any current or future employee of the Company and will not intentionally disparage the Company, its management or its products.
- c. <u>Consideration</u>. Executive's obligations are made partly in consideration of the severance benefits paid or committed to be paid by the Company following the Date of Termination. The restrictive covenants on the part of Executive set forth in this Section 20 shall survive the termination of this Agreement, and the existence of any claims or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense in the enforcement of these covenants.

- 8. Termination of Certain Benefits Following New Employment . If Executive accepts a substantial engagement or employment ("New Employment") with any other corporation, partnership, trust, government or other entity at any time during the term of benefit continuation referred to above, the Company may elect that Executive cease to be entitled to car allowance or medical, dental or vision insurance benefits effective upon the commencement of such other engagement or employment. However, Executive shall nevertheless continue to be entitled to the other benefits of this Agreement and shall continue to be bound by the provisions of this Agreement for any remaining duration of any period then applicable to Executive. For the purposes of this provision, "employment" or "engagement" shall exclude (i) service as an officer or director of a personal investment holding company, (ii) service as a director on the Board of a corporation or nonprofit organization, (iii) engagement as a bona fide part-time consultant, or (iv) self-employment or engagement as an officer or director of an operating corporation or enterprise (as opposed to a personal investment holding company) founded or controlled by Executive and which has (and only so long as it continues to have) revenues of less than \$25 million per year.
- 9. No Mitigation by Executive Required. Company recognizes that because of Executive's special talents, stature and opportunities in the electronics industry, in the event of termination by the Company or Executive before the end of the agreed term, the parties acknowledge and agree that the provisions of this Agreement regarding further payment of base salary, bonuses, and the exercisability of stock options and lapse of the restrictive or forfeiture period on restricted stock constitute fair and reasonable provisions for the consequences of such termination, do not constitute a penalty, and such payments and benefits shall not be limited or reduced by amounts Executive might earn or be able to earn from any other employment or ventures during the remainder of the agreed term of this Agreement. Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise.
- 10. <u>Binding Agreement</u>. This Agreement shall be binding upon and inure to the benefit of Executive, his heirs, distributees and assigns, and the Company, its successors and assigns. Executive may not, without the express written permission of the Company, assign or pledge any rights or obligations hereunder to any person, firm or corporation. Such permission shall not be unreasonably withheld. If the Executive should die while any amount would still be payable to Executive if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with this Agreement to the Executive's estate.
- 11. <u>No Attachment</u>. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation or to execution, attachment, levy or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect.
- 12. <u>Assignment and Other Rights</u>. The Company will require any successor (whether direct or indirect, by operation of law, by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company) to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled hereunder, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be the Date of Termination. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business and/or assets that assumes and agrees to perform this Agreement by operation of law, or otherwise.
- 13. Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.
- 14. <u>Notice</u>. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the Executive at his home address appearing in the records of the Company, in the case of the Executive, and in the case of the Company, to the attention of the Chairman of the Board at the principal executive offices of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt. Acceptance by Executive of benefits of participation shall constitute a certification by Executive of his continued eligibility for participation.
  - 15. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California.
  - 16. Costs. Each of the parties shall pay its own expenses, including attorneys' fees, in the negotiation and preparation of this Agreement.

17. Severability. If, for any reason, any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the rest of such provision not held so invalid, and the rest of such provision, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect. If this Agreement is held invalid or cannot be enforced, then to the full extent permitted by law, any prior agreement between the Company (or any predecessor thereof) and Executive shall be deemed reinstated as if this Agreement has not been executed.

#### 18. Arbitration.

- a. Any disagreement, dispute, controversy or claim arising out of or in any way related to this Agreement or the subject matter thereof or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof shall be settled exclusively and finally by arbitration.
- b. The arbitration shall be conducted in accordance with the Commercial Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association (the "AAA"). The arbitral tribunal shall consist of one arbitrator.
- c. The Company shall pay all of the fees, if any, and expenses of such arbitration, and shall also pay all Executive's expenses, including attorneys' fees, incurred in connection with the arbitration regardless of the final outcome of such arbitration.
- d. The arbitration shall be conducted in Orange County, California, or in any other city or county in the United States of America as the parties to the dispute may designate by mutual written consent.
- e. Any decision or award of the tribunal shall be final and binding upon the parties to the arbitration proceeding. The parties hereto hereby waive to the extent permitted by law any rights to appeal or to review such award by any court or tribunal. The parties hereto agree that the award may be enforced against the parties to the arbitration proceeding or their assets wherever the award may be entered in any court having jurisdiction thereof.
- f. The parties stipulate that discovery may be held in any such arbitration proceeding as provided in Section 1283.05 of the California Code of Civil Procedure, as may be amended or revised from time to time.
- g. During the period until the dispute is finally resolved in accordance with this Section, the Company will continue to pay the Executive his full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue the Executive as a participant in all compensation, employee benefit and insurance plans, programs, arrangements and perquisites in which the Executive was participating or entitled when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this paragraph (c). Amounts paid under this paragraph (c) shall be repaid to the Company or be offset against or reduce any other amounts due the Executive under this Agreement, as appropriate, only upon the final resolution of the dispute.
- 19. Entire Agreement. As of the date hereof, all previous agreements relating to the employment of Executive (including, without limitation, the Prior Agreement), however styled, are hereby superseded to the extent inconsistent herewith, and, excepting Executive's present participation in Company stock and/or other benefit plans or programs and the agreements thereunder, which are hereby reaffirmed in all respects by both parties thereto except as expressly modified by this Agreement, this Agreement embodies all agreements, contracts, and understandings by and between the parties hereto. In addition, this Agreement supersedes and amends any subsequent employment agreement between Executive and the Company except to the extent such subsequent agreement expressly provides or provides benefits in excess of those herein provided. Should any other agreement, plan or arrangement between Company and Executive or other officers or employees of the Company provide for greater benefits upon a change in control, the terms of such other agreement, plan or arrangement shall apply to Executive on a "most favored" basis. This Agreement may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.
- 20. <u>Withholding</u>. All payments or benefits under this Agreement are subject to, and the net payment to Executive will be reduced by, any applicable payroll tax withholding requirements, and will be payable net of appropriate amounts properly credited to the payment of income taxes of the Executive. The determination of the amount of any such withholding shall be made or confirmed by the independent accounting firm then employed by the Company.
- 21. <u>Separate Counsel</u>. The Company has been represented by counsel in the negotiation and execution of this Agreement. The Executive has been invited and given opportunity to engage counsel to review or negotiate this Agreement, and Executive has either done so or chosen not to engage counsel.
- 22. <u>Construction</u>. It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) so as not to subject Executive to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Executive.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

COMPANY: MICROSEMI CORPORATION

By: /s/ JOHN W. HOHENER

John W. Hohener

Vice President and Chief Financial Officer

EXECUTIVE:

/s/ JAMES J. PETERSON

James J. Peterson

#### **EXECUTIVE RETENTION AGREEMENT**

| THIS EXECUTIVE RETENTION AGREEMENT (this "Agreement") dated as of | , 200 _     | _is made by and between |
|---|-------------|-------------------------|
| ("Executive") and MICROSEMI CORPORATION, a Delaware corporation ( | ("Company") | ).                      |

NOW, THEREFORE, for good and valuable considerations, receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. <u>Term</u>. The term of this Agreement shall commence on the date hereof. The term of this Agreement shall be renewed automatically on a daily basis so that the outstanding term is always X year(s) after the date on which notice of non-renewal or termination of this Agreement is given by the Executive to the Company or by the Company to the Executive. This Agreement relates to Executive's employment with the Company, or any subsidiary, successor, assign or affiliate of the Company, under any written or oral agreement. For purposes of the following provisions "Date of Termination" means the effective date of termination of Executive's employment with any of the entities described above, after notice and lapse of the notice period as required herein.

### 2. Terminations by Executive.

- a. <u>Termination by Executive for "Good Reason</u>." Following a Change in Control, Executive may terminate his active employment under his oral or written employment agreement with the Company upon five (5) days' written notice to the Company given within ninety (90) days following the date on which the Executive becomes aware of any of the following events, each of which shall be deemed to be good reason for termination by Executive:
- (i) any reduction in, or limitation upon, the compensation, reimbursable expenses or other benefits provided in this Agreement, other than (A) as generally effected by valid public law or regulation or (B) as results from change in the amount of the incentive compensation pool if not resulting from changes in the incentive pool formula or allocations and not resulting from accounting or operational effects of the acquisition;
- (ii) any change in assignment of Executive's primary duties to a work location more than 50 miles from the Company's principal executive office at 2381 Morse Avenue, Irvine, California 92614, without Executive's prior written consent;
  - (iii) any failure by the Company to obtain the assumption of this Agreement by any successor or assign of the Company;
  - (iv) any material breach by the Company of any provision of this Agreement; or
- (v) any action taken by the Board or a standing Committee of the Board in connection with, or the formation of a special Committee of the Board for the purpose of, effecting any of the events listed in subparagraphs (i) through (iv) immediately above.
  - b. Change of Control. For purposes of this Agreement, "Change in Control" means the occurrence of any of the following events:
- (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company's then outstanding voting securities;
- (ii) Consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty-one percent (51%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approving a plan of complete liquidation of the Company or a consummation of the sale or disposition by the Company of all or substantially all of the Company's assets.
- c. <u>Voluntary Termination by Executive</u>. After a Change in Control, without reason or for any reason other than "Good Reason" as set forth in Section 2.a above, Executive may voluntarily terminate his employment with the Company under any oral or written employment agreement upon a minimum of one (1) month's written notice to the Company; provided, however, Executive shall receive only the compensation that would otherwise be accrued or payable as of or prior to the termination date.
- 3. Executive's Benefits Following Termination by Executive for "Good Reason" or by Company, in either Case only following Change in Control. If Executive terminates his active employment under his oral or written employment agreement with the Company for "Good Reason" following a Change in Control or the Company terminates his active employment under his oral or written employment agreement with the Company following a Change in Control:
- (i) <u>Salary</u>. Executive or his estate shall be entitled to payment, to be received (subject to Section 3(x) below) not later than the fifteenth (15th) day following Executive's Separation from Service, of an amount equal to X multiplied by Executive's base salary as of the Date of Termination.

- (ii) <u>Incentive Compensation</u>. Executive or his estate will be entitled to receive, not later than (subject to Section 3(x) below) the fifteenth (15th) day following Executive's Separation from Service, an incentive compensation payment of X multiplied by the highest annual incentive compensation amount paid during any of the preceding three (3) full plan years.
- (iii) <u>Car Allowance</u>. Executive or his estate will be entitled to receive, not later than (subject to Section 3(x) below) the fifteenth (15th) day following Executive's Separation from Service, a lump-sum amount equal to X times his annual car allowance in effect as of the Date of Termination.
- (iv) Equity Awards. The restriction or forfeiture period on any restricted stock granted by the Company to Executive under all plans and all stock options and general stock appreciation rights granted by the Company to Executive shall lapse or accelerate, as the case may be, and become fully vested and exercisable on the Date of Termination, and shall remain exercisable for a period of X year(s) following the Date of Termination, subject to the latest expiration date specified in the restricted stock or option agreements.
- (v) <u>Medical and Life Insurance</u>. Payment of premiums for medical, dental and vision insurance and life insurance by the Company shall continue on and subject to the terms of this Agreement for a period of X year(s) following the Date of Termination, subject to termination under Section 7. To the extent that the payment of any premiums pursuant to this Section 3(v) is taxable to Executive, any such payment shall be paid to Executive on or before the last day of Executive's taxable year following the taxable year in which the related expense was incurred. Executive's right to payment of such premiums is not subject to liquidation or exchange for another benefit and the amount of such benefits that Executive receives in one taxable year shall not affect the amount of such benefits that Executive receives in any other taxable year.
- (vi) Retirement Plans; Unvested Company Contribution . The Executive shall be entitled to receive, not later than the fifteenth (15th) day following the Date of Termination (or, if so required under the provisions of the applicable plan, program or arrangement and/or to comply with Section 409A of the Code, not later than the fifteenth (15 th) day following Executive's Separation from Service), all benefits payable to him upon or on account of termination under any of the Company's tax-qualified employee benefit plans and any other plan, program or arrangement relating to deferred compensation, retirement or other benefits including, without limitation, any profit sharing, 401(k), employee stock ownership plan, or any plan established as a supplement to any of the aforementioned plans. The Company shall also pay Executive, not later than the fifteenth (15th) day following the Date of Termination, an amount equal to all unvested Company contributions credited to the Executive's account under any tax-qualified employee benefit plan maintained by the Company as of the Date of Termination. In the event that this subparagraph (vi) should conflict with the provisions of any of the Company's tax-qualified employee benefit plans and any other plan, program or arrangement relating to deferred compensation, retirement or other benefits including, without limitation, any profit sharing, 401(k), employee stock ownership plan, or any plan established as a supplement to any of the aforementioned plans, then the provisions of the plan shall govern, provided that the Company's contribution shall vest pursuant to this subparagraph (vi) to the maximum extent permissible.
- (vii) <u>Vacation and Sick Leave</u>. The Company shall also pay Executive, not later than the second day following the Date of Termination, a pro rata amount of his base salary under his employment agreement, in effect on the Date of Termination, for each day of vacation leave which has accrued as of the Date of Termination, but which is unpaid as of such date, to which Executive is entitled under the Company's vacation leave policy. The Company shall be required to pay for sick leave days only to the extent that Executive has taken sick leave on or prior to the Date of Termination to which Executive is entitled under the Company's sick leave policy.
- (viii) <u>General</u>. Executive or his estate shall also be entitled to any other amounts then owing or accrued but unpaid to the Executive pursuant to any plans or arrangements of the Company.
- (ix) <u>Separation from Service</u>. As used herein, a "Separation from Service" occurs when Executive dies, retires, or otherwise has a termination of employment with the Company that constitutes a "separation from service" within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.
- (x) <u>Specified Employees</u>. Notwithstanding any provision of this Agreement to the contrary, if Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of Executive's Separation from Service, Executive shall not be entitled to any payment or benefit pursuant to this Section 3 until the earlier of (i) the date which is six (6) months after Executive's Separation from Service for any reason other than death, or (ii) the date of Executive's death. Any amounts otherwise payable to Executive upon or in the six (6) month period following

Executive's Separation from Service that are not so paid by reason of this Section 3(x) shall be paid as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after Executive's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of Executive's death) and, in the event of such a delay, the amount of the benefit that is so delayed shall include interest from the date the amount was otherwise payable (but for such delay) through the date upon which payment is actually made. For this purpose, interest shall be simple interest calculated using a rate equal to 200% of the Short-term Applicable Federal Rate (annual compounding) published by the Internal Revenue Service for the month in which the Executive's Separation from Service occurs. The provisions of this Section 3(x) shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

- 4. Other Benefits Following Termination. Executive shall also be entitled to the following additional benefits upon or following any such termination following a Change in Control as described in Section 3:
- a. <u>COBRA</u>. To the extent required by law, Executive shall have the rights under the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), or any successor statute.
- 5. Indemnification. For at least ten (10) years following the Date of Termination for any reason, Executive shall continue to be indemnified under the Company's Certificate of Incorporation and Bylaws at least to the same extent indemnification was available prior to the Date of Termination and permitted by law, and Executive shall be insured under the directors' and officers' liability insurance, the fiduciary liability insurance and the professional liability insurance policies that are the same as, or provide coverage at least equivalent to, those applicable or made available by the Company to the then members of senior management of the Company. Independent of such provision, if at any time Executive is made, or threatened to be made, a party to any legal action or proceeding, whether civil or criminal, by reason of the fact that Executive is or was a director or officer of the Company or serves or served any other corporation fifty percent (50%) or more owned or controlled by the Company in any capacity at the Company's request, Executive shall be indemnified by the Company, and the Company shall pay Executive's related expenses when and as incurred, all to the full extent permitted by law.
- 6. Obligatory Restrictions on Executive . In addition to any and all other similar restrictions and limitations on Executive pursuant to law, other agreements and policies of the Company, Executive agrees that following a Change in Control and following a termination of a kind described in Section 3 for which the Company is obligated to pay and in fact tenders the benefits as described in Section 3, except as provided below or with the Company's written consent, Executive will be bound by the following restrictive covenants during the period commencing on the Date of Termination and extending X year(s):
- a. Non-Competition. Executive will not, directly or indirectly, engage for his own account in, or own, manage, operate, control, be employed as an employee or consultant, buy, participate in, or be connected in any manner with the ownership, management, operation or control of any firm, corporation, association, or other business entity which is in competition with the business of the Company; provided that Executive may invest in a business competitive with the Company to an extent not exceeding five percent (5%) of the total outstanding shares at the time of such investment in each one or more companies. A business will be considered for this purpose in competition with the Company if and only if the products of such business include more than one-third of the Company's products as of immediately prior to the Change in Control.
- b. No Solicitation of Employees . Executive will not solicit or, with the exception of any persons related to Executive by blood, marriage, or adoption, not more remote than first cousin, employ any current or future employee of the Company and will not intentionally disparage the Company, its management or its products.
- c. <u>Consideration</u>. Executive's obligations are made in consideration of the severance benefits paid or committed to be paid by the Company following the Date of Termination. The restrictive covenants on the part of Executive set forth in this Section 6 shall survive the termination of this Agreement, and the existence of any claims or cause of action by Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense in the enforcement of these covenants. In the event of a breach or threatened breach by Executive of the provisions of this Section 6, the Company shall be entitled to an injunction restraining Executive from violating the provisions of this Section.
- 7. Termination of Certain Benefits Following New Employment . If Executive accepts a substantial engagement or employment ("New Employment") with any other corporation, partnership, trust, government or other entity at any time during the term of benefit continuation referred to above, the Company may elect that Executive cease to be entitled to car allowance or medical, dental or vision insurance benefits effective upon the commencement of such other engagement or employment. However, Executive shall nevertheless continue to be entitled to the other benefits of this Agreement and shall continue to be bound by the provisions of this Agreement for any remaining duration of any period then applicable to Executive. For the purposes of this provision, "employment" or "engagement" shall exclude (i) service as an officer or director of a personal investment holding company, (ii) service as a director on the Board of a corporation or nonprofit organization, (iii) engagement as a bona fide part-time consultant, or (iv) self-employment or engagement as an officer or director of an operating corporation or enterprise (as opposed to a personal investment holding company) founded or controlled by Executive and which has (and only so long as it continues to have) revenues of less than \$25 million per year.
- 8. No Mitigation by Executive Required. Company recognizes that because of Executive's special talents, stature and opportunities in the electronics industry, in the event of termination by the Company or Executive before the end of

the agreed term, the parties acknowledge and agree that the provisions of this Agreement regarding further payment of base salary, bonuses, and the exercisability of stock options and lapse of the restrictive or forfeiture period on restricted stock constitute fair and reasonable provisions for the consequences of such termination, do not constitute a penalty, and such payments and benefits shall not be limited or reduced by amounts Executive might earn or be able to earn from any other employment or ventures during the remainder of the agreed term of this Agreement. Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise.

- 9. <u>Binding Agreement</u>. This Agreement shall be binding upon and inure to the benefit of Executive, his heirs, distributees and assigns, and the Company, its successors and assigns. Executive may not, without the express written permission of the Company, assign or pledge any rights or obligations hereunder to any person, firm or corporation. Such permission shall not be unreasonably withheld. If the Executive should die while any amount would still be payable to Executive if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with this Agreement to the Executive's estate.
- 10. No Attachment. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge or hypothecation or to execution, attachment, levy or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void and of no effect.
- 11. <u>Assignment and Other Rights</u>. The Company will require any successor (whether direct or indirect, by operation of law, by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company) to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled hereunder, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be the Date of Termination. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business and/or assets that assumes and agrees to perform this Agreement by operation of law, or otherwise.
- 12. Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.
- 13. <u>Notice</u>. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the Executive at his home address appearing in the records of the Company, in the case of the Executive, and in the case of the Company, to the attention of the Chairman of the Board at the principal executive offices of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt. Acceptance by Executive of benefits of participation shall constitute a certification by Executive of his continued eligibility for participation.
  - 14. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of California.
  - 15. Costs. Each of the parties shall pay its own expenses, including attorneys' fees, in the negotiation and preparation of this Agreement.
- 16. Severability. If, for any reason, any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the rest of such provision not held so invalid, and the rest of such provision, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect. If this Agreement is held invalid or cannot be enforced, then to the full extent permitted by law, any prior agreement between the Company (or any predecessor thereof) and Executive shall be deemed reinstated as if this Agreement has not been executed.

#### 17. Arbitration.

- a. Any disagreement, dispute, controversy or claim arising out of or in any way related to this Agreement or the subject matter thereof or the interpretation hereof or any arrangements relating hereto or contemplated herein or the breach, termination or invalidity hereof shall be settled exclusively and finally by arbitration.
- b. The arbitration shall be conducted in accordance with the Commercial Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association (the "AAA"). The arbitral tribunal shall consist of one arbitrator.

- c. The Company shall pay all of the fees, if any, and expenses of such arbitration, and shall also pay all Executive's expenses, including attorneys' fees, incurred in connection with the arbitration regardless of the final outcome of such arbitration.
- d. The arbitration shall be conducted in Orange County, California, or in any other city or county in the United States of America as the parties to the dispute may designate by mutual written consent.
- e. Any decision or award of the tribunal shall be final and binding upon the parties to the arbitration proceeding. The parties hereto hereby waive to the extent permitted by law any rights to appeal or to review such award by any court or tribunal. The parties hereto agree that the award may be enforced against the parties to the arbitration proceeding or their assets wherever the award may be entered in any court having jurisdiction thereof.
- f. The parties stipulate that discovery may be held in any such arbitration proceeding as provided in Section 1283.05 of the California Code of Civil Procedure, as may be amended or revised from time to time.
- g. During the period until the dispute is finally resolved in accordance with this Section, the Company will continue to pay the Executive his full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue the Executive as a participant in all compensation, employee benefit and insurance plans, programs, arrangements and perquisites in which the Executive was participating or entitled when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Section 17. Amounts paid under this subparagraph g shall be repaid to the Company or be offset against or reduce any other amounts due the Executive under this Agreement, as appropriate, only upon the final resolution of the dispute.
- 18. Entire Agreement. As of the date hereof, all previous agreements relating to the employment of Executive, however styled, are hereby superseded to the extent inconsistent herewith, and, excepting Executive's present participation in Company stock and/or other benefit plans or programs and the agreements thereunder, which are hereby reaffirmed in all respects by both parties thereto except as expressly modified by this Agreement, this Agreement embodies all agreements, contracts, and understandings by and between the parties hereto. In addition, this Agreement supersedes and amends any subsequent employment agreement between Executive and the Company except to the extent such subsequent agreement expressly provides or provides benefits in excess of those herein provided. Should any other agreement, plan or arrangement between Company and Executive or other officers or employees of the Company provide for greater benefits upon a change in control, the terms of such other agreement, plan or arrangement shall apply to Executive on a "most favored" basis. This Agreement may not be changed orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.
- 19. <u>Withholding</u>. All payments or benefits under this Agreement are subject to, and the net payment to Executive will be reduced by, any applicable payroll tax withholding requirements, and will be payable net of appropriate amounts properly credited to the payment of income taxes of the Executive. The determination of the amount of any such withholding shall be made or confirmed by the independent accounting firm then employed by the Company.
- 20. <u>Separate Counsel</u>. The Company has been represented by counsel in the negotiation and execution of this Agreement. The Executive has been invited and given opportunity to engage counsel independently to review or negotiate this Agreement, and Executive has had an adequate opportunity to do so and has either done so or chosen not to engage counsel.
- 21. <u>Construction</u>. It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) so as not to subject Executive to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to Executive.

IN WITNESS WHEREOF, the parties have executed this Executive Retention Agreement as of the day and year first above written.

| , P | 8                                 |
|-----|-----------------------------------|
|     | COMPANY:<br>MICROSEMI CORPORATION |
|     | Ву:                               |
|     | Name:                             |
|     | Title:                            |
|     | EXECUTIVE:                        |
|     |                                   |
|     | Name:                             |
|     |                                   |

# MICROSEMI CORPORATION

# **Summary of Compensation Arrangements for Named Executive Officers**

Base Salaries . The current annual base salaries for the named executive officers of Microsemi Corporation (the "Company") are as follows:

| Name                 | Job Title  | Salary    |
|----------------------|--|-----------|
| James J. Peterson    | President and Chief Executive Officer                        | \$600,000 |
| Ralph Brandi         | Executive Vice President, Chief Operating Officer            | \$399,640 |
| John W. Hohener      | Vice President, Chief Financial Officer and Secretary        | \$300,000 |
| Steven G. Litchfield | Executive Vice President and President — Analog Mixed Signal | \$290,640 |
| James H. Gentile     | Senior Vice President of Worldwide Sales                     | \$228,360 |

Additional Compensation . In addition to the base salaries noted in the table above, the named executive officers are also entitled to participate in various Company plans, and are subject to other written agreements, in each case as set forth in exhibits to the Company's filings with the Securities and Exchange Commission. In addition, the named executive officers also receive certain perquisites and other personal benefits as disclosed in the Company's annual proxy statement.

#### SECOND AMENDMENT TO REVOLVING CREDIT AGREEMENT

This Second Amendment to Revolving Credit Agreement (this "Amendment") is entered into as of September 25, 2008, by and among the financial institutions from time to time signatory hereto (individually a "Lender," and any and all such financial institutions collectively the "Lenders"), Comerica Bank, as Administrative Agent for the Lenders (in such capacity, the "Agent"), and Microsemi Corporation ("Parent"), Microsemi Corp. – Power Products Group, Microsemi Corp. – Analog Mixed Signal Group, a Delaware corporation (fka Microsemi Corp. – Integrated Products), Microsemi Corp. – Massachusetts and Microsemi Corp. – Scottsdale (each, a "Borrower" and collectively with Parent, "Borrowers").

#### **RECITALS**

Borrowers, Agent and Lenders are parties to that certain Revolving Credit Agreement dated as of December 29, 2006, as amended from time to time, including by that certain First Amendment to Revolving Credit Agreement dated as of July 25, 2007 (the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

- 1. The following defined terms in Section 1.1 of the Agreement hereby are added, amended or restated as follows:
  - "MDT" means Microwave Devices Technology Corporation, a Massachusetts corporation.
- "MDT Acquisition" means the acquisition by Parent of substantially all of the assets of MDT for total consideration of approximately Eight Million Dollars (\$8,000,000) in November 2007.
  - "SEMICOA" means SEMICOA, a California corporation.
- "SEMICOA Acquisition" means the acquisition by Parent of SEMICOA for total consideration of approximately Twenty-Seven Million Dollars (\$27,000,000).
  - "TSI" means TSI Microelectronics Corporation, a Massachusetts corporation.
- "TSI Acquisition" means the acquisition by Parent of substantially all of the assets of TSI for total consideration of approximately Two Million Dollars (\$2,000,000) in December 2007.
- 2. Notwithstanding any provision of the Agreement to the contrary, Bank hereby (i) consents to Parent's consummation of the (x) the MDT Acquisition; (y) TSI Acquisition; and (z) the SEMICOA Acquisition (collectively, the "Permitted Transactions"); (ii) agrees that consideration paid by Parent in connection with the Permitted Transactions shall not be included in calculating the limit on Permitted Acquisitions set forth in clause (g) of the defined term "Permitted Acquisition;" and (iii) provides the foregoing consent and agreement in each case, provided that no default or Event of Default has occurred or is continuing prior to, or would result after giving effect to, any of the Permitted Transactions.
- 3. No course of dealing on the part of Agent or any Lender, or their officers, nor any failure or delay in the exercise of any right by Agent or any Lender, shall operate as a waiver thereof, and any single or partial exercise of any such right shall not preclude any later exercise of any such right. Agent's or any Lender's failure at any time to require strict performance by Borrowers of any provision shall not affect any right of Agent and each Lender thereafter to demand strict compliance and performance. Any suspension or waiver of a right must be in writing signed by an officer of Agent.

- 4. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Agent or any Lender under the Agreement, as in effect prior to the date hereof.
- 5. Each Borrower represents and warrants that the Representations and Warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.
- 6. As a condition to the effectiveness of this Amendment, Agent shall have received, in form and substance satisfactory to Agent, the following:
  - (a) this Amendment, duly executed by Borrower;
- (b) all reasonable fees and expenses incurred through the date of this Amendment, which may be debited from any of Parent's accounts; and
  - (c) such other documents, and completion of such other matters, as Agent may reasonably deem necessary or appropriate.
- 7. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

[Balance of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

COMERICA BANK, as Administrative Agent

By: /s/ Jennifer S. Seto
Its: Vice President

MICROSEMI CORPORATION,

a Delaware corporation

By: /s/ John W. Hohener

Its: Vice President, Chief Financial Officer, Secretary and Treasurer

MICROSEMI CORP. – POWER PRODUCTS GROUP, a Delaware corporation

By: /s/ John W. Hohener

Its: Vice President, Chief Financial Officer, Secretary and Treasurer

MICROSEMI CORP. - ANALOG MIXED SIGNAL GROUP, a Delaware corporation (fka MICROSEMI CORP. – INTEGRATED PRODUCTS)

By: /s/ John W. Hohener

Its: Vice President, Chief Financial Officer, Secretary and Treasurer

MICROSEMI CORP. - MASSACHUSETTS, a Delaware corporation

By: /s/ John W. Hohener

Its: Vice President, Chief Financial Officer, Secretary and Treasurer

[Signature Page to Second Amendment to Revolving Credit Agreement]
[Signatures Continued Next Page]

MICROSEMI CORP. - SCOTTSDALE, an Arizona corporation

By: /s/ John W. Hohener

Its: Vice President, Chief Financial Officer, Secretary

and Treasurer

COMERICA BANK, as a Lender and as Issuing Lender

By: /s/ Jennifer S. Seto

Its: Vice President

[Signature Page to Second Amendment to Revolving Credit Agreement]

Japan

# MICROSEMI CORPORATION SUBSIDIARIES AS OF SEPTEMBER 28, 2008

NAME OF MICROSEMI CORPORATION ENTITIES JURISDICTION Microsemi Corp. – Santa Ana Delaware Microsemi Corp. - Scottsdale Arizona Microsemi Corp. – Colorado Colorado Microsemi Corp. – Massachusetts Delaware Microsemi Corp. - Analog Mixed Signal Group Delaware Microsemi Corp. – Power Products Group Delaware Microsemi Corp. – RF Power Products Delaware Microsemi Corp. – Montgomeryville Microsemi Corp. – Advanced Technology Center Delaware Delaware PowerDsine, Inc. New York T.S.I. Microelectronics Corp. Massachusetts Micro WaveSys, Inc. California Microsemi Real Estate, Inc. California Semicoa Acquisition Corp. Delaware Microsemi Ireland Trading, Ltd. Ireland Microsemi Power Module Products, SAS France Microsemi Corp. - Analog Mixed Signal Group, Ltd. Israel Microsemi Corp. – International Microsemi Corp. – Holding Cayman Islands Cayman Islands Microsemi Israel, Ltd. Israel Micro (Bermuda), Ltd. Bermuda Microsemi Comercial Offshore de Macao Limitada Macau Shanghai Microsemi Semiconductor Co., Ltd. China Microsemi Hong Kong Hong Kong Semicoa Acquisition Corp. Delaware Microsemi Taiwan Representative Office Taiwan Microsemi Singapore Pte. Ltd. Singapore

Microsemi Corp. – Japan

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 033-62561) and the Registration Statements on Form S-8 (Nos. 333-82556, 333-35526, 333-24045, 033-63395, 033-16711, 333-129283, 333-135678, 333-140071, and 333-150529) of Microsemi Corporation of our report dated November 21, 2008 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP Orange County, California November 21, 2008

# 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

- I, James J. Peterson, certify that:
- 1. I have reviewed this annual report on Form 10-K of Microsemi Corporation;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2008

/s/ James J. Peterson

James J. Peterson
President and Chief Executive Officer

# 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

- I, John W. Hohener, certify that:
- 1. I have reviewed this annual report on Form 10-K of Microsemi Corporation;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2008

/s/ John W. Hohener

John W. Hohener Vice President, Chief Financial Officer, Secretary and Treasurer

# CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

#### (Pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, James J. Peterson, Chief Executive Officer, and John W. Hohener, Chief Financial Officer, of Microsemi Corporation, a Delaware corporation (the "Company"), each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that—

- (1) the accompanying periodic report containing financial statements filed by the Company with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)); and
- (2) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have executed this certificate which accompanies the Company's Annual Report on Form 10-K for the annual period ended September 28, 2008.

Dated: November 21, 2008 /s/ James J. Peterson

James J. Peterson, President and Chief Executive Officer

Dated: November 21, 2008 /s/ John W. Hohener

John W. Hohener, Vice President,

Chief Financial Officer, Secretary and Treasurer