MICROSEMI CORP
Form 10-Q
February 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended December 31, 2006

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______

Commission File No. 0-8866

MICROSEMI CORPORATION

(Exact name of registrant as specified in its charter)

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

(949) 221-7100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes x   No ¨

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

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨

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

The number of shares of the issuer s Common Stock, $0.20 par value, outstanding on January 16, 2007 was 71,836,000.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

The unaudited consolidated income statements for the quarter ended December 31, 2006 of Microsemi Corporation and Subsidiaries (which we herein sometimes refer to collectively as Microsemi , the Company , we , our , ours or us), the unaudited consolidated statements of cash flo the quarter ended December 31, 2006, and the comparative unaudited consolidated financial information for the corresponding period of the prior year, together with the unaudited balance sheets as of October 1, 2006 and December 31, 2006 are included herein.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Balance Sheets

(amounts in thousands, except per share data)

	December 31, 2006	October 1, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 165,336	$ 165,415
Accounts receivable, net of allowance for doubtful accounts of $1,369 and $1,150 at December 31, 2006 and October 1, 2006, respectively	72,479	70,260
Inventories	95,445	88,643
Deferred income taxes	13,677	13,482
Other current assets, including assets held for disposition	12,628	8,223
Total current assets	359,565	346,023
Property and equipment, net	65,104	65,018
Goodwill	51,546	51,546
Other intangible assets, net	43,250	45,253
Other assets	2,382	2,150
TOTAL ASSETS	$ 521,847	$ 509,990
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturity of long-term liabilities	$ 400	$ 400
Accounts payable	21,250	20,533
Accrued liabilities	20,389	25,874
Income taxes payable	8,164	5,181
Total current liabilities	50,203	51,988
Deferred income taxes	595	1,298
Long-term liabilities	3,519	3,577
Stockholders equity:		
Preferred stock, $1.00 par value; authorized 1,000 shares; none issued		
Common stock, $0.20 par value; authorized 100,000 shares; issued and outstanding 71,793 and 71,572 at December 31, 2006 and October 1, 2006, respectively	14,361	14,316
Capital in excess of par value of common stock	327,887	324,298
Retained earnings	125,033	114,439
Accumulated other comprehensive income	249	74
Total stockholders equity	467,530	453,127
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 521,847	$ 509,990

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Income Statements

(amounts in thousands, except per share data)

	Quarter Ended	
	December 31, 2006	January 1, 2006
Net sales	$ 102,289	$ 82,159
Cost of sales	58,131	42,612
Gross profit	44,158	39,547
Operating expenses:		
Selling, general and administrative	18,425	14,421
Research and development	8,824	5,077
Amortization of intangible assets	2,003	229
Impairment of assets, restructuring and severance charges	903	641
Total operating expenses	30,155	20,368
Operating income	14,003	19,179
Other income (expense):		
Interest income	1,482	848
Interest expense	(44)	(37)
Other, net	25	
Total other income	1,463	811
Income before income taxes	15,466	19,990
Provision for income taxes	4,872	6,197
NET INCOME	$ 10,594	$ 13,793
Earnings per share:		
Basic	$ 0.15	$ 0.22
Diluted	$ 0.14	$ 0.20
Common and common equivalent shares outstanding:		
Basic	71,632	63,996
Diluted	73,425	67,547

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

(amounts in thousands)

	Quarter Ended	
	December 31, 2006	**January 1, 2006**
Cash flows from operating activities:		
Net income	$ 10,594	$ 13,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,646	2,920
Provision for doubtful accounts	219	98
Loss on dispositions and retirements of assets		34
Stock option compensation	1,585	
Changes in assets and liabilities:		
Accounts receivable	(2,438)	(2,413)
Inventories	(6,802)	(1,769)
Other current assets	(3,661)	(2,623)
Deferred income taxes	(898)	
Other assets		(1,696)
Accounts payable	717	1,445
Accrued liabilities	(5,485)	(6,831)
Income taxes payable	2,955	484
Net cash provided by operating activities	2,432	3,442
Cash flows from investing activities:		
Purchases of property and equipment	(4,359)	(2,069)
Changes in other assets	(171)	(443)
Net cash used in investing activities	(4,530)	(2,512)
Cash flows from financing activities:		
Payments of long-term liabilities	(58)	(60)
Excess tax benefit - stock options	538	4,231
Exercise of stock options	1,539	9,799
Net cash provided by financing activities	2,019	13,970
Net increase (decrease) in cash and cash equivalents	(79)	14,900
Cash and cash equivalents at beginning of period	165,415	98,149
Cash and cash equivalents at end of period	$ 165,336	$ 113,049

The accompanying notes are an integral part of these statements.

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MICROSEMI CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

1. **PRESENTATION OF FINANCIAL INFORMATION**

The unaudited consolidated financial statements include the accounts of Microsemi Corporation and its subsidiaries (which we herein sometimes refer to collectively as Microsemi , the Company , we , our , ours or us). Intercompany transactions have been eliminated in consolidation.

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q, and therefore do not include all information and note disclosures necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. The unaudited consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto in the Annual Report on Form 10-K for the fiscal year ended October 1, 2006.

Critical Accounting Policies and Estimates

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States that require us to make estimates and assumptions that may materially affect the reported amounts of assets and liabilities at the date of the unaudited consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ materially from those estimates. Information with respect to our critical accounting policies which we believe could have the most significant effect on our reported results and require subjective or complex judgments is contained in the notes to the consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended October 1, 2006.

2. **INVENTORIES**

Inventories were as follows (amounts in thousands):

	December 31, 2006	October 1, 2006
Raw Materials	$ 30,568	$ 26,060
Work in Progress	42,248	41,695
Finished Goods	22,629	20,888
	$ 95,445	$ 88,643

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3. OTHER CURRENT ASSETS, INCLUDING ASSETS HELD FOR DISPOSITION

Other current assets, including assets held for disposition are summarized as follows (amounts in 000 s):

	December 31, 2006	October 1, 2006
Other current assets	$ 6,816	$ 3,690
Assets held for disposition	5,812	4,533
	$ 12,628	$ 8,223

We own a substantial portion of the plants and the real estate at our facilities in Santa Ana, California and Montgomeryille, Pennsylvania. We accounted for the Santa Ana facility in assets held for disposition at October 1, 2006 and both facilities in assets held for disposition at December 31, 2006. We expect to sell the owned property at both facilities in the second fiscal quarter of 2007 at prices that are expected to exceed book values.

4. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

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

	December 31, 2006	October 1, 2006
Goodwill	$ 51,546	$ 51,546
Other intangible assets, net		
Completed technology	$ 38,166	$ 39,542
Customer relationships	4,408	4,527
Backlog	676	1,184
	$ 43,250	$ 45,253

5. COMMITMENTS AND CONTINGENCIES

We entered into a $75 million unsecured Revolving Credit Agreement dated as of December 29, 2006 with Comerica Bank (the Revolving Credit Agreement or the New Credit Facility). The New Credit Facility s Stated Maturity date is January 1, 2010. The New Credit Facility replaces the Company s existing $30 million Credit Agreement dated April 2, 1999, as amended, which had a Stated Maturity Date of March 31, 2008 (Terminated Credit Agreement). Proceeds of borrowing under the New Credit Facility can be used for working capital and other lawful corporate purposes, and initial borrowings will be used to finance a portion of the Company s acquisition of PowerDsine Ltd., an Israeli company. Interest accruing on the amount of each revolving borrowing under the New Credit Facility 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 EBITDA ratio. Financial covenants, which include for example maintaining (i) a minimum EBITDA (ii) and a Maximum Funded Debt to EBITDA ratio, establish both conditions and current limitations on available amounts of borrowings. $75 million is the maximum that may be borrowed, but the amount actually available to us for borrowing at any given time could be less than the amount stated, or even a small fraction of this amount or nothing at all. As of December 31, 2006, $400,000 was outstanding in the form of a letter of credit; consequently, $74.6 million was available under this credit facility. As of December 31, 2006, we were in compliance with the covenants required by our credit facility.

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In Broomfield, Colorado, the owner of a property located adjacent to a manufacturing facility owned by Microsemi Corp. Colorado (the Subsidiary) 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, by assuming that this amount is accurate and that the indemnifying parties will pay 90% of this amount as agreed without need for us to incur material costs to enforce that agreement, we reserved for this contingency by recording a one-time charge of $530,000 for the life of this project in fiscal year 2003. There has not been any significant development since September 28, 2003.

We are involved in other normal litigation matters, arising out of the ordinary routine 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.

6. **COMPREHENSIVE INCOME**

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

Total comprehensive income for the quarters ended December 31, 2006 and January 1, 2006 were calculated as follows (amounts in 000 s):

	Quarters Ended	
	December 31, 2006	January 1, 2006
Net income	$ 10,594	$ 13,793
Translation adjustment	175	10
Comprehensive income	$ 10,769	$ 13,803

7. **EARNINGS PER SHARE**

Basic earnings per share have been computed based upon the weighted average number of common shares outstanding during the respective periods. Diluted earnings per share have been computed, when the result is dilutive, using the treasury stock method for stock options outstanding during the respective periods.

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Earnings per share (EPS) for the respective quarters ended December 31, 2006 and January 1, 2006 were calculated as follows (amounts in thousands, except per share data):

	Quarter Ended	
	December 31, 2006	January 1, 2006
BASIC		
Net income	$ 10,594	$ 13,793
Weighted-average common shares outstanding for basic	71,632	63,996
Basic earnings per share	$ 0.15	$ 0.22
DILUTED		
Net income	$ 10,594	$ 13,793
Weighted-average common shares outstanding for basic	71,632	63,996
Dilutive effect of stock options	1,793	3,551
Weighted-average common shares outstanding on a diluted basis	73,425	67,547
Diluted earnings per share	$ 0.14	$ 0.20

In the first quarter of fiscal year 2007, approximately 4,198,000 options were excluded in the computation of diluted EPS as these options would have been anti-dilutive. There were no options excluded in the first quarter of fiscal year 2006.

8. **RECENTLY ISSUED ACCOUNTING STANDARDS**

Statement of Financial Accounting Standards No. 157

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. This Statement is effective for 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 No. 157.

FASB Interpretation No. 48

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. Tax positions must meet a more-likely-than-not

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recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 (our fiscal year 2008) and the provisions of FIN 48 will be applied to all tax positions under Statement No. 109 upon initial adoption. The cumulative effect of applying the provisions of this interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the potential impact of FIN 48 on its consolidated financial statements.

9. STOCK-BASED COMPENSATION

Stock Based Compensation

In December 1986, the Board of Directors adopted an incentive stock option plan (the 1987 Plan), as amended, which reserved 3,400,000 shares of common stock for issuance. The 1987 Plan was approved by the stockholders in February 1987 and amended in February 1994, and is for the purpose of securing for us and our stockholders the benefits arising from stock ownership by selected officers, directors and other key executives and certain key employees. The plan provides for the grant by the Company of stock options, stock appreciation rights, shares of common stock or cash. As of December 31, 2006, we have granted only options under the 1987 Plan. Options granted prior to February 22, 2006, must be exercised within ten years from the date they are granted, subject to early termination upon death or cessation of employment, and are exercisable in installments determined by the Board of Directors. Options granted on or after February 22, 2006, have the same terms as those granted prior to February 22, 2006, with the exception that they must be exercised within six years from the date they are granted. If an employee owns more than 10% of the total combined voting power of all classes of our stock, the exercise period is limited to five years and the exercise price is 10% higher than the closing price on the grant date. It is our policy to satisfy the exercise of employee stock options with newly issued shares of common stock.

At the annual meeting on February 29, 2000, the stockholders approved several amendments to the 1987 Plan which: 1) extended its termination date to December 15, 2009; 2) increased initially by 1,060,800 the number of shares available for grants; 3) effected annual increases on the first day of each fiscal year of the number of shares available for grant in increments of 4% of our issued and outstanding shares of common stock; and 4) added flexibility by permitting discretionary grants to non-employee directors and other non-employees. At December 31, 2006, there were approximately 3,677,000 shares available for grant under the Plan.

Beginning in fiscal year 2006, we adopted FAS 123R on a 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 first quarter of fiscal year 2007, operating income decreased by $1,585,000, net income decreased by $1,377,000, basic earnings per share were reduced by $0.02 and diluted earnings per share were reduced $0.02.

Compensation expense for the first quarter of fiscal years 2006 and 2007 for stock options granted and converted was calculated based on the date of grant or conversion using the Black-Scholes option pricing model. Options granted, weighted-average exercise price, weighted-average fair value and weighted-average assumptions used in the calculation of compensation expense are as follows:

		Per Option					
		Weighted-Average		Risk	Expected	Expected	
	Stock	Exercise	Weighted-Average	Free	Dividend	Life	Expected
Quarter Ended	**Options**	**Price**	**Fair Value**	**Rate**	**Yield**	**(Years)**	**Volatility**
December 31, 2006	2,062,700	$ 19.01	$ 6.65	4.6%	0.0%	3.1	43.5%
January 1, 2006	20,200	$ 24.39	$ 13.24	4.4%	0.0%	4.0	67.4%

Expected term was estimated based on historical exercise data that was stratified between members of the Board of Directors, executive 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. Additionally, no dividends are expected to be paid.

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Stock options exercisable under the Plan were 10,763,000 and 9,164,000 at January 1, 2006 and December 31, 2006, respectively, at weighted-average exercise prices of $14.84 and $16.61, respectively. All options were granted at the closing price of our common stock on the date of grant.

The total intrinsic value of options exercised during the first quarters ended January 1, 2006 and December 31, 2006 was approximately $20,375,000 and $2,995,000, respectively.

At December 31, 2006, unamortized compensation expense related to unvested options, net of forfeitures, was approximately $15,140,000. The weighted average period over which compensation expense related to these options will be recognized is 2.7 years.

At December 31, 2006, the intrinsic value and average remaining life were $49,943,000 and 7.0 years for outstanding options and $48,006,000 and 7.4 years for vested options.

10. **SEGMENT INFORMATION**

We manage our business on the basis of one reportable segment, as a manufacturer of semiconductors in different geographic areas, including the United States, Europe and Asia.

We derive revenue from sales of our high performance analog/mixed signal integrated circuits and power and high reliability individual component semiconductors. These products include individual components as well as integrated circuit solutions that enhance customer designs by improving performance, reliability and battery optimization, reducing size or protecting circuits. The principal markets that we serve include medical, defense/aerospace, notebook computers, monitors and LCD TVs, automotive and mobile connectivity applications. We evaluate sales by end-market based on our understanding of end market uses of our products and sales by channel.

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

	Quarter Ended	
	December 31, 2006	**January 1, 2006**
Net Sales:		
United States	$ 89,580	$ 72,698
Europe	11,248	8,220
Asia	1,461	1,241
Total	$ 102,289	$ 82,159
Commercial Air / Space	$ 20,458	$ 18,067
Defense	32,732	28,225
Industrial / Semicap	14,320	4,427
Medical	12,275	14,595
Mobile Connectivity	9,206	4,160
Notebook / LCD TV / Display	13,298	12,685
Total	$ 102,289	$ 82,159

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	December 31, 2006	October 1, 2006
Tangible long lived assets:		
United States	$ 62,532	$ 62,548
Europe	1,349	1,335
Asia	1,223	1,135
Total	$ 65,104	$ 65,018

11. **RESTRUCTURING CHARGES AND ASSET IMPAIRMENTS**

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

There has been no impairment charge required in accordance with FAS 144 (*Accounting for the Impairment or Disposal of Long-Lived Assets*). We currently do not expect any material impairment charge. 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 FAS 146 (*Accounting for Costs Associated with Exit or Disposal Activities*), FAS 112 or FAS 151 (*Inventory Costs an amendment of ARB No. 43, Chapter 4*), as applicable.

Broomfield has approximately 100 employees and occupies a 130,000 square foot owned facility. Broomfield accounted for approximately 9% and 8% of our net sales in the first quarter of fiscal years 2006 and 2007, respectively. In the second quarter of fiscal year 2005, we recorded estimated severance payments of $1,134,000 in accordance with FAS 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 2007, we recorded $225,000 for other restructuring related expenses, primarily for travel, planning and equipment relocation, in accordance with FAS 146.

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

	Employee Severance	Other Related 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		225	225
Cash expenditures	(35)	(225)	(260)
Balance at December 31, 2006	$ 845	$	$ 845

Ireland has approximately 60 manufacturing employees and occupies a 62,500 square foot owned facility. Ireland accounted for approximately 2% and 1% of our net sales in the first quarter of fiscal years 2006 and 2007, respectively. In the second quarter of fiscal year 2005, we recorded estimated severance payments of $1,505,000, in accordance with FAS 112. The severance payments cover approximately 46 employees, including 5 management positions. Severance payments commenced in the second quarter of fiscal year 2006.

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

	Employee Severance	Other Related Costs	Total
Balance at October 2, 2005	$ 1,505	$	$ 1,505
Provisions	270	77	347
Cash expenditures	(295)	(77)	(372)
Balance at October 1, 2006	1,480		1,480
Provisions			
Cash expenditures	(197)		(197)
Balance at December 31, 2006	$ 1,283	$	$ 1,283

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 Power Products Group (PPG) in April 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 $66,000 in severance expense in accordance with FAS 146.

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 Severance
Balance at April 2, 2006	$ 182
Provisions	324
Cash expenditures	(150)
Balance at October 1, 2006	356
Provisions	66
Cash expenditures	(55)
Balance at December 31, 2006	$ 367

In the first quarter of 2007, in accordance with FAS 146, we recorded $612,000 in severance expense incurred in planning for the integration of PowerDsine (see Note 12). The severance payments cover approximately 30 employees and will begin in the second quarter of 2007.

12. SUBSEQUENT EVENT

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 provides 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 $57.8 million and a cash payment of approximately $170.0 million. We financed this transaction with cash on hand and through additional borrowings of $18.0 million on our credit line.

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

This Quarterly Report on Form 10-Q includes current beliefs, expectations and other forward looking statements, the realization of which may be adversely impacted by any of the factors discussed or referenced under the heading Important Factors Related to Forward-Looking Statements and Associated Risks, found in this section or in the section entitled Risk Factors in this report, which should be read in conjunction with the section entitled Risk Factors in our Annual Report on Form 10-K. This Management s Discussion and Analysis of Financial Condition and Results of Operations and the accompanying unaudited consolidated financial statements and notes should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto in the Annual Report on Form 10-K for the fiscal year ended October 1, 2006.

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

Our products include individual components as well as integrated circuit solutions that enhance customer designs by improving performance, reliability and battery optimization, reducing size or protecting circuits.

We currently serve a broad group of customers with none of our customers accounting for more than 10% of our revenue in the first quarters of fiscal years 2006 or 2007. 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, MOSFETs, IGBTs, small signal analog integrated circuits, small signal transistors, and 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 / Space Our commercial air/Space products include offerings such as JAN, JANTX, JANTXV and JANS high-reliability discrete semiconductors and modules, 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 SMPS products for use in magnetic resonance imaging (MRI) systems.

Mobile / Connectivity Our mobile connectivity products include broadband power amplifiers and monolithic microwave integrated circuits (MMIC) 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 a variety of DC-DC products, such as voltage regulators, PWM controllers, and LED drivers that are sold into the portable device set top box, and telecom applications.

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Notebooks/ LCD TV/ Displays 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, pulse width modulator controllers, voltage regulators, EMI/RFI filters, transient voltage suppressors, sensors for auto-dimming rear view mirrors and class-D audio circuits.

CAPACITY ENHANCEMENT OPTIMIZATION PROGRAM

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

There has been no impairment charge required in accordance with FAS 144 (*Accounting for the Impairment or Disposal of Long-Lived Assets*). We currently do not expect any material impairment charge. 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 FAS 146 (*Accounting for Costs Associated with Exit or Disposal Activities*), FAS 112 or FAS 151 (*Inventory Costs an amendment of ARB No. 43, Chapter 4*), as applicable.

Broomfield has approximately 100 employees and occupies a 130,000 square foot owned facility. Broomfield accounted for approximately 9% and 8% of our net sales in the first quarter of fiscal years 2006 and 2007, respectively. In the second quarter of fiscal year 2005, we recorded estimated severance payments of $1,134,000 in accordance with FAS 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 2007, we recorded $225,000 for other restructuring related expenses, primarily for travel, planning and equipment relocation, in accordance with FAS 146.

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

	Employee Severance	Other Related 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		225	225
Cash expenditures	(35)	(225)	(260)
Balance at December 31, 2006	$ 845	$	$ 845

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 facilities and related expenses and employee reductions.

Ireland has approximately 60 manufacturing employees and occupies a 62,500 square foot owned facility. Ireland accounted for approximately 2% and 1% of our net sales in the first quarter of fiscal years 2006 and 2007, respectively. In the second quarter of fiscal year 2005, we recorded estimated severance payments of $1,505,000, in accordance with FAS 112. The severance payments cover approximately 46 employees, including 5 management positions. Severance payments commenced in the second quarter of fiscal year 2006.

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The closure of the manufacturing operations in Ireland is expected to result, subsequent to its completion, in annual cost savings of $1.0 million to $3.0 million from the elimination of redundant facilities and related expenses and employee reductions.

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

	Employee Severance	Other Related Costs	Total
Balance at October 2, 2005	$ 1,505	$	$ 1,505
Provisions	270	77	347
Cash expenditures	(295)	(77)	(372)
Balance at October 1, 2006	1,480		1,480
Provisions			
Cash expenditures	(197)		(197)
Balance at December 31, 2006	$ 1,283	$	$ 1,283

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 Power Products Group (PPG) in April 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 $66,000 in severance expense in accordance with FAS 146.

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 Severance
Balance at April 2, 2006	$ 182
Provisions	324
Cash expenditures	(150)
Balance at October 1, 2006	356
Provisions	66
Cash expenditures	(55)
Balance at December 31, 2006	$ 367

In the first quarter of 2007, in accordance with FAS 146, we recorded $612,000 in severance expense incurred in planning for the integration of PowerDsine. The severance payments cover approximately 30 employees and will begin in the second quarter of 2007.

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KEY REPORTING UNIT METRICS

In order to manage our manufacturing capacity for current requirements and anticipated future growth of our business and to assess the performance of our operations, we review wafer fabrication, headcount and overhead expenses at each of our manufacturing locations. The table below sets forth metrics at these locations:

	Wafer Fabrication Utilization		Headcount		Overhead Expense	
	Q1 2007	Q1 2006	Q1 2007	Q1 2006	Q1 2007	Q1 2006
Garden Grove	75%	95%	271	245	$ 8,735	$ 9,444
Lawrence	35%	35%	413	366	$ 4,004	$ 4,827
Lowell	40%	40%	110	112	$ 1,770	$ 1,794
Scottsdale	60%	57%	586	411	$ 8,232	$ 5,734

Wafer fabrication utilization provides an indication of available capacity and is utilized to determine items such as production allocation, headcount needs and capital expenditure requirements. Wafer fabrication is a significant process in our operations and is measured based on utilization on a 7 day, 24 hour basis. Currently, we do not anticipate the need to increase capital expenditures for wafer fabrication beyond historical levels to accommodate growth of our business. The decline in utilization at our Garden Grove facility reflects the increasing use of outside foundries for manufacture of products previously designed for this facility.

Headcount is used to measure our ability to meet current demand and anticipated growth as well as assimilating new acquisitions. It is also used to forecast manufacturing spending. Increases in headcount in Garden Grove, Lawrence and Scottsdale reflect higher personnel requirements following the relocations of product lines of closed facilities to these locations as well as to support higher sales.

Overhead expenses have a material impact on our operating profits. It is also significantly impacted by our decisions made in response to the review of the other factors above. Overhead expense is reviewed to assure that we achieve anticipated savings or do not exceed our expected expenditures. It also affects our management of available resources for operating activities. The decrease in overhead expense from Q1 2006 to Q1 2007 at our Garden Grove facility reflects the impact of transition to outside foundries and the decrease at our Lawrence facility reflects the move to an inventory stocking position which resulted in additional overhead expense being absorbed into inventory cost. The increase in overhead expense from Q1 2006 to Q1 2007 at our Scottsdale facilities reflect the additional cost from the consolidation of our operations in Santa Ana, California and Broomfield, Colorado.

ACQUISITION

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 a wholly owned subsidiary of Microsemi. The Merger Agreement provides 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 $57.8 million and a cash payment of approximately $170.0 million. We financed this transaction with cash on hand and through additional borrowings of $18.0 million on our credit line.

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RESULTS OF OPERATIONS FOR THE QUARTER ENDED JANUARY 1, 2006 COMPARED TO THE QUARTER ENDED DECEMBER 31, 2006.

Net sales increased $20.1 million or 24% from $82.2 million for the first quarter of fiscal year 2006 (Q1 2006) to $102.3 million for the first quarter of fiscal year 2007 (Q1 2007). Sales by end markets are based on our understanding of end market uses of our products. An estimated breakout of net sales by end markets for Q1 2006 and Q1 2007 is as follows (amounts in thousands):

	Q1 2007	Q1 2006
Commercial Air / Space	$ 20,458	$ 18,067
Defense	32,732	28,225
Industrial / Semicap	14,320	4,427
Medical	12,275	14,595
Mobile / Connectivity	9,206	4,160
Notebook / LCD TV / Display	13,298	12,685
	$ 102,289	$ 82,159

Sales in the commercial air / space end market increased $2.4 million from $18.1 million in Q1 2006 to $20.5 million in Q1 2007 with significant contributions from PPG. We believe that demand in this end market will remain strong driven by strong order rates for commercial aircraft in Asia and in North America by low cost carriers driving increased order rates from aircraft manufacturers. Additionally, demand for commercial satellites and radar systems are particularly robust.

Sales in the defense end market increased $4.5 million from $28.2 million in Q1 2006 to $32.7 million in Q1 2007. Sales in this end market have continued to be solid based on the strength of new programs along with significant contribution from PPG. Based on growing backlog and continued increase in both domestic and international defense spending, we expect to see an increase in sales towards the second half of the fiscal year.

Sales in the industrial / semicap market increased $9.9 million from $4.4 million in Q1 2006 to $14.3 million in Q1 2007, due largely to PPG with its switching products for semiconductor capital equipment markets. Other areas of growth are in solar inverters, inductive heating, welding applications and switch mode power supplies.

Sales in the medical end market decreased $2.3 million, from $14.6 million in Q1 2006 to $12.3 million in Q1 2007. Sales in our MRI business are strong but were offset by a slowdown from the prior year first quarter in our implantable medical device business due primarily to implantable cardiac defibrillator product recalls. Increasing functionality and device integration in the implantable medical devices such as defibrillators and pacemakers has resulted in increases in both dollar and unit content per device. While the implantable medical device business slowed verses the prior year first quarter, based on our bookings and expected government approvals of our customers products, we expect the implantable medical business to strengthen in upcoming quarters.

Sales in the mobile / connectivity end market increased $5.0 million, from $4.2 million in Q1 2006 to $9.2 million in Q1 2007. Sales in this end market have grown due to market acceptance of new power amplifier introductions, as well as, some contribution from PPG. We have successfully transitioned into our fourth generation of 2.4 and 5 gigahertz power amplifiers for the 802.11a/b/g and n markets. Future applications that Microsemi s products in this market will address are multiple-in-multiple-out and wi-max. This market had growth due to additional products addressing set top box and some telecommunication applications using switching and DC-DC products. We expect design wins for upcoming wi-max and high power wireless LAN products will generate strong demand for these products.

Sales in the notebook / LCD television / display end market increased $0.6 million, from $12.7 million in Q1 2006 to $13.3 million in Q1 2007. We are seeing strong interest in our next generation backlighting solutions and our notebook business remains strong. These gains were somewhat offset by our hard disk drive business that declined due to our company strategy of not accepting lower margin opportunities.

On January 25, 2007, we announced that for the second quarter of fiscal year 2007, we expect our net sales will increase between 3% and 5% sequentially. We expect that the strong demand for our products for commercial air / space, defense, medical, mobile / connectivity and notebooks / LCD TV / Display end markets will continue during fiscal year 2007.

Gross profit increased $4.7 million, from $39.5 million (48.1% of sales) for Q1 2006 to $44.2 million (43.2% of sales) for Q1 2007. The increase in gross profit was due primarily to the addition of PPG and offset primarily by costs associated with higher transitional idle capacity. Costs of sales included $1.5 million and $7.0 million related to transitional idle capacity in Q1 2006 and Q1 2007, respectively. The $5.5 million increase between Q1 2006 and Q1 2007 was due to the different stages of restructuring activities between the two quarters. In Q1 2007, we incurred substantial transition costs related to the Phase III shutdown activities at Broomfield and transfer of manufacturing to Scottsdale. Transitional idle capacity resulted from our restructuring activities which involved the closure and consolidation of certain manufacturing facilities. Transitional idle capacity relates to unused manufacturing capacity and non-productive manufacturing expenses during the period from when shutdown activities commence to when a facility is closed.

Selling, general and administrative expenses increased $4.0 million from $14.4 million for Q1 2006 to $18.4 million for Q1 2007. The increase was primarily related to the addition of PPG operations, which were acquired in Q3 2006 and an increase in stock compensation expense of approximately $1.6 million.

Research and development expense increased $3.7 million from $5.1 million in Q1 2006 to $8.8 million in Q1 2007, primarily due to additional research and development expense incurred at Power Products Group and increase in employee benefits.

Amortization expense of intangible assets increased $1.8 million from $0.2 million in Q1 2006 to $2.0 million in Q1 2007 from amortization expense on intangible assets acquired in the PPG acquisition.

Cash and cash equivalents in Q1 2006 were $113.0 million compared to $165.3 million Q1 2007; consequently, we had $0.6 million higher interest income in Q1 2007 compared to Q1 2006.

The effective tax rates were 31.0% for Q1 2006 and 31.5% for Q1 2007. The Q1 2007 effective tax rate was favorably impacted by our tax planning program and a benefit of approximately $0.5 million from the reinstatement of the R&D tax credit retroactive to January 1, 2006.

CAPITAL RESOURCES AND LIQUIDITY

In Q1 2007, we financed our operations with cash from operations.

Net cash provided by operating activities decreased $1.0 million from $3.4 million in Q1 2006 to $2.4 million in Q1 2007. The decrease in cash flow from operating activities was primarily a result of the decrease in income and increase in inventory, partially offset by an increase in depreciation and amortization related to the PPG acquisition, expense related to stock option compensation and an increase in income taxes payable.

Accounts receivable increased $2.2 million from $70.3 million at October 1, 2006 to $72.5 million at December 31, 2006. The increase in receivables was due to timing of shipments in Q1 2007 versus Q4 2006.

Inventories increased $6.8 million from $88.6 million at October 1, 2006 to $95.4 million at December 31, 2006. We had higher inventory levels to support higher anticipated net sales and moved to a stocking position on certain high reliability parts in our Scottsdale and Lawrence facilities.

Other current assets, including assets held for disposition, increased $4.4 million, from $8.2 million at October 1, 2006 to $12.6 million at December 31, 2006. The increase was due to higher prepaid expenses, primarily related to insurance premiums. In addition, approximately $1.3 million of the increase related to assets held for disposition at our Santa Ana, California and Montgomeryville, Pennsylvania facilities.

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Current liabilities decreased $1.8 million from $52.0 million at October 1, 2006 to $50.2 million at December 31, 2006. The decrease was primarily due to payments of employee profit sharing and severance, partially offset by an increase in accrued liabilities and income taxes payable.

Net cash used in investing activities was $2.5 million and $4.5 million in Q1 2006 and Q1 2007, respectively, primarily from the purchase of property and equipment.

Net cash provided by financing activities was $14.0 million and $2.0 million in Q1 2006 and Q1 2007, respectively. The decrease of $12.0 million related primarily to the decrease in proceeds from stock option exercises and the related tax benefits.

We had $165.4 million and $165.3 million in cash and cash equivalents at October 1, 2006 and December 31, 2006, respectively.

Current ratios were 6.7 to 1 and 7.2 to 1 at October 1, 2006 and December 31, 2006, respectively.

We entered into a $75 million unsecured Revolving Credit Agreement dated as of December 29, 2006 with Comerica Bank (the Revolving Credit Agreement or the New Credit Facility). The New Credit Facility s Stated Maturity date is January 1, 2010. The New Credit Facility replaces the Company s existing $30 million Credit Agreement dated April 2, 1999, as amended, which had a Stated Maturity Date of March 31, 2008 (Terminated Credit Agreement). Proceeds of borrowing under the New Credit Facility can be used for working capital and other lawful corporate purposes, and initial borrowings will be used to finance a portion of the Company s acquisition of PowerDsine Ltd., an Israeli company. Interest accruing on the amount of each revolving borrowing under the New Credit Facility 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 EBITDA ratio. Financial covenants, which include for example maintaining (i) a minimum EBITDA (ii) and a Maximum Funded Debt to EBITDA ratio, establish both conditions and current limitations on available amounts of borrowings. $75 million is the maximum that may be borrowed, but the amount actually available to us for borrowing at any given time could be less than the amount stated, or even a small fraction of this amount or nothing at all. As of December 31, 2006, $0.4 million was outstanding in the form of a letter of credit; consequently, $74.6 million was available under this credit facility. As of December 31, 2006, we were in compliance with the covenants required by our credit facility.

The estimated cost to consolidate the Broomfield and Ireland plants will be between $6.0 million to $8.0 million and $3.0 million to $4.0 million, respectively, with substantial expenditures expected in the current fiscal year. We anticipate that our cash and cash equivalents will be our primary source for paying such expenditures.

As of December 31, 2006, 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 provides 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 $57.8 million and a cash payment of approximately $170.0 million. We financed this transaction with cash on hand and through additional borrowings of $18.0 million on our credit line.

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The following table summarizes our contractual payment obligations and commitments as of December 31, 2006:

	Payments due by period (in 000 s)					
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years	Imputed Interest
Capital leases	$ 3,222	$ 303	$ 611	$ 612	$ 5,287	$ (3,591)
Operating leases	20,621	4,858	7,927	4,222	3,614	
Purchase obligations	23,699	18,292	4,908	442	57	
Other long-term liabilities	697	52	132	122	391	
Total	$ 48,239	$ 23,505	$ 13,578	$ 5,398	$ 9,349	$ (3,591)

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.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 157

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. This Statement is effective for 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 No. 157.

FASB Interpretation No. 48

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. 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. FIN 48 will be effective for fiscal years beginning after December 15, 2006 (our fiscal year 2008) and the provisions of FIN 48 will be applied to all tax positions under Statement No. 109 upon initial adoption. The cumulative effect of applying the provisions of this interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the potential impact of FIN 48 on its consolidated financial statements.

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 in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the fiscal year ended October 1, 2006.

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IMPORTANT FACTORS RELATED TO FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Some of the statements in this report or incorporated by reference are forward-looking, including, without limitation, the statements under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations . Forward-looking statements include all those statements that contain words like may, will, could, should, project, believe, anticipate, expect, plan, estimate, forecast, p maintain, continue and variations of these words or 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, an expectation as to a future time, future result or other future circumstance. For various reasons, actual results may differ substantially from the results that the forward-looking statements suggest. Therefore, forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. These forward-looking statements are made only as of the date of this report. We do not undertake to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The forward-looking statements included in this report are based on, among other items, current assumptions that we will be able to meet our current operating cash and debt service requirements, 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, that we will continue to retain the full-time services of all of our present executive officers and key employees, that we will be able to successfully resolve any disputes and other business matters as anticipated, that competitive conditions within the analog, mixed signal and discrete semiconductor, integrated circuit or custom component assembly industries will not affect us adversely, that our customers will not cancel orders or terminate or renegotiate their purchasing relationships with us, that we will retain existing key personnel, that our forecasts will reasonably anticipate market demand for our products, and that there will be no other material adverse changes in our operations or business. Other factors that could cause results to vary materially from current expectations are referred to elsewhere in this report. Assumptions relating to the foregoing involve judgments that are difficult to make and future circumstances that are difficult to predict accurately or correctly. Forecasting and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on historic experience and business developments, the impact of which may cause us to alter our internal forecasts, which may in turn affect our subsequent expectations and our future results. We do not undertake to announce publicly the changes that may occur in our expectations. Readers are cautioned against giving undue weight to any of the forward-looking statements.

Adverse changes to our results could result from any number of factors, including but not limited to fluctuations in economic conditions, potential effects of inflation, lack of earnings visibility, dependence upon certain customers or markets, dependence upon suppliers, future capital needs, rapid technological changes, difficulties in integrating acquired businesses, ability to realize cost savings or productivity gains, potential cost increases, dependence on key personnel, difficulties regarding hiring and retaining qualified personnel in a competitive labor market, risks of doing business in international markets, and problems of third parties upon whom we rely in our business or operations.

The inclusion of forward-looking information 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.

We are setting out some of the relevant risks and uncertainties that can affect us under the heading ITEM 1A. RISK FACTORS . The readers must refer to these risk factors for a more complete understanding of our business and also refer to the risk factors in our previous and future filings, as well as detailed factual descriptions of or related to risks and uncertainties in the Notes to our financial statements accompanying this report.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We conduct business in a number of foreign currencies, principally those of Europe and Asia, directly or through our foreign operations. 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 these foreign currencies relative to the U.S. dollar. Transactions in foreign currencies have represented a relatively small portion of our business and these currencies have been relatively stable against the U.S. dollar for the past several years. As a result, foreign currency fluctuations have not had a material impact historically on our revenues or results of operations. Nonetheless, foreign currency fluctuations relative to the U.S. dollar have tended to increase in recent years. There can be no assurance that those currencies will remain stable relative to the U.S. dollar or 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. Our largest foreign currency exposure results from activity in British Pounds and the European Union Euro. We have not conducted a foreign currency hedging program thus far. We have considered and may continue to consider the adoption of a foreign currency hedging program.

We 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 a $75 million unsecured Revolving Credit Agreement dated as of December 29, 2006 with Comerica Bank (the Revolving Credit Agreement or the New Credit Facility). The New Credit Facility s Stated Maturity date is January 1, 2010. The New Credit Facility replaces the Company s existing $30 million Credit Agreement dated April 2, 1999, as amended, which had a Stated Maturity Date of March 31, 2008 (Terminated Credit Agreement). Proceeds of borrowing under the New Credit Facility can be used for working capital and other lawful corporate purposes, and initial borrowings will be used to finance a portion of the Company s acquisition of PowerDsine Ltd., an Israeli company. Interest accruing on the amount of each revolving borrowing under the New Credit Facility 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 EBITDA ratio. Financial covenants, which include for example maintaining (i) a minimum EBITDA (ii) and a Maximum Funded Debt to EBITDA ratio, establish both conditions and current limitations on available amounts of borrowings. $75 million is the maximum that may be borrowed, but the amount actually available to us for borrowing at any given time could be less than the amount stated, or even a small fraction of this amount or nothing at all.

The New Credit Facility 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 New Credit Facility could have material adverse consequences for our business and could materially adversely affect the value of an investment in our common stock.

The New Credit Facility is unsecured, which means that each of our assets is no longer subject to a lien, security interest or other encumbrance under the Terminated Credit Agreement. The obvious benefits to

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us include principally administrative costs and occasionally that our assets become available for disposition or other financings. However, we are subject to restrictions under the New Credit Facility 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 our subsidiaries are also parties to the New Credit Facility, 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 New Credit Facility. Unless we are in compliance with the terms of the New Credit Facility, 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 New Credit Facility 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 there may be from time to time other persons who may become parties to the New Credit Facility, as lenders or otherwise.

As of December 31, 2006, $0.4 million was outstanding in the form of a letter of credit; consequently, $74.6 million was available under this credit facility. As of December 31, 2006, we were in compliance with the covenants required by our credit facility.

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, with the assistance of other management, conducted an evaluation of our disclosure controls and procedures as of the end of the period covered by this Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

(b) Changes in internal control over financial reporting.

During the first quarter of fiscal year 2007, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

I tem 1. **LEGAL PROCEEDINGS**

In Part I, Item 3 of our most recent Form 10-K as filed with the SEC on December 15, 2006 for our fiscal year ending October 1, 2006, we previously reported litigation in which we are involved. During the fiscal period that is the subject of this Quarterly Report on Form 10-Q, no material changes occurred in such litigation.

Item 1A. **RISK FACTORS**

In Part I, Item 1A of our most recent Form 10-K as filed on December 15, 2006 for our fiscal year ended October 1, 2006, we previously reported certain risk factors concerning our business and assets. Owners or potential owners of shares of our common stock should read and take into account such risk factors in addition to those risk factors listed herein below. The following risks are in addition to or changed from risks reported in the same item of our Form 10-K. Accordingly the list herein below is not meant to be and is not an all-inclusive list.

In addition to the risk factors described in Microsemi s most recent Form 10-K, Microsemi s future consolidated financial condition, consolidated financial results and the present and future prospects of each are potentially subject in material respects to one and all of the following risks and uncertainties:

We may be unable successfully to integrate acquired companies and personnel with existing operations.

Unless we integrate our acquisitions successfully with and into our businesses, our business and financial condition would be materially and adversely affected. We have in the past acquired a number of businesses or companies, additional product lines and assets. We may do so many times again. We recently acquired Advanced Power Technology, Inc. (now our Power Products Group) and more recently acquired PowerDsine, Ltd. (now part of High Performance Analog Group). 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 material adverse effects on our business, financial condition and results of operations. The market price of our common stock could be adversely affected if the effect of the merger on the Microsemi consolidated group s financial results is dilutive or is below the market s 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.

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The market price of Microsemi common stock may decline as a result of our recent acquisition of PowerDsine.

The market price of Microsemi common stock may decline as a result of the merger of Microsemi s indirect wholly owned subsidiary with PowerDsine for a number of reasons, including if:

- The effect of the merger on the Microsemi consolidated group s financial results is dilutive;
- The effect of the merger on the Microsemi consolidated group s financial results is not consistent with the expectations of financial analysts; or
- Significant stockholders of Microsemi and PowerDsine decide to dispose of their shares of Microsemi common stock following completion of the merger.

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

Revenues from foreign markets represent a significant portion of total revenues. Our net sales to foreign customers represented approximately 33% of net sales for fiscal years 2004, 2005 and 2006. These sales were principally to customers in Europe and Asia. Foreign sales are classified as shipments to foreign destinations. Microsemi or its subsidiaries maintain facilities or contracts with entities in Korea, Japan, China, Ireland, Thailand, the Philippines, France and Taiwan, Israel and India and employ salespeople based in Portugal and the United Kingdom. There are risks inherent in doing business internationally, including:

- Legislative or regulatory requirements, including tax laws in the United States and in the countries in which we manufacture or sell our products;
- Trade restrictions;
- Transportation delays;
- Communication interruptions;
- Work stoppages; disruption of local labor supply and/or transportation services;
- Economic and political instability;
- Acts of war or terrorism, or health crises, 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.
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 may be greater in those foreign countries. We may experience material adverse effects to our financial condition, operating results and cash flows in the future.

Microsemi s subsidiaries manufacturing processes are complex and specialized 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.

The Microsemi consolidated group s 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, and one of the major causes of these problems is 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 revenues. 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 revenues. 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.

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

Inapplicable

Item 3. **DEFAULTS UPON SENIOR SECURITIES**

Inapplicable

Item 4. **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Inapplicable

Item 5. **OTHER INFORMATION**

None

Ite m 6. EXHIBITS

Exhibit No.	Description
2.7	Agreement and Plan of Merger, dated as of October 24, 2006, by and among the Registrant, PowerDsine Ltd. and Pinnacle Acquisition Ltd. Incorporated by reference to the like-numbered Exhibit to the Registrant s Current Report on Form 8-K/A (Amendment No. 2) as filed on October 30, 2006.
10.111	Directors Compensation Policy prior to February 22, 2006. Incorporated by reference to the like-numbered Exhibit to the Registrant s Current Report on Form 8-K as filed on October 5, 2006.
10.111.1	Directors Compensation Policy from and after February 22, 2006. Incorporated by reference to the like-numbered Exhibit to the Registrant s Current Report on Form 8-K as filed on October 5, 2006.
10.112	Form of Voting Agreement. Incorporated by reference to the like-numbered Exhibit to the Registrant s Current Report on Form 8-K /A (Amendment No. 2) as filed on October 30, 2006.
10.113	Revolving Credit Agreement Dated as of December 29, 2006, between Comerica Bank, on the one hand, and the Registrant and certain subsidiaries, on the other hand. Incorporated by reference to the like-numbered Exhibit to the Registrant s Current Report on Form 8-K as filed on January 4, 2007.
31	Certifications pursuant to Exchange Act Rule 13a-14(a)
32	Certifications pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. 1350

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SIGNATURES

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

	MICROSEMI CORPORATION
DATED: February 9, 2007	By: /s/ David R. Sonksen David R. Sonksen Executive Vice President and Chief Financial Officer (Principal Financial Officer and Chief Accounting Officer and duly authorized to sign on behalf of the Registrant)

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31	Certification of Chief Executive Officer and Chief Financial Officer Under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Under Section 906 of the Sarbanes-Oxley Act of 2002