

NATIONAL SEMICONDUCTOR CORP  
Form 10-Q  
October 02, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 26, 2007.

☐ <sup>or</sup>  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: **1-6453**

**National Semiconductor Corporation**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State of Incorporation)

**95-2095071**

(I.R.S. Employer Identification  
Number)

**2900 SEMICONDUCTOR DRIVE, P.O. BOX 58090**

**SANTA CLARA, CALIFORNIA 95052-8090**

(Address of principal executive offices)

Registrant's telephone number, including area code: **(408) 721-5000**

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 12 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.

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Yes ☒

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 ☒

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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of Each Class

Common stock, par value \$0.50 per share

Outstanding at August 26, 2007

264,007,131

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## NATIONAL SEMICONDUCTOR CORPORATION

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### NATIONAL SEMICONDUCTOR CORPORATION

#### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In Millions, Except Per Share Amounts)	Three Months Ended	
	Aug. 26, 2007 (Unaudited)	Aug. 27, 2006
Net sales	\$ 471.5	\$ 541.4
Cost of sales	174.6	207.1
Gross margin	296.9	334.3
Research and development	93.8	88.8
Selling, general and administrative	75.5	78.6
Severance and restructuring (recovery) expenses	(1.5)	2.7
Gain on sale of manufacturing plant assets	(3.1)	-
Other operating income, net	-	(1.3 )
Operating expenses	164.7	168.8
Operating income	132.2	165.5
Interest income	11.2	11.0
Interest expense	(19.6)	(0.5 )
Other non-operating expense, net	(1.1)	(0.1 )
Income before taxes	122.7	175.9
Income tax expense	37.1	55.8
Net income	\$ 85.6	\$ 120.1
Earnings per share:		
Basic	\$ 0.32	\$ 0.36

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Diluted	\$	0.30	\$ 0.35
Weighted-average common and potential common shares outstanding:			
Basic		270.1	329.5
Diluted		283.9	343.7

See accompanying Notes to Condensed Consolidated Financial Statements

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NATIONAL SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Millions, Except Share Amounts)	Aug. 26, 2007 (Unaudited)	May 27, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 961.8	\$ 828.6
Receivables, less allowances of \$27.9 in fiscal 2008 and \$32.4 in fiscal 2007	175.9	150.6
Inventories	165.5	176.0
Deferred tax assets	100.9	73.2
Other current assets	65.6	62.1
Total current assets	1,469.7	1,290.5
Property, plant and equipment, net	575.0	583.5
Goodwill	63.6	63.6
Deferred tax assets, net	219.0	194.4
Other assets	82.1	69.9
Total assets	\$ 2,409.4	\$ 2,201.9
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 62.5	\$ -
Accounts payable	58.1	59.9
Accrued expenses	136.8	122.7
Income taxes payable	5.0	117.4
Total current liabilities	262.4	300.0
Long-term debt	1,457.1	20.6
Long-term income taxes payable	151.0	-
Other non-current liabilities	98.5	132.5

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Total liabilities	1,969.0	453.1
Commitments and contingencies		
Shareholders' equity:		
Common stock of \$0.50 par value		
Authorized 850,000,000 shares. Issued and outstanding		
264,007,131 in fiscal 2008 and 310,292,624 in fiscal 2007	132.0	155.1
Retained earnings	400.7	1,685.7
Accumulated other comprehensive loss	(92.3 )	(92.0 )
Total shareholders' equity	440.4	1,748.8
Total liabilities and shareholders' equity	\$ 2,409.4	\$ 2,201.9

See accompanying Notes to Condensed Consolidated Financial Statements

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NATIONAL SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Millions)	Three Months Ended	
	Aug. 26, 2007 (Unaudited)	Aug. 27, 2006
Cash flows from operating activities:		
Net income	\$ 85.6	\$ 120.1
Adjustments to reconcile net income with net cash provided by operating activities:		
Depreciation and amortization	32.6	37.5
Share-based compensation	20.0	23.9
Excess tax benefit from share-based payment arrangements	(11.5 )	(1.4 )
Tax benefit associated with stock options	20.1	2.9
Loss on investments	1.1	0.1
Loss on disposal of equipment	2.8	0.6
Gain on sale of manufacturing plant assets	(3.1 )	-
Other, net	(0.8 )	0.7
Changes in certain assets and liabilities, net:		
Receivables	(25.3 )	13.2
Inventories	10.6	(3.0 )
Other current assets	(11.0 )	(6.2 )
Accounts payable and accrued expenses	7.2	(81.3 )
Current and deferred income taxes	23.4	26.2
Other non-current liabilities	(26.2 )	(0.1 )
Net cash provided by operating activities	125.5	133.2
Cash flows from investing activities:		
Purchase of property, plant and equipment	(23.9 )	(40.9 )

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Proceeds from sale of property, plant, and equipment	13.0	-
Sale and maturity of available-for-sale securities	-	110.8
Funding of benefit plan	(3.4 )	(6.6 )
Other, net	0.4	0.8
Net cash (used in) provided by investing activities	(13.9 )	64.1
<b>Cash flows from financing activities:</b>		
Proceeds from unsecured senior notes, net of issuance costs	992.9	-
Proceeds from bank borrowings, net of issuance costs	1,996.5	-
Repayment of bank borrowing	(1,500.0 )	-
Payment on software license obligations	(8.4 )	(8.4 )
Excess tax benefit from share-based payment arrangements	11.5	1.4
Minimum tax withholding paid on behalf of employees for net share settlements	(13.9 )	-
Issuance of common stock	53.8	12.8
Purchase and retirement of treasury stock	(1,500.0 )	(285.0 )
Cash dividends declared and paid	(10.8 )	(10.0 )
Net cash provided by (used in) financing activities	21.6	(289.2 )
Net change in cash and cash equivalents	133.2	(91.9 )
Cash and cash equivalents at beginning of period	828.6	932.2
Cash and cash equivalents at end of period	\$ 961.8	\$ 840.3
See accompanying Notes to Condensed Consolidated Financial Statements		

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### NATIONAL SEMICONDUCTOR CORPORATION

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

##### **Note 1. Summary of Significant Accounting Policies**

###### ***Operations***

We design, develop, manufacture and market a wide range of semiconductor products, most of which are analog and mixed-signal integrated circuits. Our goal is to be the premier provider of high-performance analog and mixed-signal solutions. We look to create analog intensive solutions that provide more energy efficiency, portability, better audio, sharper images and higher performance in electronic systems.

###### ***Basis of Presentation***

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (including normal recurring adjustments) necessary to present fairly the financial position and results of operations of National Semiconductor Corporation and our majority-owned subsidiaries. You should not expect interim results of operations necessarily to be indicative of the results for the full fiscal year. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in these unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. This report should be read in conjunction with the consolidated financial statements and accompanying notes included in our annual report on Form 10-K for the fiscal year ended May 27, 2007.

### Earnings Per Share

A reconciliation of the shares used in the computation of basic and diluted earnings per share follows:

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Numerator:		
Net income	\$ 85.6	\$ 120.1
Denominator:		
Weighted-average common shares outstanding used for basic earnings per share	270.1	329.5
Effect of dilutive securities:		
Stock options and restricted stock	13.8	14.2
Weighted-average common and potential common shares outstanding used for diluted earnings per share	283.9	343.7

For the first three months of fiscal 2008, we did not include options outstanding to purchase 20.5 million shares of common stock with a weighted-average per share exercise price of \$27.16 in diluted earnings per share since their effect was antidilutive because the exercise price of these options exceeded the average market price of the common stock during the quarter. However, these shares could potentially dilute earnings per share in the future. For the first three months of fiscal 2007, we did not include options outstanding to purchase 19.5 million shares of common stock with a weighted-average per share exercise price of \$26.63 in diluted earnings per share since their effect was antidilutive because the exercise price of these options exceeded the average market price of the common stock during the quarter.

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### Share-based Compensation

Share-based compensation expense included in operating results for the first quarter of fiscal 2008 and 2007 is presented in the following table:

(In Millions, Except Per Share Amounts)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Cost of sales:		
Gross compensation	\$ 5.0	\$ 5.8
Capitalized in inventory during the period	(4.0 )	(4.4 )
Realized from inventory during the period	3.9	1.1
	4.9	2.5
Research and development	7.0	7.5

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Selling, general and administrative	8.1	13.9
Total share-based compensation included in income before taxes	20.0	23.9
Income tax benefit	(6.0 )	(9.7 )

Total share-based compensation, net of tax, included in net income	\$ 14.0	\$ 14.2
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Share-based compensation effects on earnings per share:

Basic	\$ 0.05	\$ 0.04
Diluted	\$ 0.05	\$ 0.04

Share-based compensation capitalized in inventory	\$ 2.4	\$ 3.3
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Total share-based compensation	\$ 20.1	\$ 27.2
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The fair value of share-based awards to employees was estimated using a Black-Scholes option pricing model that used the following weighted-average assumptions:

	Three Months Ended			
	Aug. 26, 2007		Aug. 27, 2006	
Stock Option Plans				
Expected life (in years)	4.1		4.1	
Expected volatility	32	%	38	%
Risk-free interest rate	4.9	%	5.1	%
Dividend yield	0.5	%	0.5	%
Stock Purchase Plans				
Expected life (in years)	N/A		0.6	
Expected volatility	N/A		37	%
Risk-free interest rate	N/A		4.8	%
Dividend yield	N/A		0.5	%

The expected life is based on the simplified method specified by U.S. Securities and Exchange Commission's Staff Accounting Bulletin No. 107 since the vesting term and contractual life of current option grants differ from historical grants. The expected volatility is based on implied volatility and is determined based on our traded options, which are actively traded on several exchanges. We derive the implied volatility using the closing prices of traded options during a

period that closely matches the timing of the option grant. The traded options selected for our measurement are near-the-money and close to the exercise price of the option grants and have terms ranging from one to two years. The risk-free interest rate is based upon interest rates that match the terms of our employee stock option and stock purchase plans. The dividend yield is based on recent history and our expectation of dividend payouts.



The weighted-average fair value of stock options granted during the first quarter of fiscal 2008 and 2007 was \$9.00 and \$8.50 per share, respectively. Since the stock purchase plan now only makes grants of purchase rights twice a year, there were no rights granted under the stock purchase plan in the first quarter of fiscal 2008. The weighted-average fair value of rights granted under the stock purchase plan was \$6.64 per share for the first quarter of fiscal 2007.

## Note 2. Condensed Consolidated Financial Statements Detail

### Condensed consolidated balance sheets:

(In Millions)	Aug. 26, 2007	May 27, 2007
<u>Receivable allowances:</u>		
Doubtful accounts	\$ 1.3	\$ 1.2
Returns and allowances	26.6	31.2
Total receivable allowances	\$ 27.9	\$ 32.4
<u>Inventories:</u>		
Raw materials	\$ 15.4	\$ 17.1
Work in process	102.6	109.5
Finished goods	47.5	49.4
Total inventories	\$ 165.5	\$ 176.0
<u>Property, plant and equipment:</u>		
Total property, plant and equipment	\$ 2,684.1	\$ 2,719.9
Less accumulated depreciation and amortization	(2,109.1 )	(2,136.4 )
Property, plant and equipment, net	\$ 575.0	\$ 583.5
<u>Other Assets:</u>		
Deposits	\$ 7.9	\$ 7.9
Debt issuance costs	10.4	-
Deferred compensation plan assets	56.6	54.3
Other	7.2	7.7
Total other assets	\$ 82.1	\$ 69.9
<u>Accrued expenses:</u>		
Payroll and employee related	\$ 67.4	\$ 76.6
Accrued interest payable	15.0	0.1
Litigation accruals	3.2	3.2
Other	51.2	42.8
Total accrued expenses	\$ 136.8	\$ 122.7

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(In Millions)	Aug. 26, 2007	May 27, 2007
<u>Other non-current liabilities:</u>		
Accrued pension cost	\$ 25.5	\$ 50.1
Deferred compensation plan liability	56.6	54.3
Other	16.4	28.1
Total other non-current liabilities	\$ 98.5	\$ 132.5
<u>Accumulated other comprehensive loss:</u>		
Unrealized gain on investments	\$ -	\$ (0.1 )
Defined benefit pension plans	(92.3 )	(91.9 )
Total accumulated other comprehensive loss	\$ (92.3 )	\$ (92.0 )

*Condensed consolidated statements of income:*

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
<u>Other operating income, net:</u>		
Net intellectual property income	\$ -	\$ (0.6 )
Other	-	(0.7 )
Total other operating income, net	\$ -	\$ (1.3 )
<u>Other non-operating expense, net:</u>		
Trading securities:		
Change in net unrealized holding gains and losses	\$ (1.1 )	\$ (0.1 )
Total other non-operating expense, net	\$ (1.1 )	\$ (0.1 )

**Note 3. Statement of Cash Flow Information**

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Interest	\$ 4.4	\$ 0.5
Income taxes	\$ 14.4	\$ 28.6
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Cancellation of shares withheld for taxes on restricted stock and performance share unit awards		
	\$ 14.0	\$ 0.1
Change in unrealized gain on available-for-sale-securities	\$ -	\$ 0.5

#### Note 4. Cost Reduction and Restructuring Programs

During the first quarter of fiscal 2008, we entered into an agreement with the landlord of a facility we vacated as part of a cost reduction action that occurred in fiscal 2004. The agreement terminates and settles the remaining obligations under the lease agreement for \$4.2 million. As a result, we recorded a \$1.5 million recovery for the release of the residual accrued balance of the lease obligation. The following table provides further detail of amounts reported as severance and restructuring (recovery) expenses on the condensed consolidated income statement for the first quarter of fiscal 2008:

(In Millions)	Analog Segment	All Others	Total
Release of reserves:			
Other exit-related costs	\$ -	\$ (1.5 )	\$ (1.5 )
Total severance and restructuring recovery	\$ -	\$ (1.5 )	\$ (1.5 )

After completing the closure of our assembly and test plant in Singapore in early fiscal 2007, we actively engaged in a program to locate a buyer for the facility. In June 2007, we completed the sale of the Singapore facility and its residual equipment for \$12.0 million to an unrelated third party. The carrying value of the assets sold was \$7.6 million. As a result, we recorded a gain of \$3.1 million in the first quarter of fiscal 2008 after determining the final costs of the transaction. These assets were a part of our manufacturing operation, which is not considered an operating segment under SFAS No. 131, but is a corporate group included in the category described as "All Others."

The following table provides a summary of the activities for the three months ended August 26, 2007 related to our cost reduction and restructuring actions included in accrued expenses:

(In Millions)	Cost Reduction Actions In Prior Years Other Exit-		
	Severance	Related Costs	Total
Balance at May 27, 2007	\$ 0.5	\$ 6.2	\$ 6.7
Release of previous restructuring-related charge	-	(1.5 )	(1.5 )
Cash payments	(0.3 )	(4.4 )	(4.7 )
Balance at August 26, 2007	\$ 0.2	\$ 0.3	\$ 0.5

We paid \$4.7 million during the first quarter of fiscal 2008, primarily for other exit-related costs for payments under lease obligations associated with actions taken in prior years, including the settlement of the lease obligation discussed above. As of August 26, 2007, all of the accrued balance was classified as current.

#### Note 5. Debt

Debt at August 26, 2007 consisted of the following:

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	(In Millions)
Bank term floating rate loan at 5.86%	\$ 500.0
Senior notes due 2017 at 6.60%	375.0
Senior notes due 2012 at 6.15%	375.0
Senior floating rate notes due 2010 at 5.61%	250.0
Other	19.6
Total debt	1,519.6
Less current portion of long-term debt	62.5
Long-term debt	\$ 1,457.1

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In June 2007 we entered into an unsecured bridge credit facility with an affiliate of Goldman, Sachs & Co. ("Goldman Sachs") for \$1.5 billion which was used to finance the accelerated stock repurchase program announced in June 2007 (see Note 8 to the Condensed Consolidated Financial Statements). Interest on the bridge loan was paid weekly at 0.5 percent over the one-week London Interbank Offered Rate, or LIBOR. This unsecured bridge credit facility was then repaid and the debt was effectively replaced with \$1.0 billion principal amount of senior unsecured notes issued in June 2007 through a public offering and a \$500 million unsecured credit facility with a consortium of banks funded in July 2007.

The offering of unsecured notes included \$250.0 million aggregate principal amount of senior floating rate notes due June 2010, \$375.0 million aggregate principal amount of 6.15 percent senior notes due June 2012 and \$375.0 million in aggregate principal amount of 6.60 percent senior notes due June 2017. The senior floating rate notes bear interest at 0.25 percent over the three-month LIBOR, with the interest reset and payable quarterly, and are redeemable by us beginning 18 months after issuance. Interest on the senior fixed rate notes is payable semi-annually and the notes are redeemable by us at any time.

The \$500.0 million bank term loan funded under the unsecured credit facility with a consortium of banks matures June 2012 and bears interest at 0.5 percent over the three-month LIBOR (reset quarterly) with principal and interest payable on a quarterly basis. The loan agreement also contains certain covenants that require the maintenance of certain financial ratios. As of August 26, 2007, we were in full compliance with all covenants.

The aggregate annual maturities of long-term debt at August 26, 2007 are presented in the following table:

	(In Millions)
Fiscal year:	
Remainder of 2008	\$ 46.9
2009	62.5
2010	62.5
2011	332.0
2012	203.1
2013	437.6

2014 & thereafter	375.0
	\$ 1,519.6

The estimated fair value of long-term debt was \$1,519.6 at August 26, 2007.

## Note 6. Income Taxes

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Recognition of a tax position is determined when it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority.

We adopted FIN 48 effective at the beginning of fiscal 2008. As a result, the cumulative effect of applying FIN 48 was a \$37.1 million increase to retained earnings at the beginning of fiscal 2008. Historically, we have classified unrecognized tax benefits as current income taxes payable. Under FIN 48, we now classify unrecognized tax benefits as long-term income taxes payable except to the extent we anticipate cash payment within the next year. The amount of unrecognized tax benefits at the beginning of fiscal 2008 was \$139.1 million and is reported in long-term income taxes payable. Of this amount, \$137.0 million relates to unrecognized tax benefits that, if recognized, would affect our effective tax rate and the remaining \$2.1 million would affect goodwill. Any prospective adjustments to our unrecognized tax benefits will be recorded as an increase or decrease to income tax expense and cause a corresponding change to our effective tax rate.

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We also include interest and penalties related to unrecognized tax benefits as a component of income tax expense. The gross amount of interest and penalties accrued as of the beginning of fiscal 2008 was \$11.5 million.

We are required to file income tax returns in the U.S. federal jurisdiction, various state and local jurisdictions, and many foreign jurisdictions. A number of years may elapse before an uncertain tax position is audited and ultimately resolved. While it is often difficult to predict the final outcome or the exact timing of resolution for any particular uncertain tax position, we believe that the amounts of unrecognized tax benefits we have accrued reflect our best estimate. We adjust these amounts, as well as the related interest and penalties, as actual facts and circumstances change. Upon resolution of an uncertain tax position, we record an adjustment to income taxes in the same period.

The Internal Revenue Service has completed its examination of our tax returns for fiscal years 1997 through 2000 and on July 29, 2003, issued a notice of proposed adjustment seeking additional taxes of approximately \$19.1 million (exclusive of interest) for those years. We contested the adjustment through the IRS administrative process. Through that process, the Appeals Office of the IRS issued a notice of deficiency seeking additional taxes of approximately \$14.7 million (exclusive of interest). We have subsequently reached a settlement in principle with the IRS. The settlement is not finalized, as it requires approval from the Congressional Joint Committee on taxation, which is still pending. Once finalized, our tax returns for fiscal years 2001 and 2002, and 2004 through 2007 remain subject to examination by the IRS. Several state taxing jurisdictions are examining our state tax returns for fiscal 2004 and 2005. With a few exceptions, tax returns for fiscal years 1998 and after

remain subject to examination by state tax authorities. With respect to foreign jurisdictions, our tax returns for fiscal years 2000 and after remain subject to examination.

Based on the outcome of the ongoing IRS appeals process as discussed above and when statutes of limitations expire for specific taxing jurisdictions, no material changes to uncertain tax benefits are expected in the next twelve months.

#### **Note 7. Defined Pension and Retirement Plans**

Net periodic pension costs for our defined benefit pension plans maintained in the U.K., Germany, Japan and Taiwan are presented in the following table:

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Service cost of benefits earned during the period	\$ 1.5	\$ 1.5
Plan participant contributions	(0.3 )	(0.3 )
Interest cost on projected benefit obligation	4.6	4.1
Expected return on plan assets	(5.6 )	(4.2 )
Net amortization and deferral	1.6	1.6
Net periodic pension cost	\$ 1.8	\$ 2.7

Total contributions paid to these plans were \$27.0 million in the first quarter of fiscal 2008 compared to \$0.9 million in the first quarter of fiscal 2007. Included in the fiscal 2008 contributions is the funding of \$26.2 million in July 2007 to establish plan assets under a security trust agreement for the defined benefit pension plan maintained in Germany. We currently expect our total fiscal 2008 contribution to these plans to be approximately \$34 million.

In August 2007, the defined benefit pension plan that was maintained in Japan was terminated in full and replaced by a defined contribution plan. As a result, we incurred a total charge of \$0.2 million for the curtailment and settlement of the defined benefit pension plan in the first quarter of fiscal 2008.

#### **Note 8. Shareholders' Equity**

##### ***Stock Repurchase Program***

In June 2007, our Board of Directors approved (i) a \$1.5 billion accelerated stock repurchase program; and (ii) an additional \$500 million stock repurchase program similar to our existing stock repurchase program announced in March 2007. We conducted the accelerated stock repurchase program under agreements entered into with Goldman Sachs. Under one of the agreements, we were to repurchase from Goldman Sachs, for \$1.0 billion, a number of shares of our common

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immediately for an initial amount of \$500 million. Goldman Sachs was to purchase an equivalent number of shares of our common stock in the open market over the next 5 to 12 months, and at the end of that period, the initial price was to be adjusted up or down based on the volume-weighted average price during the same period. The price adjustment may be settled by us, at our option, in cash or shares of our common stock.

During the first quarter of fiscal 2008, we commenced the \$1.5 billion accelerated stock repurchase program under these agreements with Goldman Sachs. Under this program, we received a total of 50.8 million shares of our common stock in the first quarter of fiscal 2008 and we expect to receive a final delivery of up to approximately 6 million additional shares no later than June 2008.

The following table provides a summary of the activity under our approved stock repurchase programs and related amounts remaining that are available for future common stock repurchases:

(In Millions)	Stock Repurchase Programs			
	June 2007	Accelerated Stock Repurchase	March 2007	Total
Balance at May 27, 2007:	\$ -	\$ -	\$ 379.3	\$ 379.3
Approval of new program	500.0	1,500.0	-	2,000.0
Common stock repurchases	-	(1,500.0 )	-	(1,500.0 )
Balance at August 26, 2007	\$ 500.0	\$ -	\$ 379.3	\$ 879.3

There is no expiration date for any of the repurchase programs. During the period after the end of the first quarter of fiscal 2008 through September 28, 2007, we repurchased a total of 4.5 million shares in the open market for \$118.4 million. These repurchases were made under the stock repurchase program announced in March 2007.

### *Dividends*

On September 6, 2007, our Board of Directors declared a cash dividend of \$0.04 per outstanding share of common stock to be paid on October 9, 2007 to shareholders of record at the close of business on September 17, 2007. Our Board of Directors declared another cash dividend on September 27, 2007 of \$0.06 per outstanding share of common stock, to be paid on January 7, 2008 to shareholders of record at the close of business on December 17, 2007. These dividends will be recorded in the second quarter of fiscal 2008. We paid cash dividends of \$10.8 million (\$0.04 per outstanding share of common stock) in the first quarter of fiscal 2008. In the first quarter of fiscal 2007, we paid cash dividends of \$10.0 million (\$0.03 per outstanding share of common stock).

### **Note 9. Share-Based Compensation Plans**

#### *Stock Option Plans*

The following table summarizes the activity of common stock shares related to our stock option plans (excluding the director stock option plan, under which new options can no longer be granted) during the first quarter of fiscal 2008:

Number of Shares (In Millions)	Weighted-Average Exercise Price
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Outstanding at May 27, 2007	55.2	\$	18.29
Granted	5.5	\$	28.79
Exercised	(4.0 )	\$	13.37
Forfeited	(0.1 )	\$	23.74
Expired	(0.1 )	\$	29.84
Outstanding at August 26, 2007	56.5	\$	19.63

The total intrinsic value of options exercised in the first quarter of fiscal 2008 and 2007 was \$59.3 million and \$7.4 million, respectively. Total unrecognized compensation cost related to stock option grants not yet recognized as of August 26, 2007 was \$118.9 million, which is expected to be recognized over a weighted-average period of 2.9 years.

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The following table provides additional information about total options outstanding under the stock option plans (excluding the director stock option plan) at August 26, 2007:

	Number of Shares (In Millions)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (In Millions)	Weighted-Average Remaining Contractual Life (In Years)
Fully vested and expected to vest	55.5	\$19.51	\$ 445.7	3.7
Currently exercisable	42.4	\$17.80	\$ 412.2	3.4

**Other Stock Plans**

The following table provides a summary of activity during the first quarter of fiscal 2008 for non-vested shares and units granted under the restricted stock plan (excluding units granted with performance based restrictions):

	Number of Shares (In Thousands)	Weighted-Average Grant-Date Fair Value
Outstanding at May 27, 2007	450.7	\$ 22.62
Granted/Issued	29.0	\$ 27.05
Vested	(22.5 )	\$ 21.07
Outstanding at August 26, 2007	457.2	\$ 22.98



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The total fair value of shares vested in the first quarter of fiscal 2008 and 2007 was \$0.6 million and \$1.0 million, respectively. Total unrecognized compensation cost related to non-vested shares granted under the restricted stock plan as of August 26, 2007 was \$6.2 million, which is expected to be recognized over a weighted-average period of 3.7 years.

Under the 2005 Executive Officer Plan, options for 500.0 thousand shares of common stock were granted to executive officers in July 2007; these options are included in the amounts presented in the table above that summarizes stock option activity. We also issued 1.0 million shares of common stock in payment of performance share units under the plan upon the completion of the first performance period that was measured in July 2007. Targets for a third performance period were established in the first quarter of fiscal 2008 and will be measured after the end of fiscal 2009. Total unrecognized compensation cost related to performance share units not yet vested as of August 26, 2007 was \$12.2 million, which is expected to be recognized over a weighted-average period of 1.8 years.

### Note 10. Segment Information

The following tables present information related to our reportable segments:

(In Millions)	Analog Segment	All Others	Total
Three months ended August 26, 2007:			
Sales to unaffiliated customers	\$ 447.7	\$ 23.8	\$ 471.5
Segment income before taxes	\$ 127.0	\$ (4.3 )	\$ 122.7
Three months ended August 27, 2006:			
Sales to unaffiliated customers	\$ 467.3	\$ 74.1	\$ 541.4
Segment income before taxes	\$ 163.7	\$ 12.2	\$ 175.9

### Note 11. Contingencies – Legal Proceedings

#### *Environmental Matters*

We have been named to the National Priorities List for our Santa Clara, California, site and we have completed a remedial investigation/feasibility study with the Regional Water Quality Control Board (RWQCB), acting as an agent for the Federal Environmental Protection Agency. We have agreed with the RWQCB to a site remediation plan and we are conducting remediation and cleanup efforts at the site. In addition to the Santa Clara site, from time to time we have been designated as a potentially responsible party (PRP) by international, federal and state agencies for certain environmental sites with which we may have had direct or indirect involvement. These designations are made regardless of the extent of our involvement. These claims are in various stages of administrative or judicial proceedings and include demands for recovery of past governmental costs and for future investigations and remedial actions. In many cases, the dollar amounts of the claims have not been specified, and in the case of the PRP matters, claims have been asserted against a number of other entities for the same cost recovery or other relief as is sought from us. We accrue costs associated with environmental matters when they become probable and can be reasonably estimated. The amount of all environmental charges to earnings, including charges for the Santa Clara site remediation, (excluding potential reimbursements from insurance coverage), were not material during the first quarter of fiscal 2008.

As part of the disposition in fiscal 1996 of the Dynacraft assets and business, we retained responsibility for environmental claims connected with Dynacraft's Santa Clara, California, operations and for other environmental claims arising from our conduct of the Dynacraft business prior to the disposition. As part of the Fairchild disposition in fiscal 1997, we also agreed to retain liability for current remediation projects and environmental matters arising from our prior operation of certain Fairchild plants while Fairchild agreed to arrange for and perform the remediation and cleanup. We prepaid to Fairchild the estimated costs of the remediation and cleanup and we remain responsible for costs and expenses associated with the remediation and cleanup in excess of the prepaid amounts. To date, the costs associated with the liabilities we have retained in these dispositions have not been material and there have been no related legal proceedings.

#### ***Tax Matters***

The IRS has completed its examination of our tax returns for fiscal years 1997 through 2000 and on July 29, 2003, issued a notice of proposed adjustment seeking additional taxes of approximately \$19.1 million (exclusive of interest) for those years. We contested the adjustment through the IRS administrative process. Through that process, the Appeals Office of the IRS issued a notice of deficiency seeking additional taxes of approximately \$14.7 million (exclusive of interest). We have subsequently reached a settlement in principle with the IRS. The settlement is not finalized, as it requires approval from the Congressional Joint Committee on taxation, which is still pending. We are also undergoing tax audits at several international locations and from time to time our tax returns are audited in the U.S. by state agencies and at international locations by local tax authorities. We believe we have made adequate tax payments and/or accrued adequate amounts such that the outcome of these audits will have no material adverse effects on our financial statements. For more information on our tax audits, see Note 6 to the Condensed Consolidated Financial Statements.

#### ***Other Matters***

In November 2000, a derivative action was brought against us and other defendants by a shareholder of Fairchild Semiconductor International, Inc. The plaintiff seeks recovery of alleged "short-swing" profits under section 16(b) of the Securities Exchange Act of 1934 from the sale by the defendants in January 2000 of Fairchild common stock. The complaint alleges that Fairchild's conversion of preferred stock held by the defendants at the time of Fairchild's initial public offering in August 1999 constitutes a "purchase" that must be matched with the January 2000 sale for purposes of computing the "short-swing" profits. The plaintiff seeks from us alleged recoverable profits of \$14.1 million. We have completed discovery in the case in the district court and filed a motion for summary judgment in June 2004. The SEC proposed clarifying amendments to its section 16(b) rules in June 2004 which we believe are dispositive of the case and the SEC adopted the rule amendments in August 2005. Oral argument on the briefing ordered by the district court as to whether the SEC amendments should apply to the case was held in November 2005. In February 2007, the district court issued its ruling on the motion for summary judgment, ruling in our favor and granting our motion for summary judgment. The plaintiff has appealed the district court's ruling granting our motion for summary judgment. We intend to continue to contest the case through all available means.

In September 2002, iTech Group ("iTech") brought suit against us alleging a number of contract and tort claims related to a software license agreement and discussions to sell certain assets to iTech. At the trial which began in May 2005, the jury rendered a verdict finding us liable for breach of contract, promissory fraud and unjust enrichment and assessing approximately \$234.0 thousand in compensatory damages and \$15.0 million in punitive damages. After hearing post trial motions, the court affirmed the verdict for compensatory damages of approximately \$234.0 thousand, awarded

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attorneys' fees to iTech of approximately \$60.0 thousand, and reduced the punitive damages to \$3.0 million and judgment was entered in those amounts in late August 2005. We appealed the case and the appeals court issued an unpublished opinion in December 2006, reversing the trial court judgment and remanding the case for retrial or other disposition. The opinion of the appeals court has become final and, as required by the appellate court ruling, we have paid plaintiff's counsel attorneys' fees of approximately \$79.3 thousand, representing the attorneys' fees originally

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awarded at trial, plus interest and additional fees on appeal. Retrial is currently set for November 2007 and we intend to continue to contest the case through all available means. We are continuing to maintain an accrual for a charge of \$3.2 million to cover the damages (excluding attorneys' fees) awarded to iTech under trial court's original order. Although the loss we ultimately sustain may be higher or lower than the amount we have recorded, this is currently our best estimate of any loss we may incur.

We are currently a party to various claims and legal proceedings, including those noted above. We make provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We believe we have made adequate provisions for potential liability in litigation matters. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. Based on the information that is currently available to us, we believe that the ultimate outcome of litigation matters, individually and in the aggregate, will not have a material adverse effect on our results of operations or consolidated financial position. However, litigation is inherently unpredictable. If an unfavorable ruling or outcome were to occur, there is a possibility of a material adverse effect on results of operations or our consolidated financial position.

### ***Contingencies – Other***

In connection with our past divestitures, we have routinely provided indemnities to cover the indemnified party for matters such as environmental, tax, product and employee liabilities. We also routinely include intellectual property indemnification provisions in our terms of sale, development agreements and technology licenses with third parties. Since maximum obligations are not explicitly stated in these indemnification provisions, the potential amount of future maximum payments cannot be reasonably estimated. To date we have incurred minimal losses associated with these indemnification obligations and, as a result, we have not recorded any liabilities in our consolidated financial statements.

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## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This MD&A and Quarterly Report on Form 10-Q contain a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in Part II of Form 10-Q "Item 1A: Risk Factors" and business outlook section of this MD&A. These statements relate to, among other things, sales, gross margins, operating expenses, capital expenditures, R&D efforts, acquisition of and investments in other companies, and asset dispositions and are indicated by words or phrases such as "anticipate," "expect," "outlook," "foresee," "believe," "could," "intend," "will," and similar words or phrases. These statements involve uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. For a discussion of some of the factors that could cause actual results to differ materially from our forward-looking statements, see the discussion on risk factors that appears in Part II, Item 1A of this Form 10-Q and other risks and uncertainties detailed in this and our other reports and filings with the Securities and Exchange Commission. We undertake no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof and disclaim any obligation to do so.

This discussion should be read in conjunction with the consolidated financial statements and the accompanying notes included in this Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

### **Strategy and Business**

We design, develop, manufacture and market a wide range of semiconductor products, most of which are analog and mixed-signal integrated circuits. Our goal is to be the premier provider of high-performance analog and mixed-signal solutions. We are focused on the following:

- continuing to build our portfolio of high-performance, analog-intensive solutions that enable customers to effectively differentiate their products;
- targeting our investments on high-growth and high-return markets, particularly by leveraging our strengths in creating energy efficient circuits and solutions;
- increasing our rate of growth in areas where we have been historically under-represented, such as data converters and precision amplifiers;
- using our proprietary technologies to create and maintain high barriers to entry for our solutions;
- strengthening and deepening our relationships with customers; and
- delivering superior returns on invested capital to our shareholders.

A large portion of our sales came from analog products that are classified within the standard linear categories (as defined by the World Semiconductor Trade Statistics or WSTS). Beyond the standard linear categories, we also sell analog systems and subsystems that can be more specifically targeted at various applications. We look to create analog-intensive solutions that provide more energy efficiency, portability, better audio, sharper images and higher performance in electronic systems. Our leading-edge products include power management circuits, audio and operational amplifiers, display drivers, communication interface products and data conversion solutions. Approximately 95 percent of our sales in the first quarter of fiscal 2008 was generated from analog-based products, compared to approximately 86 percent in the first quarter of fiscal 2007. For more information on our business, see Part I, Item 1, Business, in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007.

#### **Critical Accounting Policies and Estimates**

We believe the following critical accounting policies are those policies that have a significant effect on the determination of our financial position and results of operations. These policies also require us to make our most difficult and subjective judgments:

##### ***1. Revenue Recognition***

We recognize revenue from the sale of semiconductor products upon shipment, provided we have persuasive evidence of an arrangement typically in the form of a purchase order, title and risk of loss have passed to the customer, the amount is fixed or determinable and collection of the revenue is reasonably assured. We record a provision for estimated future returns at the time of shipment. Approximately 57 percent of our semiconductor

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product sales were made to distributors in the first quarter of fiscal 2008, compared to approximately 53 percent in the first quarter of fiscal 2007. We have agreements with our distributors that cover various programs, including pricing adjustments based on resale pricing and volume, price protection for inventory and scrap allowances. The revenue we record for these distribution sales is net of estimated provisions for these programs. When determining this net distribution revenue, we must make significant judgments and estimates. Our estimates are based upon historical experience rates by geography and product family, inventory levels in the distribution channel, current economic trends, and other related factors. Actual distributor claims activity has been materially consistent with the provisions we have made based on our estimates. However, because of the inherent nature of estimates, there is always a risk that there could be significant differences between actual amounts and our estimates. Our financial condition and operating results are dependent on our ability to make reliable estimates, and we believe that our estimates are reasonable. However, different judgments or estimates could result in variances that might be significant to reported operating results.

Service revenues are recognized as the services are provided or as milestones are achieved, depending on the terms of the arrangement. These revenues are included in net sales and totaled \$0.8 million in the first quarter of fiscal 2008 and \$0.5 million in the first quarter of fiscal 2007.

Certain intellectual property income is classified as revenue if it meets specified criteria established by company policy that defines whether it is considered a source of income from our primary operations. These revenues are included in net sales and totaled \$0.5 million in the first quarter of fiscal 2008 and \$0.9 million in the first quarter of fiscal 2007. All other intellectual property income that does not meet the specified criteria is not considered a source of income from primary operations and is therefore classified as a component of other operating income, net, in the consolidated statement of income. Intellectual property income is recognized when the license is delivered, the fee is fixed or determinable, collection of the fee is reasonably assured and remaining obligations are inconsequential or perfunctory to the other party.

## 2. *Valuation of Inventories*

Inventories are stated at the lower of standard cost, which approximates actual cost on a first-in, first-out basis, or market. The total carrying value of our inventory is net of any reductions we have recorded to reflect the difference between cost and estimated market value of inventory that is determined to be obsolete or unmarketable based upon assumptions about future demand and market conditions. Reductions in carrying value are deemed to establish a new cost basis. Inventory is not written up if estimates of market value subsequently improve. We evaluate obsolescence by analyzing the inventory aging, order backlog and future customer demand on an individual product basis. If actual demand were to be substantially lower than what we have estimated, we may be required to write inventory down below the current carrying value. While our estimates require us to make significant judgments and assumptions about future events, we believe our relationships with our customers, combined with our understanding of the end-markets we serve, provide us with the ability to make reasonable estimates. The actual amount of obsolete or unmarketable inventory has been materially consistent with previously estimated write-downs we have recorded. We also evaluate the carrying value of inventory for lower-of-cost-or-market on an individual product basis, and these evaluations are intended to identify any difference between net realizable value and standard cost. Net realizable value is used as a measure of market for purposes of evaluating lower-of-cost-or-market and is determined as the selling price of the product less the estimated cost of disposal. When necessary, we reduce the carrying value of inventory to net realizable value. If actual market conditions and resulting product sales were to be less favorable than what we have projected, additional inventory write-downs may be required.

## 3. *Impairment of Goodwill, Intangible Assets and Other Long-lived Assets*

We assess the impairment of long-lived 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 and eventual disposition. Our long-lived assets subject to this evaluation include property, plant and equipment and amortizable intangible assets. Amortizable intangible assets subject to this evaluation include developed technology we have acquired, patents and technology licenses. We assess the impairment of goodwill annually in our fourth fiscal quarter 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 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;

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- significant change, delay or departure in our business strategy related to the asset;
  - significant negative changes in the business climate, industry or economic conditions; and

- 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.

Our impairment evaluation of long-lived assets includes an analysis of estimated future undiscounted net cash flows expected to be generated by the assets 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 record an impairment loss in the amount by which the carrying value of the assets exceeds the fair value. We determine fair value based on discounted cash flows using a discount rate commensurate with the risk inherent in our current business model. Major factors that influence our cash flow analysis are our estimates for future revenue and expenses associated with the use of the asset. Different estimates could have a significant impact on the results of our evaluation. If, as a result of our analysis, we determine that our amortizable intangible assets or other long-lived assets have been impaired, we will recognize an impairment loss in the period in which the impairment is determined. Any such impairment charge could be significant and could have a material adverse effect on our financial position and results of operations.

Our impairment evaluation of goodwill is based on comparing the fair value to the carrying value of our reporting units with goodwill. Our reporting units are based on our operating segments as defined under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The fair value of a reporting unit is measured at the business unit level using a discounted cash flow approach that incorporates our estimates of future revenues and costs for those business units. As of August 26, 2007 our reporting units with goodwill include our advanced power, ISP, portable core, high voltage, interface, displays, data conversion and non-audio amplifier business units, which are operating segments within our Analog reportable segment, and our device connectivity business unit, which is an operating segment included in the category described as "All Others." The estimates we use in evaluating goodwill are consistent with the plans and estimates that we use to manage the underlying businesses. If we fail to deliver new products for these business units, if the products fail to gain expected market acceptance, or if market conditions for these business units fail to materialize as anticipated, our revenue and cost forecasts may not be achieved and we may incur charges for goodwill impairment, which could be significant and could have a material adverse effect on our results of operations.

#### **4. Income Taxes**

We determine deferred tax assets and liabilities based on the future tax consequences that can be attributed to net operating loss and credit carryovers and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the enacted tax rate expected to be applied when the taxes are actually paid or recovered. The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which the net operating loss and credit carryovers and differences between financial statement carrying amounts and their respective tax bases become deductible. In determining a valuation allowance, we consider past performance, expected future taxable income and prudent and feasible tax planning strategies. We currently have a valuation allowance that has been established primarily against the reinvestment and investment tax credits related to Malaysia, as we have concluded that a significant portion of the deferred tax assets will not be realized due to the uncertainty of sufficient taxable income in Malaysia beyond the foreseeable future. Our forecast of expected future taxable income is based on historical taxable income and projections of future taxable income over the periods that the deferred tax assets are deductible. Changes in market conditions that differ materially from our current expectations and changes in future tax laws in the U.S. and international jurisdictions may cause us to change our judgments of future taxable income. These changes, if any, may require us to adjust the existing tax valuation allowance higher or lower than the amount we currently have recorded; such adjustment could have a material impact on the tax expense for the fiscal year.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Although FIN 48, which we adopted at the beginning of fiscal 2008, provides further clarification on the accounting for uncertainty in income taxes recognized in the financial statements, the new threshold and measurement attribute prescribed by the FASB will continue to require significant judgment by

management. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations.

## 5. *Share-Based Compensation*

We measure and record compensation expense for all share-based payment awards based on estimated fair values in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment." We provide share-based awards to our employees, executive officers and directors through various equity compensation plans including our stock option, stock purchase and restricted stock plans. The fair value of awards for our stock option and stock purchase plans is measured at the date of grant using a Black-Scholes option pricing model and the fair value of awards for our restricted stock plans is based on the market price of our common stock on the date of grant. In determining fair value using the Black-Scholes option pricing model, management is required to make certain estimates of the key assumptions that include expected life, expected volatility, dividend yields and risk free interest rates. The estimate of these key assumptions involves judgment regarding subjective future expectations of market price and trends. The assumptions for expected term and expected volatility have the most significant effect on calculating the fair value of share-based awards. We use the simplified method specified by SEC's Staff Accounting Bulletin No. 107 to determine expected life since the vesting term and contractual life of current option grants differ from historical grants. Expected volatility is based on implied volatility, as management has determined that implied volatility better reflects the market's expectation of future volatility than historical volatility. If we were to determine that another method to estimate these assumptions was more reasonable than our current methods, or if another method for calculating these assumptions were to be prescribed by authoritative guidance, the fair value for our share-based awards could change significantly. If the expected volatility and/or expected life were increased under our assumptions, then the Black-Scholes computation of fair value would also increase, thereby resulting in higher compensation costs being recorded. SFAS No. 123(R) also requires forfeitures to be estimated at the date of grant. Our estimate of forfeitures is based on our historical activity, which we believe is indicative of expected forfeitures. In subsequent periods if the actual rate of forfeitures differs from our estimate, the forfeiture rates may be revised, as necessary. Changes in the estimated forfeiture rates can have a significant effect on share-based compensation expense since the effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

## Overview

We continue to focus on analog product areas, particularly in the analog standard linear categories, which the WSTS defines as amplifiers, data converters, regulators and references (power management products), and interface products. In the first quarter of fiscal 2008, approximately 95 percent of our total sales came from our Analog segment, compared to 86 percent in the first quarter of fiscal 2007. We believe that the success we have experienced in these markets has been driven by our understanding of the analog markets and our circuit design capabilities, as well as our packaging and analog process technology, and our comprehensive manufacturing supply and logistics network.

Although sales were lower in the first quarter of fiscal 2008 compared to sales in the first quarter of fiscal 2007, we achieved a higher gross margin percentage in the first quarter of fiscal 2008 than in the same quarter in fiscal 2007. The increase in gross margin percentage is attributable to ongoing improvement in our sales mix of higher-value analog products, as well as improvements in manufacturing execution and efficiencies relative to the level of factory utilization. We continue to focus our research and development investments on high-value growth areas in analog markets and applications.

In reviewing our performance we consider several key financial measures. When reviewing our net sales performance, we look at sales growth rates, new order rates (including turns orders, which are orders received with delivery requested in the same quarter), blended-average selling prices, sales of new products and market share in the analog standard linear category as defined by WSTS. We define new products as those introduced within the last three years. We gauge our operating income performance based on gross margin trends, product mix, blended-average selling prices, factory utilization rates and operating expenses relative to sales. We are focused on growing our earnings per share over time while generating a consistently high return on invested capital by concentrating on operating income, working capital management, capital expenditures and cash management. We determine return on invested capital based on net operating income after tax divided by invested capital, which generally consists of total assets reduced by goodwill and non-interest bearing liabilities.

We continued our stock repurchase activity in the first quarter of fiscal 2008 with the approval by our Board of Directors in early June of (i) a \$1.5 billion accelerated stock repurchase program; and (ii) an additional \$500 million stock repurchase program similar to our existing stock repurchase program announced in March 2007.

The stock repurchase activity is one element of our overall program to deliver a consistently high return on invested capital, which we believe improves shareholder value over time. During the first quarter of fiscal 2008, we commenced the \$1.5 billion accelerated stock repurchase program under agreements with Goldman Sachs. Under this program, we received a total of 50.8 million shares of our common stock in the first quarter of fiscal 2008 and we expect to receive a final delivery of up to approximately 6 million additional shares no later than June 2008. See Note 8 to the Condensed Consolidated Financial Statements for a more complete discussion of these agreements. Beyond the accelerated stock repurchase program, as of August 26, 2007, we had \$879.3 million remaining available for future common stock repurchases under each of the \$500 million programs announced in March 2007 and June 2007.

We also entered into a \$1.5 billion unsecured bridge credit facility with an affiliate of Goldman Sachs in June 2007 and used the funds to finance the accelerated stock repurchase. This unsecured bridge credit facility was then repaid and the debt was effectively replaced with \$1.0 billion principal amount of senior unsecured notes issued in June 2007 through a public offering and a \$500 million unsecured credit facility with a consortium of banks funded in July 2007. See Note 5 to the Condensed Consolidated Financial Statements for a more complete discussion of the senior unsecured notes and the credit facilities.

We also continued with the dividend program in the first quarter of fiscal 2008, as we paid a total of \$10.8 million in cash dividends during the quarter. In September 2007, the Board of Directors declared a cash dividend of \$0.04 per outstanding share of common stock, to be paid on October 9, 2007 to shareholders of record at the close of business on September 17, 2007 and another cash dividend of \$0.06 per outstanding share of common stock, to be paid on January 7, 2008 to shareholders of record at the close of business on December 17, 2007.

The following table and discussion provide an overview of our operating results for the first quarter of fiscal 2008 and 2007:

(In Millions)	Three Months Ended			
	Aug. 26, 2007	% Change	Aug. 27, 2006	
Net sales	\$ 471.5	(12.9%)	\$ 541.4	
Gross margin	\$ 296.9		\$ 334.3	
As a % of net sales	63.0	%	61.7	%
Operating income	\$ 132.2		\$ 165.5	
As a % of net sales	28.0	%	30.6	%
Net income	\$ 85.6		\$ 120.1	
As a % of net sales	18.2	%	22.2	%

Net income for the first quarter of fiscal 2008 includes a gain of \$3.1 million from the sale of the Singapore plant assets and a recovery of \$1.5 million arising from the release of a restructuring-related accrual (see Note 4 to the Condensed Consolidated Financial Statements). Net income for the first quarter of fiscal 2007 included a charge of \$2.7 million related to severance for a workforce reduction at our Texas manufacturing facility and other operating income of \$1.3 million (see Note 2 to the Condensed Consolidated Financial Statements). All of the charges and credits described above are pretax amounts.



**Share-Based Compensation Expense**

Beginning in fiscal 2007, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment," which requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. Our operating results include the recognition of share-based compensation expense, which totaled \$20.0 million in the first quarter of fiscal 2008 and \$23.9 million in the first quarter of fiscal 2007. We provide share-based awards to our employees, executive officers and directors through various equity compensation plans including our stock option, stock purchase and restricted stock plans. For further detail and a description of these plans, see Note 13 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 27, 2007. See Note 1 and Note 9 to the Condensed Consolidated Financial Statements for additional discussion of our share-based compensation plans and the effect of share-based compensation expense for the first quarter of fiscal 2008 and 2007.

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**Net Sales**

(In Millions)	Three Months Ended			
	Aug. 26, 2007	% Change	Aug. 27, 2006	
Analog segment	\$ 447.7	(4.2%)	) \$ 467.3	
As a % of net sales	95.0	%	86.3	%
All others	\$ 23.8	(67.9%)	) \$ 74.1	
As a % of net sales	5.0	%	13.7	%
Total net sales	\$ 471.5		\$ 541.4	
	100.0	%	100.0	%

The chart above and the following discussion are based on our reportable segments described in Note 15 to the Consolidated Financial Statements included in our annual report on Form 10-K for the year ended May 27, 2007.

Analog segment sales in the first quarter of fiscal 2008 were lower than sales in the first quarter of fiscal 2007 due to lower shipments to distributors and lower overall demand from customers. Unit shipments in our Analog segment decreased 8 percent in the first quarter of fiscal 2008 from the volume shipped in the first quarter of fiscal 2007, while blended-average selling prices increased 4 percent in the same time periods, driven mainly by improved sales mix from higher-value analog products.

Within the Analog segment, sales from our amplifiers business units (including audio amplifier products) grew 6 percent in the first quarter of fiscal 2008 over sales in the first quarter of fiscal 2007, which was offset by decreases in sales in the same time periods of 27 percent from the interface business unit, 18 percent from the data conversion business unit and 5 percent from our power management business units.

For other operating business units included in the category described as "All Others," the decrease in sales in the first quarter of fiscal 2008 compared to the first quarter in fiscal 2007 was primarily due to a decline in foundry sales related to businesses that had been previously sold.

**Gross Margin**

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## Three Months Ended

(In Millions)	Aug. 26, 2007	% Change	Aug. 27, 2006
Net Sales	\$ 471.5	(12.9% )	\$ 541.4
Cost of sales	174.6	(15.7% )	207.1
Gross margin	\$ 296.9		\$ 334.3
As a % of net sales	63.0	%	61.7 %

We achieved a higher gross margin percentage in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 despite a decline in net sales and factory utilization. The higher gross margin percentage was largely due to an improved product mix of higher-margin analog standard linear products. As part of that product mix improvement, our blended-average selling prices in the first quarter of fiscal 2008 were higher compared to the first quarter of fiscal 2007. Our analog product portfolio has continued to improve through active efforts to increase the portion of our business that comes from high value, high-performance analog products that are more proprietary in nature and can generate higher margins than products that are less proprietary or are multi-sourced. The overall improvement in sales mix was aided by the reduction in foundry sales, which carried much lower gross margins than the company average. Gross margin percentage in the first quarter of fiscal 2008 compared to the first quarter 2007 also benefited from improvements in manufacturing efficiencies and execution relative to the level of factory utilization. Included in gross margin for the first quarter of fiscal 2008 was \$4.9 million of share-based compensation expenses compared to \$2.5 million in the first quarter of fiscal 2007.

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## Research and Development

### Three Months Ended

(In Millions)	Aug. 26, 2007	% Change	Aug. 27, 2006
Research and development	\$ 93.8	5.6%	\$ 88.8
As a % of net sales	19.9	%	16.4 %

The increase in research and development expenses in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 reflects higher spending associated with the acquisition of Xignal Technologies AG in January 2007, as well as some higher payroll and employee benefit expenses. Stock-based compensation expense included in R&D expense was \$7.0 million in the first quarter of fiscal 2008 compared to \$7.5 million in the first quarter of fiscal 2007. We are continuing to concentrate our ongoing research and development spending on analog products and underlying analog capabilities such as DC to DC power conversion, signal conditioning, high-speed amplification and low-power analog-to-digital conversion. During the first quarter of fiscal 2008, research and development spending in the Analog segment was 12 percent higher compared to the first quarter of fiscal 2007. We continue to invest in the development of new analog products that can serve applications in a wide variety of end markets such as portable electronics, flat-panel displays, communications infrastructure, industrial and medical. A significant portion of our research and development is directed at power management technology.

## Selling, General and Administrative

### Three Months Ended

(In Millions)	Aug. 26, 2007	% Change	Aug. 27, 2006
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Selling, general and administrative	\$ 75.5	(3.9% )	\$ 78.6
As a % of net sales	16.0	%	14.5 %

The decrease in selling, general and administrative expenses in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 was mostly due to the decrease in share-based compensation expense included in SG&A expenses of \$8.1 million in the first quarter of fiscal 2008 compared to \$13.9 million in the first quarter of fiscal 2007. This decrease more than offset some higher payroll and employee benefit expenses in fiscal 2008 over fiscal 2007. We continue to manage our cost structure in line with our overall business model objectives, as well as current business conditions.

### Interest Income

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Interest income	\$ 11.2	\$ 11.0

The increase in interest income for the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 is due to slightly higher interest rates since average cash balances were lower over the same time periods.

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### Interest Expense

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Interest expense	\$ (19.6 )	\$ (0.5 )

The increase in interest expense in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 is due to substantially higher debt balances related to the new debt transactions completed in the first quarter of fiscal 2008 (see Note 5 to the Condensed Consolidated Financial Statements for a more complete discussion). Since the interest rates on some of the new debt transactions are floating, changes in interest rates, including interest rate increases made in September 2007, will affect future interest expense.

### Other Non-Operating Expense, Net

(In Millions)	Three Months Ended	
	Aug. 26, 2007	Aug. 27, 2006
Loss on investments	\$ (1.1 )	\$ (0.1 )
Total other non-operating expense, net	\$ (1.1 )	\$ (0.1 )

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The components of other non-operating expense, net are primarily derived from activities related to our investments. The loss on investments in the first quarter of fiscal 2008 and 2007 reflects the change in unrealized holding gains and losses from trading securities.

### Income Tax Expense

(In Millions)	Three Months Ended			
	Aug. 26, 2007		Aug. 27, 2006	
Income tax expense	\$ 37.1		\$ 55.8	
Effective tax rate	30.2 %		31.7 %	

The effective tax rate was lower for the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 due to various discrete tax benefits recognized during the quarter that arose primarily from the resolution of a foreign tax inquiry and the expiration of a foreign tax statute of limitation.

### Financial Market Risks

Since a portion of our long-term debt has floating interest rates, an increase in interest rates increases our interest expense and likewise, a decrease in interest rates decreases our interest expense. At our current debt levels, a change in the LIBOR of one percentage point would result in a corresponding change in our interest expense of up to approximately \$7.5 million annually.

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### Liquidity and Capital Resources

(In Millions)	Three Months Ended			
	Aug. 26, 2007		Aug. 27, 2006	
Net cash provided by operating activities	\$ 125.5		\$ 133.2	
Net cash (used in) provided by investing activities	(13.9 )		64.1	
Net cash provided by (used in) financing activities	21.6		(289.2 )	
Net change in cash and cash equivalents	\$ 133.2		\$ (91.9 )	

The primary factors contributing to the changes in cash and cash equivalents in the first quarter of fiscal 2008 and 2007 are described below:

During the first quarter of fiscal 2008, cash from operating activities was generated by net income, adjusted for non-cash items (primarily depreciation and amortization, and share-based compensation expense). This was partially offset by the negative impact from changes in working capital components caused by a decrease in other non-current liabilities primarily due to a contribution we made to one of our defined benefit pension plans combined with increases in receivables and other current assets. A decrease in inventories combined with increases in current and deferred income taxes, and increases in accounts payable and accrued expenses primarily due to the accrual of interest arising from the long-term debt partially offset the negative impact from changes in working capital components. In the first quarter of fiscal 2007, cash

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generated from net income, adjusted for non-cash items (primarily depreciation and amortization, and share-based compensation expense) was partially offset by the negative impact from changes in working capital components.

The primary use of cash for investing activities in the first quarter of fiscal 2008 was the purchase of property, plant and equipment of \$23.9 million, mainly representing the purchase of machinery and equipment, which was offset by proceeds from the sale of property, plant and equipment of \$13.0 million. The primary source of cash generated from investing activities in the first quarter of fiscal 2007 came from the sale and maturity of available-for-sale securities of \$110.8 million, which was offset by investment in property, plant and equipment of \$40.9 million, primarily for the purchase of machinery and equipment.

The primary source of cash generated from financing activities in the first quarter of fiscal 2008 came from proceeds of \$1,489.4 million (net of issuance costs) from new debt, which included the \$1.0 billion unsecured senior notes issued through a public offering in June and a \$500.0 million unsecured credit facility with a consortium of banks funded in July 2007. Cash proceeds also included \$53.8 million from the issuance of common stock under employee benefits plans. These amounts were offset by the repurchase of 50.8 million shares of our common stock from the \$1.5 billion accelerated share repurchase program, as well as the payments of \$13.9 million related to tax withholdings paid on behalf of employees for net share settlements and \$10.8 million for cash dividends. In connection with the accelerated stock repurchase program, financing activities in the first quarter of fiscal 2008 also reflect the funds received from a \$1.5 billion unsecured bridge credit facility that was used to finance the accelerated stock repurchase, but was later fully repaid after completing the \$1.0 billion unsecured senior note offering and the \$500 million unsecured credit facility with a consortium of banks. The primary use of cash for financing activities in the first quarter of fiscal 2007 was for the repurchase of 12.4 million shares of our common stock in the open market for \$285.0 million, and payments of \$10.0 million for cash dividends and \$8.4 million on software license obligations. These amounts were partially offset by proceeds of \$12.8 million from the issuance of common stock under employee benefit plans.

On September 6, 2007 our Board of Directors declared a cash dividend of \$0.04 per outstanding share of common stock which will be paid on October 9, 2007 to shareholders of record at the close of business on September 17, 2007. Our Board of Directors declared another cash dividend on September 27, 2007 of \$0.06 per outstanding share of common stock, to be paid on January 7, 2008 to shareholders of record at the close of business on December 17, 2007.

We foresee continuing cash outlays for plant and equipment in fiscal 2008, with our primary focus on analog capabilities at our existing sites. As a result, we expect our fiscal 2008 capital expenditures to be slightly higher than the

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fiscal 2007 amount. We will continue to manage the level of capital expenditures relative to sales levels, capacity utilization and industry business conditions. We expect that existing cash and investment balances, together with existing lines of credit and cash generated by operations, will be sufficient to finance the capital investments currently planned for fiscal 2008, as well as the declared dividend, the stock repurchase program and interest payments due on long-term debt.

Our cash balances are dependent in part on continued collection of customer receivables and the ability to sell inventories. Although we have not experienced major problems with our customer receivables, significant declines in overall economic conditions could lead to deterioration in the quality of customer receivables. In addition, major declines in financial markets would most likely cause reductions in our cash equivalents and marketable investments.

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We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which might be established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in trading activities involving non-exchange traded contracts. As a result, we do not believe that we are materially exposed to financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

### Recently Issued Accounting Pronouncements

In June 2007, the Financial Accounting Standards Board ratified Emerging Issues Task Force Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities." The EITF requires non-refundable advance payments to acquire goods or pay for service that will be consumed or performed in a future period in conducting R&D activities should be recorded as an asset and recognized as expense when the R&D activities are performed. The EITF should be applied prospectively to new contractual arrangements entered into beginning in our fiscal 2009. We currently recognize these non-refundable advanced payments as an expense upon payment. The adoption of EITF 7-3 is not expected to have a significant effect on our consolidated financial statements.

### Outlook

Despite lower sales in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007, we have experienced sequential quarterly growth in sales for each of the last two quarters as business conditions have improved. We also saw improvement in new orders in the first quarter of fiscal 2008, which were 6 percent higher than in the preceding fourth quarter of fiscal 2007. The growth in new orders came primarily from our OEM customers, reflecting positive impact from our new products, as they begin to ramp production activity in preparation for the upcoming holiday season.

Turns orders, which are orders received with delivery requested in the same quarter, were higher in the first quarter of fiscal 2008 compared to the fourth quarter of fiscal 2007 and also contributed to the overall increase in new orders for the quarter. Although this is not a typical summer trend, it is consistent with the low inventory levels that existed in the distribution channel at the beginning of the quarter and corresponds with the relatively short manufacturing lead times we had held for the last several quarters. Since distributor inventory levels by the end of the summer quarter were down again, we expect turns orders from our distributors to continue to be strong in the second quarter of fiscal 2008. Due to the increase in new orders in the first quarter of fiscal 2008, our opening 13-week backlog as we entered into the second quarter of fiscal 2008 was higher than it was when we began the first quarter of fiscal 2008.

Considering all factors, including those described above and our historical seasonality patterns, we provided guidance for net sales in the second quarter of fiscal 2008 to increase 4 to 7 percent sequentially from the level achieved in our recently completed first quarter of fiscal 2008. However, if backlog orders are cancelled or if the currently anticipated level of turns orders is less than expected, we may not be able to achieve this predicted level of sales. We also expect our gross margin percentage to improve slightly and range between 63 to 64 percent based on the expected sales level. This includes approximately \$6 million of share-based compensation expense that is expected to be in cost of sales. Wafer fabrication utilization is expected to run slightly higher than it did in the first quarter of fiscal 2008 with a decrease in ending inventories. However, if there are declines in factory utilization or changes in the expected sales level or product mix, our gross margin percentage could be negatively impacted.

Consistent with our practice in recent years of annually granting stock options to employees in our first fiscal quarter, we granted options to purchase 5.4 million shares of our common stock at \$28.83 per share in July 2007. As a result, we expect total share-based compensation expense to be approximately \$27 million in the second quarter of fiscal 2008, which is higher compared to the first quarter of fiscal 2008. This increase reflects the effect of accelerating share-based compensation expense associated with options granted to employees who are eligible for retirement or expected to be

eligible for retirement during the nominal vesting period. For more discussion on the share-based compensation expense, see Note 1 and Note 9 to the Condensed Consolidated Financial Statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Refer to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our annual report on Form 10-K for the fiscal year ended May 27, 2007 and to the subheading “Financial Market Risks” under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 37 of our Annual Report on Form 10-K for the fiscal year ended May 27, 2007 and to Note 1, “Summary of Significant Accounting Policies,” and Note 2, “Financial Instruments,” in the Notes to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the fiscal year ended May 27, 2007. Except as discussed under the subheading “Financial Market Risks” appearing in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 24 of this Form 10-Q, there have been no material changes in market risk from the information reported in these sections.

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### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of disclosure controls and procedures**

We maintain disclosure controls and procedures that are intended to ensure that the information required to be disclosed in our Exchange Act filings is properly and timely recorded, processed, summarized and reported. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and that management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Since we have investments in certain unconsolidated entities which we do not control or manage, our disclosure controls and procedures with respect to such entities are necessarily substantially more limited than those we maintain for our consolidated subsidiaries.

We have a disclosure controls committee comprised of key individuals from a variety of disciplines in the company that are involved in the disclosure and reporting process. The committee meets regularly to ensure the timeliness, accuracy and completeness of the information required to be disclosed in our filings containing financial statements. As required by SEC Rule 13a-15(b), the committee reviewed this Form 10-Q and also met with the Chief Executive Officer and the Chief Financial Officer to review this Form 10-Q and the required disclosures and the effectiveness of the design and operation of our disclosure controls and procedures. The committee performed an evaluation, under the supervision of and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal quarter covered by this report. Based on that evaluation and their supervision of and participation in the process, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

#### **Changes in internal controls**

As part of our efforts to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we conduct a continual review of our internal controls over financial reporting. The review is an ongoing process and it is possible that we may institute additional or new internal controls over financial reporting as a result of the review. During the first quarter of fiscal 2008 which is covered by this report, we did not make any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

#### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur

or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

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## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We currently are a party to various legal proceedings. While we believe that the ultimate outcome of these various proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is always subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include money damages or an injunction prohibiting us from selling one or more of our products. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on the net income of the period in which the ruling occurs, and future periods. Information on our existing material legal proceedings is provided in our Form 10-K for the fiscal year ended May 27, 2007. Except as described below, there have been no material developments in the legal proceedings described in those filings.

The IRS has completed its field examination of our tax returns for fiscal years 1997 through 2000 and on July 29, 2003 issued a notice of proposed adjustment seeking additional taxes of approximately \$19.1 million (exclusive of interest) for those years. We contested the adjustments through the IRS administrative process. Through that process, the Appeals Office of the IRS issued a notice of deficiency seeking additional taxes of approximately \$14.7 million (exclusive of interest). We have subsequently reached a settlement in principle with the IRS. The settlement is not finalized, as it requires the approval from the Congressional Joint Committee on taxation, which is still pending.

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### **ITEM 1A. RISK FACTORS**

A description of the risk factors associated with our business is set forth below. We review and update our risk factors each quarter. The description set forth below includes any changes to and supersedes the description of risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 27, 2007. The risks described below are not the only ones facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business operations and results of financial condition.

You should read the following risk factors in conjunction with the factors discussed elsewhere in this and our other filings with the SEC and in materials incorporated by reference in these filings. These risk factors are intended to highlight certain factors that may affect our financial condition and results of operations and are not meant to be an exhaustive discussion of risks that apply to companies like National with broad international operations. Like other companies, we are susceptible to macroeconomic downturns in the United States or abroad that may affect the general economic climate and our performance and the performance of our customers. Similarly, the price of our stock is subject to volatility due to fluctuations in general market conditions, differences in our results of operations from estimates and projections generated by the investment community, and other factors beyond our control.



**We operate in the global marketplace and face risks associated with worldwide operations.**

During the first quarter of fiscal 2008, approximately 80 percent of our revenues were derived from customers in international markets. We expect that international sales will continue to account for a significant majority of our total revenue in future years. We have manufacturing facilities outside the United States in the U.K., Malaysia and China. We are subject to the economic and political risks inherent in international operations, including the risks associated with ongoing uncertainties and political and economic instability in many countries around the world. In addition, the management of global operations subjects us to risks associated with trade balance issues, currency controls, differences in local business and cultural factors, fluctuations in interest and currency exchange rates, and difficulties in staffing and managing foreign operations. Although we did not experience any materially adverse effects from our international operations as a result of these types of factors in the first quarter of fiscal 2008, one or more of these factors has had an adverse effect on us in the past and could have a material adverse effect on us in the future.

**Conditions inherent in the semiconductor industry may cause periodic fluctuations in our operating results.**

Rapid technological change and frequent introduction of new technology leading to more complex and integrated products characterize the semiconductor industry. The result is a cyclical environment with potentially short product life cycles, even with analog products which form the core of our strategic focus. We have seen and may see in the future significant and rapid increases and decreases in product demand. Although less capital investment is needed for analog products than for many other semiconductor products, substantial capital and R&D investment are required to support products and manufacturing processes in the semiconductor industry, which amplify the effect of this cyclicity. As a result of this environment, we have experienced in the past and may experience in the future periodic fluctuations in our operating results. Market shifts in product mix toward or away from higher margin products, including analog products, may also have a significant impact on our operating results. As a result of these and other factors, our financial results could fluctuate significantly from period to period.

**Our business will be harmed if we are unable to compete successfully in our markets.**

Competition in the semiconductor industry is intense. Our major competitors include Analog Devices, Linear Technology, Maxim Integrated Products and Texas Instruments. These companies sell competing products into some of the same markets that we target. In some cases, we may also compete with our customers. Competition is based on design and quality of products, product performance, price and service, with the relative importance of these factors varying among products, markets and customers. We cannot assure you that we will be able to compete successfully in the future against existing or new competitors or that our operating results will not be adversely affected by increased competition.

**A large portion of our revenues is dependent on the wireless handset market.**

The wireless handset market continues to be a significant source of our overall sales. New products are being developed to address new features and functionality in handsets, such as advanced color displays, advanced audio, lighting features and battery management that can adequately handle the demands of these advanced features. Due to high levels of competition, as well as complex technological requirements, there is no assurance that we will continue to be successful in this targeted market. Although the worldwide handset market is large, growth trends and other variables are often uncertain and difficult

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to predict. Since the wireless handset market is a consumer-driven market, changes in the economy that affect consumer demand could affect our business and operating results.

**We depend on demand from the consumer, original equipment manufacturer, contract manufacturing, industrial, automotive and other markets we serve for the end market applications which incorporate our products. Reduced consumer or corporate spending in these markets due to fluctuating oil prices, interest rates or other economic factors could adversely affect our revenues and gross margins.**

Our revenues and gross margins are based on certain levels of consumer and corporate spending. If our projections of these expenditures fail to materialize due to reductions in consumer or corporate spending as a result of increased oil prices, increased interest rates or otherwise, our revenues and gross margins could be adversely affected.

**We may experience delays in introducing new products or market acceptance of new products may be below our expectations.**

Rapidly changing technologies and industry standards, along with frequent new product introductions, characterize the industries in which our primary customers operate. As our customers evolve and introduce new products, our success depends on our ability to anticipate and adapt to these changes in a timely and cost-effective manner by developing and introducing into the market new products that meet the needs of our customers. We believe that continued focused investment in research and development, especially the timely development and market acceptance of new analog products, is a key factor to successful growth and the ability to achieve strong financial performance. Successful development and introduction of these new products are critical to our ability to maintain a competitive position in the marketplace. We will continue to invest resources to develop more highly integrated solutions and building block products, both primarily based on our analog capabilities. We will continue to target applications such as wireless handsets, displays, other portable devices and applications in other broad markets that require analog technology. We cannot assure you that we will be successful in timely developing and introducing successful new products, and a failure to bring new products to market may harm our operating results. We also cannot assure you that products that may be developed in the future by our competitors will not render our products obsolete or non-competitive.

**We make forecasts of customer demand that need to be accurate.**

Our ability to match inventory and production mix with the product mix needed to fill current orders and orders to be delivered in any given quarter may affect our ability to meet that quarter's revenue forecast. To be able to accommodate customer requests for shorter shipment lead times, we manufacture product based on customer forecasts. These forecasts are based on multiple assumptions. While we believe our relationships with our customers, combined with our understanding of the end markets we serve, provide us with the ability to make reliable forecasts, if we inaccurately forecast customer demand, it could result in inadequate, excess or obsolete inventory that would reduce our profit margins.

**Our performance depends on the availability and cost of raw materials, utilities, critical manufacturing equipment and third-party manufacturing services.**

Our manufacturing processes and critical manufacturing equipment require that certain key raw materials and utilities be available. Limited or delayed access to and high costs of these items, as well as the inability to implement new manufacturing technologies or install manufacturing equipment on a timely basis could adversely affect our results of operations. We subcontract a portion of our wafer fabrication and assembly and testing of our integrated circuits. We depend on a limited number of third parties, most of whom are located outside of the United States, to perform these functions. We do not have long-term contracts with all of these third parties. Reliance on these third parties involves risks, including possible shortages of capacity in periods of high demand. Although we did not experience any material difficulties with supplies or subcontractors in the first quarter of fiscal 2008, we have had difficulties in the past and could experience them in the future.

**We are subject to warranty claims, product recalls and product liability.**

We could be subject to warranty or product liability claims that could lead to significant expenses as we defend such claims or pay damage awards. In the event of a warranty claim, we may also incur costs if we compensate the affected customer. We maintain product liability insurance, but there is no guarantee that such insurance will be available or adequate to protect against all such claims. We may incur costs and expenses relating to a recall of one of our customers' products containing one of our devices. Although costs or payments we have made in connection with warranty claims or product recalls in the past have not materially affected our results of operations and financial condition, they could in the future.

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**Our profit margins may vary over time.**

Our profit margins may be adversely affected by a number of factors, including decreases in our shipment volume, reductions in, or obsolescence of our inventory and shifts in our product mix. In addition, the competitive market environment in which we operate may adversely affect pricing for our products, although we try to emphasize higher margin products. Because we own most of our manufacturing capacity, a significant portion of our operating costs are fixed, including costs associated with depreciation expense. In general, these costs do not decline with reductions in customer demand or utilization of our manufacturing capacity. If we are unable to utilize our manufacturing facilities at a high level, the fixed costs associated with these facilities will result in higher average unit costs and lower gross margins.

**We may be harmed by natural disasters and other disruptions.**

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Our worldwide operations could be subject to natural disasters and other disruptions. Our corporate headquarters are located near major earthquake fault lines in California. In the event of a major earthquake, or other natural or manmade disaster, we could experience loss of life of our employees, destruction of facilities or other business interruptions. The operations of our suppliers could also be subject to natural disasters and other disruptions, which could cause shortages and price increases in various essential materials. We use third party freight firms for nearly all of our shipments from vendors and from our foundries to assembly and test sites and for shipments to customers of our final product. This includes ground, sea and air freight. Any significant disruption of our freight shipments globally or in certain parts of the world, particularly where our operations are concentrated, would materially affect our operations.

### **We may not be able to attract or retain employees with skills necessary to remain competitive in our industry.**

Our continued success depends in part on the recruitment and retention of skilled personnel, including technical, marketing, management and staff personnel. Experienced personnel in the semiconductor industry, particularly in our targeted analog areas, are in high demand and competition for their skills is intense. There can be no assurance that we will be able to successfully recruit and retain the key personnel we require.

### **Our products are dependent on the use of intellectual property that we need to protect.**

We rely on patents, trade secrets, trademarks, mask works and copyrights to protect our products and technologies, and have a program to file applications for and obtain patents, trademarks, mask works and copyrights in the United States and in selected foreign countries where we believe filing for such protection is appropriate. Effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in some countries. Some of our products and technologies are not covered by any patent or patent application. In addition, we cannot assure you that:

- the patents owned by us or numerous other patents which third parties license to us will not be invalidated, circumvented, challenged or licensed to other companies; or
- any of our pending or future patent applications will be issued within the scope of the claims sought by us, if at all.

We also seek to protect our proprietary technologies, including technologies that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our collaborators, advisors, employees and consultants. We cannot assure you that these agreements will not be breached, that we will have adequate remedies for any breach or that our collaborators will not assert rights to intellectual property arising out of our research collaborations. In addition, we may not be able to enforce these agreements globally. Some of our technologies have been licensed on a non-exclusive basis from other companies, which may license such technologies to others, including our competitors. If necessary or desirable, we may seek licenses under patents or intellectual property rights claimed by others. However, we cannot assure you that we will obtain such licenses or that the terms of any offered licenses will be acceptable to us. The failure to obtain a license from a third party for technologies we use could cause us to incur substantial liabilities and to suspend the manufacture or shipment of products or our use of processes requiring the technologies.

### **We have significantly expanded our manufacturing operations in China and, as a result, will be increasingly subject to risks inherent in doing business in China.**

Since we began production in our assembly and test facility in Suzhou, China in fiscal 2005, the factory has steadily increased its output. Our ability to operate in China may be adversely affected by changes in China's laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. Our operations in China are subject to the economic and political situation there. We believe that our operations in

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China are in compliance with all applicable legal and regulatory requirements. However, there can be no assurance that China's central or local governments will not impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures. Changes in the political environment or government policies could result in revisions to laws or regulations or their interpretation and enforcement, increased taxation, restrictions on imports, import duties or currency revaluations. In addition, a significant destabilization of

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relations between China and the United States could result in restrictions or prohibitions on our operations in China. The Chinese legal systems relating to foreign trade and intellectual property are relatively new and continue to evolve. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws may be inconsistent. Moreover, there is a high degree of fragmentation among regulatory authorities resulting in uncertainties as to which authorities have jurisdiction over particular parties or transactions.

### **We are subject to fluctuations in the exchange rate of the U.S. dollar and foreign currencies.**

While we transact business primarily in U.S. dollars, and most of our revenues are denominated in U.S. dollars, a portion of our costs and revenues is denominated in other currencies, such as the euro, the Japanese yen, pound sterling and certain other Asian currencies. As a result, changes in the exchange rates of these or any other applicable currencies to the U.S. dollar will affect our costs of goods sold and operating margins. We have a program to hedge our exposure to currency rate fluctuations, but our hedging program may not be fully effective in preventing foreign exchange losses.

### **Increased leverage may harm our financial condition and results of operations.**

On June 7, 2007, we announced that we would incur \$1.5 billion of indebtedness under a bridge credit facility to purchase shares of our common stock through an accelerated stock repurchase program. We have subsequently issued \$1.0 billion in senior unsecured notes and entered into a bank loan in the aggregate principal amount of \$0.5 billion to fully repay indebtedness under the bridge credit facility. As a result, our total liabilities at the end of the first quarter of fiscal 2008 increased to \$1,969.0 million. This increase and any future increase in our level of indebtedness will have several important effects on our future operations, including, without limitation:

- we have additional cash requirements in order to support the payment of interest on our outstanding indebtedness;
- increases in our outstanding indebtedness and leverage may increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure;
- our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes may be limited; and
- our flexibility in planning for, or reacting to, changes in our business and our industry may be limited.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which is subject to general economic conditions, industry cycles and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required to, among other things:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness, including the notes;
- sell selected assets;
- reduce or delay planned capital expenditures; or
- reduce or delay planned operating expenditures.

Such measures might not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms, if at all.

### **Rises in interest rates could adversely affect our financial condition.**

An increase in prevailing interest rates has an immediate effect on the interest rates charged on our variable rate debt, including the senior floating rate notes and bank debt, which rise and fall upon changes in interest rates on a quarterly basis. The variable interest rates did increase on the senior floating notes and the bank debt in September 2007. The increased interest expense associated with increases in interest rates affects our cash flow and our ability to service our debt, but we do not believe that the effects of the September interest rate increase have a material adverse effect on us. As a protection against further rising interest rates, we may enter into agreements such as interest rate swaps, caps,

floors and other interest rate exchange contracts. These agreements, however, increase our risks as to the other parties to the agreements not performing or that the agreements could be unenforceable.

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**We may pursue acquisitions, investments and divestitures that could harm our operating results and may disrupt our business.**

We have made and will continue to consider making strategic business investments, alliances and acquisitions we consider necessary to gain access to key technologies that we believe will augment our existing technical capability and support our business model objectives. Acquisitions and investments involve risks and uncertainties that may unfavorably impact our future financial performance. We may not be able to integrate and develop the technologies we acquire as expected. If the technology is not developed in a timely manner, we may be unsuccessful in penetrating target markets. With any acquisition there are risks that future operating results may be unfavorably affected by acquisition related costs, including in-process R&D charges and incremental R&D spending.

We have made and will continue to consider making strategic divestitures. With any divestiture, there are risks that future operating results could be unfavorably impacted if targeted objectives, such as cost savings, are not achieved or if other business disruptions occur as a result of the divestiture or activities related to the divestiture.

**We are subject to litigation risks.**

All industries, including the semiconductor industry, are subject to legal claims. We are involved in a variety of routine legal matters that arise in the normal course of business. Further discussion of certain specific material legal proceedings we are involved with is contained in Note 11 to the Condensed Consolidated Financial Statements. We believe it is unlikely that the final outcome of these legal claims will have a material adverse effect on our consolidated financial position or results of operations. However, 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.

**We are subject to many environmental laws and regulations.**

Increasingly stringent environmental regulations restrict the amount and types of materials that can be released from our operations into the environment. While the cost of compliance with environmental laws has not had a material adverse effect on our results of operations historically, compliance with these and any future regulations could require significant capital investments in pollution control equipment or changes in the way we make our products. In addition, because we use hazardous and other regulated materials in our manufacturing processes, we are subject to risks of liabilities and claims, regardless of fault, resulting from accidental releases, including personal injury claims and civil and criminal fines. The following should also be considered:

- we currently are remediating past contamination at some of our sites;
- we have been identified as a potentially responsible party at a number of Superfund sites where we (or our predecessors) disposed of wastes in the past; and
- significant regulatory and public attention on the impact of semiconductor operations on the environment may result in more stringent regulations, further increasing our costs.

**We are subject to export restrictions and laws affecting trade and investments.**

As a global company headquartered in the United States, we are subject to U.S. laws and regulations that limit and restrict the export of some of our products and related product information. Compliance with these laws has not significantly limited our operations or our sales in the recent past but could significantly limit them in the future. We maintain an export compliance program but there are risks that the compliance controls could be circumvented, exposing us to legal liabilities. We must also comply with export restrictions and laws imposed by other countries affecting trade and investments. Although these restrictions and laws have not significantly restricted our operations in the recent past, there is a risk that they could in the future.

**We may be affected by higher than expected tax rates or exposure to additional income tax liabilities.**

As a global company, our effective tax rate is dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in both the United States and various foreign jurisdictions, and complex analyses and significant judgment are required to determine worldwide tax liabilities. From time to time, we have received notices of tax assessments in various jurisdictions where we operate. We may receive future notices of assessments and the amounts of these assessments or our failure to favorably resolve such assessments may have a material adverse effect on our financial condition or results of operations.

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We have significant amounts of deferred tax assets. The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits associated with the deferred tax benefits will not be realized. If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowances against our deferred tax assets, which would cause an increase in our effective tax rate. A significant increase in our effective tax rate could have a material adverse effect on our financial condition or results of operations.

**Recent events and global disruptions could adversely affect our financial performance and operating results.**

Terrorist activities worldwide and hostilities in and between nation states, including the continuing hostilities and violence in Iraq and the threat of future hostilities involving the U.S. and other countries, may cause uncertainty and instability in the overall state of the global economy or in the industries in which we operate. We have no assurance that the consequences from these events will not disrupt our operations in either the U.S. or other regions of the world. Continued wide fluctuations in oil prices and interest rates could affect our future costs and revenues. Pandemic illnesses that spread globally and/or substantial natural disasters, as well as geopolitical events, may affect our future costs, operating capabilities and revenues.

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

(a) During the first quarter of fiscal 2008 covered by this report, we did not make any unregistered sales of our securities.

(c) The following table summarizes purchases we made of our common stock during the first quarter of fiscal 2008:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
<b>Month #1</b>				
May 28, 2007 - June 27, 2007	42,896,630	\$ 26.30	42,890,710	\$ 1,179 million
<b>Month #2</b>				
June 28, 2007 - July 27, 2007	8,440,744	\$ 26.29	7,945,227	\$ 879 million
<b>Month #3</b>				
July 28, 2007 - August 26, 2007	6,669	\$ 24.16	-	\$ 879 million

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Total	51,344,043	50,835,937
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- (1) Includes 486,924 shares that were reacquired through the withholding of shares to pay employee tax obligations upon the vesting of restricted stock and payment of shares for performance share unit awards and 21,182 shares purchased by the rabbi trust utilized by our Deferred Compensation Plan which permits participants to direct investment of their accounts in National stock in accordance with their instructions.
- (2) Purchases during the first quarter of fiscal 2008 were made under the \$1.5 billion accelerated repurchase program announced on June 7, 2007. All 50,835,937 shares were purchased under agreements entered into with Goldman Sachs & Co. and we expect to receive final delivery of up to approximately 6 million additional shares from Goldman Sachs & Co. no later than June 2008. We have two additional stock repurchase programs that remain open. Approximately \$379 million remains available under the \$500 million stock repurchase program announced on March 8, 2007 and \$500 million remains available under the \$500 million stock repurchase program announced on June 7, 2007. There is no expiration date for any of the repurchase program.

Our \$20 million multicurrency credit agreement with a bank that provides for multicurrency loans, letters of credit and standby letters of credit was renewed in October 2006. The agreement contains restrictive covenants, conditions and default provisions that require the maintenance of financial ratios. Under the amended agreement, we are no longer required to maintain certain levels of tangible net worth, a requirement that previously restricted the amounts available for the payment of dividends on common stock. The agreement expires in October 2007 and we expect to renew it prior to its expiration.

The \$500 million unsecured credit agreement we entered into in July 2007 with a syndicate of banks for a five-year term loan contains restrictive covenants, conditions and default provisions that require the maintenance of financial ratios, but does not contain any minimum working capital requirements or restrictions on the payment of dividends on common stock.

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### ITEM 6. EXHIBITS

- (a) Exhibits
  - 3.1 Second Restated Certificate of Incorporation of the Company, as amended (incorporated by reference from the Exhibits to our Registration Statement on Form S-3 Registration No. 33-52775, which became effective March 22, 1994); Certificate of Amendment of Certificate of Incorporation dated September 30, 1994 (incorporated by reference from the Exhibits to our Registration Statement on Form S-8 Registration No. 333-09957, which became effective August 12, 1996); Certificate of Amendment of Certificate of Incorporation dated September 22, 2000 (incorporated by reference from the Exhibits to our Registration Statement on Form S-8 Registration No. 333-48424, which became effective October 23, 2000).
  - 3.2 By-Laws of the Company, as amended effective April 17, 2007 (incorporated by reference from the Exhibits to our Form 8-K dated April 17, 2007 filed April 18, 2007).
  - 4.1 Form of Common Stock Certificate (incorporated by reference from the Exhibits to our Registration Statement on Form S-3 Registration No. 33-48935, which became effective October 5, 1992).
  - 4.2 Form of Indenture (incorporated by reference from the Exhibits to our Registration Statement on Form S-3 Registration No. 333-143571 which became effective June 7, 2007). Form of Supplemental Indenture for Senior Floating Rate Notes due 2010; Form of Supplemental Indenture for 6.150% Senior Notes due 2012; Form of Supplemental Indenture for 6.60% Senior Notes due 2017 (all incorporated by reference from the Exhibits to our Form 8-K dated June 13, 2007 filed June 18, 2007).

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- 4.3 Form of Global Note for Senior Floating Rate Notes due 2010; Form of Global Note for 6.150% Senior Notes due 2012; Form of Global Note for 6.600% Senior Notes due 2017 (all incorporated by reference from the Exhibits to our Form 8-K dated June 13, 2007 filed June 18, 2007).
- 10.1 Management Contract or Compensatory Plan or Arrangement: 2005 Executive Officer Equity Plan as amended effective September 28, 2007; Form of option grant agreement under 2005 Executive Officer Equity Plan; Form of performance share unit award agreement under 2005 Executive Officer Equity Plan (incorporated by reference from the Exhibits to our Form 8-K dated September 28, 2007 filed October 1, 2007.)
- 10.2 Management Contract or Compensatory Plan or Arrangement: Deferred Compensation Plan, as amended and restated effective January 1, 2008, approved September 21, 2007.
31. Rule 13a – 14(a)/15d – 14(a) Certifications.
32. Section 1350 Certifications.

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**SIGNATURE**

Pursuant to the requirements 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.

NATIONAL SEMICONDUCTOR CORPORATION

Date: October 1, 2007

/s/ Jamie E. Samath

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Jamie E. Samath  
Corporate Controller  
Signing on behalf of the registrant  
and as principal accounting officer



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Exhibit 31

**CERTIFICATION**

I, Brian L. Halla, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Semiconductor 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: October 1, 2007

/s/ Brian L. Halla

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Brian L. Halla  
Chairman and Chief Executive Officer

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**CERTIFICATION**

I, Lewis Chew, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Semiconductor 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;

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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: October 1, 2007

/s/ Lewis Chew

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Lewis Chew  
Senior Vice President, Finance and Chief  
Financial Officer

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Exhibit 32

### **CERTIFICATION PURSUANT TO**

### **18 U.S.C SECTION 1350, AS ADOPTED PURSUANT TO**

### **SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of National Semiconductor Corporation (the "Company") on Form 10-Q for the period ended August 26, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian L. Halla, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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- The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 1, 2007

/s/ Brian L. Halla

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Brian L. Halla  
Chairman and Chief Executive Officer

### **CERTIFICATION PURSUANT TO**

### **18 U.S.C SECTION 1350, AS ADOPTED PURSUANT TO**

### **SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of National Semiconductor Corporation (the "Company") on Form 10-Q for the period ended August 26, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lewis Chew, Senior Vice President, Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, and
- The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 1, 2007

/s/ Lewis Chew

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Lewis Chew  
Senior Vice President, Finance and Chief  
Financial Officer

