NATIONAL SEMICONDUCTOR CORP
Form 10-Q
March 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended February 28, 2010.
or

o 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<br>(State of Incorporation) | 95-2095071<br>(I.R.S. Employer Identification No.) |
| 2900 SEMICONDUCTOR DRIVE, P.O. BOX 58090<br>SANTA CLARA, CALIFORNIA<br>(Address of principal executive offices) | 95052-8090<br>(Zip Code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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

| | |
|---|---|
| Large accelerated filer x | Non-accelerated filer o |
| Accelerated filer o | Smaller reporting company o |

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

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 | Outstanding at February 28, 2010 |
|---|---|
| Common stock, par value $0.50 per share | 238,062,353 |

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 Feb. 28, 2010 | Three Months Ended Mar. 1, 2009 | Nine Months Ended Feb. 28, 2010 | Nine Months Ended Mar. 1, 2009 |
|---|---|---|---|---|
| | (Unaudited) | | (Unaudited) | |
| Net sales | $361.9 | $292.4 | $1,020.9 | $1,179.6 |
| Cost of sales | 118.2 | 124.3 | 360.0 | 426.9 |
| Gross margin | 243.7 | 168.1 | 660.9 | 752.7 |
| Research and development | 69.0 | 72.9 | 202.5 | 254.1 |
| Selling, general and administrative | 81.7 | 66.5 | 235.7 | 217.8 |
| Severance and restructuring expenses (recovery), net | 6.4 | (1.4) | 12.8 | 27.8 |
| Other operating expense (income), net | 0.6 | (0.2) | (0.3) | (0.4) |
| Operating expenses, net | 157.7 | 137.8 | 450.7 | 499.3 |
| Operating income | 86.0 | 30.3 | 210.2 | 253.4 |
| Interest income | 0.4 | 2.0 | 1.3 | 9.6 |
| Interest expense | (14.8) | (18.7) | (45.5) | (55.7) |
| Other non-operating income (expense), net | 0.8 | 1.0 | 6.1 | (14.1) |
| Income before taxes | 72.4 | 14.6 | 172.1 | 193.2 |
| Income tax expense (benefit) | 19.2 | (6.5) | 42.1 | 56.2 |
| Net income | $ 53.2 | $ 21.1 | $ 130.0 | $ 137.0 |
| Earnings per share: | | | | |
| Basic | $ 0.22 | $ 0.09 | $ 0.55 | $ 0.60 |
| Diluted | $ 0.22 | $ 0.09 | $ 0.54 | $ 0.58 |
| Weighted-average common and potential common shares outstanding: | | | | |
| Basic | 237.3 | 228.4 | 235.8 | 228.7 |
| Diluted | 242.5 | 231.3 | 240.5 | 235.5 |

See accompanying Notes to Condensed Consolidated Financial Statements

NATIONAL SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| (In Millions, Except Per Share Amounts) | Feb. 28, 2010 | May 31, 2009 |
|---|---|---|
| ASSETS | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $ 868.6 | $ 700.3 |
| Receivables, less allowances of $30.1 in fiscal 2010 and $18.7 in fiscal 2009 | 87.4 | 71.7 |
| Inventories | 113.9 | 134.6 |
| Deferred tax assets | 73.0 | 72.6 |
| Other current assets | 112.9 | 108.0 |
| Total current assets | 1,255.8 | 1,087.2 |
| Property, plant and equipment, net | 419.2 | 461.8 |
| Goodwill | 66.1 | 61.5 |
| Deferred tax assets, net | 258.5 | 251.5 |
| Other assets | 103.3 | 101.3 |
| Total assets | $2,102.9 | $1,963.3 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 339.0 | $ 62.5 |
| Accounts payable | 45.8 | 40.3 |
| Accrued expenses | 165.1 | 144.6 |
| Income taxes payable | 14.3 | 28.2 |
| Total current liabilities | 564.2 | 275.6 |
| Long-term debt | 906.2 | 1,227.4 |
| Long-term income taxes payable | 169.3 | 162.6 |
| Other non-current liabilities | 115.9 | 120.7 |
| Total liabilities | 1,755.6 | 1,786.3 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock of $0.50 par value. Authorized 850,000,000 shares | | |
| Issued and outstanding: | | |
| 238,062,353 in fiscal 2010 and 232,605,355 in fiscal 2009 | 119.0 | 116.3 |
| Additional paid-in-capital | 161.9 | 67.6 |
| Retained earnings | 190.1 | 116.8 |
| Accumulated other comprehensive loss | (123.7) | (123.7) |
| Total shareholders' equity | 347.3 | 177.0 |
| Total liabilities and shareholders' equity | $2,102.9 | $1,963.3 |

See accompanying Notes to Condensed Consolidated Financial Statements

NATIONAL SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended | |
|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 |
| Cash flows from operating activities: | (Unaudited) | |
| Net income | $ 130.0 | $ 137.0 |
| Adjustments to reconcile net income with net cash provided by operating activities: | | |
| Depreciation and amortization | 71.6 | 92.0 |
| Share-based compensation | 49.9 | 52.4 |
| Excess tax benefit from share-based payment arrangements | (0.2) | (4.4) |
| Tax (expense) benefit associated with stock options | (6.7) | 6.8 |
| (Gain) loss on investments | (6.1) | 14.1 |
| Non-cash restructuring recovery | (5.6) | (0.5) |
| Loss (gain) on disposal of equipment | 1.0 | (0.3) |
| Other, net | 0.9 | 2.1 |
| Changes in certain assets and liabilities, net: | | |
| Receivables | (17.4) | 52.2 |
| Inventories | 20.3 | (1.2) |
| Other current assets | (3.5) | 0.5 |
| Accounts payable and accrued expenses | 14.6 | (57.3) |
| Current and deferred income taxes | (15.5) | 30.3 |
| Other non-current liabilities | 12.9 | (31.5) |
| Net cash provided by operating activities | 246.2 | 292.2 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (25.9) | (75.7) |
| Proceeds from sale of property, plant and equipment | 2.0 | 1.0 |
| Business acquisition, net of cash acquired | (4.8) | - |
| Funding of benefit plan | (1.5) | (6.2) |
| Redemption and net realized losses of benefit plan | 7.6 | 10.4 |
| Other, net | (2.2) | 0.7 |
| Net cash used in investing activities | (24.8) | (69.8) |
| Cash flows from financing activities: | | |
| Repayment of bank borrowing | (46.8) | (47.0) |
| Payment on software license obligations | (6.3) | - |
| Excess tax benefit from share-based payment arrangements | 0.2 | 4.4 |
| Minimum tax withholding paid on behalf of employees for net share settlements | (1.7) | (0.2) |
| Issuance of common stock | 59.5 | 35.1 |
| Cash payments in connection with stock option exchange program | (1.3) | - |
| Purchase and retirement of treasury stock | - | (128.4) |
| Cash dividends declared and paid | (56.7) | (46.0) |
| Net cash used in financing activities | (53.1) | (182.1) |
| Net change in cash and cash equivalents | 168.3 | 40.3 |
| Cash and cash equivalents at beginning of period | 700.3 | 736.8 |
| Cash and cash equivalents at end of period | $ 868.6 | $ 777.1 |

See accompanying Notes to Condensed Consolidated Financial Statements

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, energy-efficient analog and mixed-signal solutions. Many of these solutions are marketed under our PowerWise® brand. Energy efficiency is our overarching theme, and our PowerWise® products enable systems that consume less power, extend battery life and generate less heat. Our leading-edge products include power management circuits and sub-systems, audio and operational amplifiers, communication interface products and data conversion solutions.

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 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 (U.S. GAAP) 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 31, 2009.

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the Codification or ASC), which established the Codification as the single source of authoritative accounting guidance in conformity with U.S. GAAP. The Codification was effective beginning in our second quarter of fiscal 2010. The adoption of the Codification required us to revise our references to previous authoritative guidance, but it did not have any effect on either our financial position or results of operations.

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 Feb. 28, 2010 | Three Months Ended Mar. 1, 2009 | Nine Months Ended Feb. 28, 2010 | Nine Months Ended Mar. 1, 2009 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income | $ 53.2 | $ 21.1 | $ 130.0 | $ 137.0 |
| Denominator: | | | | |
| Weighted-average common shares outstanding used for basic earnings per share | 237.3 | 228.4 | 235.8 | 228.7 |
| Effect of dilutive securities: | | | | |
| Stock options, restricted stock and restricted stock units | 5.2 | 2.9 | 4.7 | 6.8 |
| Weighted-average common and potential common shares outstanding used for diluted earnings per share | 242.5 | 231.3 | 240.5 | 235.5 |
| Anti-dilutive common equivalent shares: | | | | |
| Stock options: | | | | |
| Number of shares | 29.0 | 52.0 | 37.3 | 41.4 |
| Weighted-average exercise price | $ 21.25 | $ 21.15 | $ 22.00 | $ 23.48 |

Anti-dilutive common equivalent shares are not included in the calculation of diluted earnings per share. For the third quarter and first nine months of fiscal 2010 and 2009, the effect of these shares was anti-dilutive because the exercise price of the related stock options exceeded the average market price during the period. Shares related to outstanding stock options at February 28, 2010 that were anti-dilutive could potentially dilute basic earnings per share in the future.

Share-based Compensation

Share-based compensation expense included in operating results is presented in the following table:

| (In Millions, Except Per Share Amounts) | Three Months Ended Feb. 28, 2010 | Three Months Ended Mar. 1, 2009 | Nine Months Ended Feb. 28, 2010 | Nine Months Ended Mar. 1, 2009 |
|---|---|---|---|---|
| Cost of sales: | | | | |
| Gross compensation | $ 2.3 | $ 4.2 | $ 7.6 | $ 12.3 |
| Capitalized in inventory during the period | (2.0) | (3.1) | (6.1) | (10.4) |
| Realized from inventory during the period | 2.1 | 3.5 | 6.7 | 10.6 |
| | 2.4 | 4.6 | 8.2 | 12.5 |
| Research and development | 4.4 | 6.5 | 13.9 | 19.3 |
| Selling, general and administrative | 12.4 | 7.2 | 34.3 | 22.0 |
| Total share-based compensation included in income before taxes | 19.2 | 18.3 | 56.4 | 53.8 |
| Income tax benefit | (6.3) | (5.3) | (17.8) | (16.1) |
| Total share-based compensation, net of tax, included in net income | $ 12.9 | $ 13.0 | $ 38.6 | $ 37.7 |
| Share-based compensation effects on earnings per share: | | | | |
| Basic | $ 0.05 | $ 0.06 | $ 0.16 | $ 0.16 |
| Diluted | $ 0.05 | $ 0.06 | $ 0.16 | $ 0.16 |
| Share-based compensation capitalized in inventory | $ 0.9 | $ 1.8 | $ 0.9 | $ 1.8 |
| Total gross share-based compensation | $ 19.1 | $ 17.9 | $ 55.8 | $ 53.6 |

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 Feb. 28, 2010 | Three Months Ended Mar. 1, 2009 | Nine Months Ended Feb. 28, 2010 | Nine Months Ended Mar. 1, 2009 |
|---|---|---|---|---|
| Stock Option Plans: | | | | |
| Expected life (in years) | 3.9 | 3.8 | 3.8 | 3.7 |
| Expected volatility | 38% | 65% | 45% | 43% |
| Risk-free interest rate | 1.8% | 1.2% | 1.9% | 2.6% |
| Dividend yield | 2.2% | 2.5% | 2.3% | 1.3% |
| Stock Purchase Plans: | | | | |
| Expected life (in years) | n/a | n/a | 0.8 | 0.8 |
| Expected volatility | n/a | n/a | 42% | 38% |

| | | | | |
|---|---|---|---|---|
| Risk-free interest rate | n/a | n/a | 0.3% | 1.2% |
| Dividend yield | n/a | n/a | 2.3% | 1.5% |

The weighted-average fair value of stock options granted during the third quarter and first nine months of fiscal 2010 was $3.82 and $4.01 per share, respectively. The weighted-average fair value of stock options granted during the third quarter and first nine months of fiscal 2009 was $4.57 and $5.96 per share, respectively. There were no rights granted under the stock purchase plan in the third quarter of fiscal 2010 and 2009. The weighted-average fair value of rights granted under the stock purchase plan was $4.08 per share in the first nine months of fiscal 2010 and $4.72 per share for the first nine months of fiscal 2009.

The fair value of cash awards in connection with the executive officer retention arrangements was estimated using the Monte Carlo valuation method that used the following weighted-average assumptions as of:

| | Feb. 28, 2010 | May 31, 2009 |
|---|---|---|
| Executive Officer Retention Awards: | | |
| Closing stock price | $ 14.48 | $ 13.88 |
| Remaining term (in years) | 0.7 | 1.5 |
| Expected volatility | 38% | 60% |
| Risk-free interest rate | 0.3% | 0.9% |
| Dividend yield | 2.2% | 2.0% |

For all options granted after December 31, 2007, we determine expected life based on historical stock option exercise experience for the last four years, adjusted for our expectation of future exercise activity. For options granted prior to January 1, 2008, we use the simplified method specified by the Securities and Exchange Commission’s (SEC’s) Staff Accounting Bulletin (SAB) No. 107 to determine the expected life of stock options. The 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, 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 for the stock option and stock purchase plans, and on the last day of the quarter for the cash awards under the executive officer retention arrangements. The traded options selected for our measurement for the stock option and stock purchase plans are near-the-money and close to the exercise price of the option grants and have terms ranging from one to two years. The traded options selected for our measurement of the cash awards under the executive officer retention arrangements are near-the-money and at the closing price of our common stock on the last day of the quarter and have similar remaining terms (in years). The risk-free interest rate is based upon interest rates that match the expected life of the outstanding options under our employee stock option plans, the expected life of the purchase rights under our employee stock purchase plan and the retention period under the executive officer retention arrangements, as applicable. The dividend yield is based on recent history and our expectation of dividend payouts.

Note 2. Fair Value Measurements

We measure and report our financial assets and liabilities under the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures,” which we adopted in fiscal 2009. Effective at the beginning of fiscal 2010, we adopted the FASB authoritative guidance for non-financial assets and non-financial liabilities. The adoption for non-financial assets and non-financial liabilities had no significant effect on either our financial position or results of operations. Our non-financial assets subject to fair value measurements include goodwill, amortizable intangible assets, and property, plant and equipment, which are measured and recorded at fair value in the period they are determined to be impaired. As permitted under the FASB guidance, we did not apply its provisions to non-financial assets and non-financial liabilities prior to fiscal 2010.

We measure fair value to record our cash equivalents and the deferred compensation plan assets. The measurement of fair value for our long-term debt is used to provide disclosure and is not used to record the carrying value of our long-term debt.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability.

The FASB guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access.

Level 1 assets include our investments in institutional money-market funds that are classified as cash equivalents and the investment funds of the deferred compensation plan assets, where the respective financial instruments are traded in an active market with sufficient volume and frequency of activity.

- Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 2 assets and liabilities include our investments in commercial paper that are classified as cash equivalents and our senior notes that represent long-term debt instruments that are less actively traded in the market, but where quoted market prices exist for similar instruments that are actively traded.

- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Level 3 assets and liabilities include goodwill, amortizable intangible assets, and property, plant and equipment, which are measured at fair value using a discounted cash flow approach when they are determined to be impaired, and our unsecured term loan with a bank, where we determine fair value based on unobservable inputs using the best information available in the circumstances and take into consideration assumptions that market participants would use in pricing the liability.

Assets measured at fair value on a recurring basis include the following:

| (In Millions) | Quoted Prices in Active Markets for Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
|---|---|---|---|
| Balances at February 28, 2010: | | | |
| Assets: | | | |
| Institutional money-market funds | $ 149.8 | $ - | $ 149.8 |
| Commercial paper | - | 30.0 | 30.0 |
| Investment funds – Deferred compensation plan assets | 40.6 | - | 40.6 |
| Total assets measured at fair value | $ 190.4 | $ 30.0 | $ 220.4 |
| Balances at May 31, 2009: | | | |
| Assets: | | | |
| Institutional money-market funds | $ 368.4 | $ - | $ 368.4 |
| Investment funds – Deferred compensation plan assets | 40.9 | - | 40.9 |
| Total assets measured at fair value | $ 409.3 | $ - | $ 409.3 |

The institutional money-market funds and the various investment funds within our deferred compensation plan assets are traded in an active market and the net asset value of each fund on the last day of the quarter is used to determine its fair value. We determine fair value of our commercial paper by obtaining non-binding market prices from our broker on the last day of the quarter. We then corroborate these market prices by comparison to quoted market prices for similar instruments.

The fair value of our long-term debt (including the current portion) at February 28, 2010 was $1,284.4 million. The fair value measurements for our long-term debt instruments take into consideration credit rating changes, equity price movements, interest rate changes and other economic variables.

Note 3. Condensed Consolidated Financial Statements Detail

Condensed Consolidated Balance Sheet

| (In Millions) | Feb. 28, 2010 | May 31, 2009 |
|---|---|---|
| Receivable allowances: | | |
| Doubtful accounts | $ 0.5 | $ 1.1 |
| Returns and allowances | 29.6 | 17.6 |
| Total receivable allowances | $ 30.1 | $ 18.7 |
| Inventories: | | |
| Raw materials | $ 7.7 | $ 5.0 |
| Work in progress | 71.8 | 81.6 |
| Finished goods | 34.4 | 48.0 |
| Total inventories | $ 113.9 | $ 134.6 |
| Other current assets: | | |
| Prepaid income taxes | $ 69.9 | $ 71.1 |
| Prepaid expenses | 21.5 | 31.2 |
| Assets held for sale | 20.7 | 5.4 |
| Other | 0.8 | 0.3 |
| Total other current assets | $ 112.9 | $ 108.0 |
| Property, plant and equipment: | | |
| Total property, plant and equipment | $ 2,393.3 | $ 2,505.3 |
| Less accumulated depreciation and amortization | (1,974.1) | (2,043.5) |
| Total property, plant and equipment, net | $ 419.2 | $ 461.8 |
| Other assets: | | |
| Deposits | $ 2.2 | $ 7.1 |
| Debt issuance costs | 6.1 | 8.2 |
| Income tax receivable | 41.7 | 35.2 |
| Deferred compensation plan assets | 40.6 | 40.9 |
| Other | 12.7 | 9.9 |
| Total other assets | $ 103.3 | $ 101.3 |
| Accrued expenses: | | |
| Payroll and employee related | $ 96.6 | $ 39.5 |
| Accrued interest payable | 11.6 | 24.9 |
| Severance and restructuring expenses | 20.4 | 44.4 |
| Other | 36.5 | 35.8 |
| Total accrued expenses | $ 165.1 | $ 144.6 |
| Other non-current liabilities: | | |
| Accrued pension cost | $ 58.6 | $ 52.7 |
| Deferred compensation plan liability | 40.6 | 40.9 |

| | | |
|---|---|---|
| Other | 16.7 | 27.1 |
| Total other non-current liabilities | $ 115.9 | $ 120.7 |

Condensed Consolidated Balance Sheets (Continued)

| (In Millions) | Feb. 28, 2010 | May 31, 2009 |
|---|---|---|
| Accumulated other comprehensive loss: | | |
| Defined benefit pension plans | $ (123.5) | $ (123.5) |
| Other | (0.2) | (0.2) |
| Total accumulated other comprehensive loss | $ (123.7) | $ (123.7) |

Condensed Consolidated Statements of Income

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 | Feb. 28, 2010 | Mar. 1, 2009 |
| Other operating expense (income), net: | | | | |
| Net intellectual property income | $ - | $ (0.2) | $ - | $ (0.4) |
| Litigation settlement | - | - | (0.5) | - |
| Other | 0.6 | - | 0.2 | - |
| Total other operating expense (income), net | $ 0.6 | $ (0.2) | $ (0.3) | $ (0.4) |
| Other non-operating income (expense), net: | | | | |
| Trading securities: | | | | |
| Change in net unrealized holding gains/losses | $ 0.5 | $ 1.0 | $ 5.8 | $ (14.1) |
| Non-marketable investments: | | | | |
| Gain from liquidation of investment | 0.3 | - | 0.3 | - |
| Total gain (loss) on investments | 0.8 | 1.0 | 6.1 | (14.1) |
| Total other non-operating income (expense), net | $ 0.8 | $ 1.0 | $ 6.1 | $ (14.1) |

Note 4. Statements of Cash Flows Information

| | Nine Months Ended | |
|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for: | | |
| Interest | $ 56.7 | $ 66.5 |
| Income taxes | $ 74.0 | $ 21.6 |
| Supplemental Schedule of Non-Cash Investing and Financing Activities: | | |
| Acquisition of software under license obligations, net | $ - | $ 3.3 |
| Cancellation of shares withheld for taxes on restricted stock | $ 1.7 | $ 0.3 |

| | | |
|---|---|---|
| and performance share unit awards | | |
| Deposit applied to purchase equipment | $ 13.8 | $ - |

Note 5. Cost Reduction Programs and Restructuring of Operations

We recorded net charges for severance and restructuring expenses of $6.4 million in the third quarter and $12.8 million in the first nine months of fiscal 2010. The following table provides additional detail related to these expenses:

| (In Millions) | Analog Segment | All Others | Total |
|---|---|---|---|
| Three Months Ended February 28, 2010: | | | |
| March 2009 workforce reduction and plant closures: | | | |
| Other exit-related costs | $ - | $ 7.0 | $ 7.0 |
| Severance | - | 0.2 | 0.2 |
| Gain on sale of equipment | - | (0.6) | (0.6) |
| Other equipment gain, net | - | (0.2) | (0.2) |
| Total severance and restructuring expenses, net | $ - | $ 6.4 | $ 6.4 |
| Nine Months Ended February 28, 2010: | | | |
| March 2009 workforce reduction and plant closures: | | | |
| Other exit-related costs | $ - | $ 20.2 | $ 20.2 |
| Severance | - | 0.3 | 0.3 |
| Gain on sale of equipment | - | (0.6) | (0.6) |
| Other equipment gain, net | - | (1.4) | (1.4) |
| Release of reserves: | | | |
| Severance | (0.4) | (3.0) | (3.4) |
| | (0.4) | 15.5 | 15.1 |
| November 2008 workforce reduction: | | | |
| Release of reserves: | | | |
| Severance | (0.2) | (2.0) | (2.2) |
| Fiscal 2008 workforce reduction and manufacturing restructure: | | | |
| Release of reserves: | | | |
| Other exit-related costs | - | (0.1) | (0.1) |
| Total severance and restructuring expenses, net | $ (0.6) | $ 13.4 | $ 12.8 |

In March 2009, we announced that we would take actions to reduce overall expenses in response to weak economic conditions and related business levels. As part of the plan, we eliminated approximately 850 positions worldwide in our product lines, sales and marketing, manufacturing and support functions. The majority of the affected employees departed by the end of fiscal 2009. We also planned to further reduce headcount by approximately 875 through the eventual closure of our wafer fabrication facility in Arlington, Texas and our assembly and test plant in Suzhou, China. The departure of these additional employees coincides with the phased timing of the plant closures. In connection with these actions, we recorded additional net charges of $6.4 million in the third quarter and $15.1 million in the first nine months of fiscal 2010. These amounts include $7.0 million and $20.2 million of other exit-related costs associated with closure and transfer activities that occurred at our manufacturing sites in Texas and China during the third quarter and first nine months of fiscal 2010, respectively. These other exit-related costs were partially offset by the following gains and recovery. We sold some of the equipment in China and Texas for which we recorded a gain of $0.6 million in the third quarter of fiscal 2010. Other equipment gain, net of $0.2 million in the third quarter and $1.4 million in the first nine months of fiscal 2010 are also included in the net charges. In addition, we recorded a recovery of $3.4 million in the first nine months of fiscal 2010 due to adjustments to reduce accrued severance expenses for manufacturing employees who voluntarily terminated prior to their scheduled departure dates and for severance packages that were finalized with certain employees in foreign locations.

Since these net charges relate to actions announced in fiscal 2009, total cumulative net charges (including the net charges incurred in fiscal 2010 and 2009) through February 28, 2010 for these actions are presented in the following table:

| (In Millions) | Analog Segment | All Others | Total |
|---|---|---|---|
| March 2009 workforce reduction and plant closures: | | | |
| Severance | $ 14.0 | $ 46.0 | $ 60.0 |
| Other exit-related costs | - | 23.5 | 23.5 |
| Impairment of equipment | - | 54.3 | 54.3 |
| Gain on sale of equipment | - | (0.6) | (0.6) |
| Other equipment gain, net | - | (1.4) | (1.4) |
| Release of reserves: | | | |
| Severance | (0.4) | (3.0) | (3.4) |
| Total cumulative severance and restructuring expenses for the March 2009 workforce reduction and plant closures | $ 13.6 | $ 118.8 | $ 132.4 |

Remaining activities associated with the closures of the China (where we have ceased production activity) and Texas manufacturing facilities are expected to continue over the next 3 quarters. We expect to incur approximately $18 million to $23 million over the same period for other exit-related costs associated with these remaining activities. As a result, total charges for all actions announced in March 2009 are expected to be approximately $150 million to $155 million. Most of this amount will be reported within our corporate group, which is not considered an operating segment, and will be included in the category described as "All Others."

By the end of the first quarter of fiscal 2010, production activity in China ceased, and we are actively engaged in locating a buyer to purchase the manufacturing facility and its existing machinery and equipment in its current condition. In addition, certain equipment that is no longer being used in our Texas manufacturing operations is expected to be sold. During the third quarter of fiscal 2010, we recorded a gain of $0.6 million upon completing the sale of some of the equipment in China and Texas, which had a carrying value of $1.2 million. Some of the assets (with a carrying value of $0.5 million) that were previously classified as held for sale were also transferred to our manufacturing facility in Greenock, Scotland during the third quarter of fiscal 2010. The remainder of the China plant assets and the Texas equipment, which have a total carrying value of $20.7 million after impairment charges, are classified as held for sale and reported in other current assets in the condensed consolidated balance sheet as of February 28, 2010. We have ceased depreciation on these assets and now measure the carrying value at the lower of historical net book value or fair value (less cost to sell).

In connection with the workforce reduction announced in November 2008, we recorded a recovery of $2.2 million in the first nine months of fiscal 2010 for an adjustment to reduce accrued severance expenses upon finalizing severance packages with certain terminated employees in foreign locations. In the first nine months of fiscal 2010 described above, we also recorded a recovery of $0.1 million recorded upon the release of a residual accrued balance for other exit-related costs associated with the fiscal 2008 manufacturing restructure.

The following table provides a summary of the activities through the first nine months of fiscal 2010 related to severance and restructuring costs included in accrued expenses:

| (In Millions) | March 2009 Workforce Reduction and Plant Closures | | Cost Reduction and Restructuring Actions in Prior Years | | |
|---|---|---|---|---|---|
| | Severance | Other Exit-Related Costs | Severance | Other Exit-Related Costs | Total |
| Balance at May 31, 2009 | $ 33.9 | $ 1.1 | $ 9.1 | $ 0.3 | $ 44.4 |
| Cost reduction charges | 0.3 | 20.2 | - | - | 20.5 |
| Cash payments | (15.2) | (20.7) | (3.5) | (0.2) | (39.6) |
| Exchange rate adjustment | 0.6 | - | 0.2 | - | 0.8 |
| Release of residual reserves | (3.4) | - | (2.2) | (0.1) | (5.7) |
| Balance at February 28, 2010 | $ 16.2 | $ 0.6 | $ 3.6 | $ - | $ 20.4 |

During the first nine months of fiscal 2010 we paid severance to 549 employees in connection with the workforce reductions announced in fiscal 2009. Payments for other exit-related costs were primarily for expenses associated with closure and transfer activities incurred in connection with the closures of our manufacturing facilities in Texas and China.

The balances at February 28, 2010 represent remaining estimated costs for activities that have occurred, but have yet to be paid, as a result of the workforce reduction and the manufacturing plant closures announced in fiscal 2009. Payments for the remaining $19.8 million of severance balances are expected to be paid over the next 4 quarters as we complete the closures of our two manufacturing facilities and most of those affected employees will depart by the end of our fiscal 2011 first quarter. Severance amounts are generally paid 30-60 days after the employee’s actual departure date or may be deferred until the beginning of the calendar year after their departure date. Other exit-related costs primarily relate to expenses associated with closure and transfer activities occurring in these manufacturing locations.

Note 6. Acquisition

In October 2009, we acquired Energy Recommerce Inc. (ERI), a privately held solar energy company that provides web-based monitoring of commercial photovoltaic systems performance. The acquisition of ERI expands our portfolio of power management technologies.

Beginning in fiscal 2010, we adopted ASC Topic 805, “Business Combinations,” which changed the accounting for business combinations. The acquisition of ERI was accounted for under the new guidance using the acquisition method of accounting with a purchase price of $6.1 million for all of the outstanding shares of the company’s common stock. The purchase price was allocated as follows:

| (In Millions) | Total |
|---|---|
| Net assets | $ 0.2 |
| Acquired developed technology | 0.8 |
| Other intangible assets | 1.1 |
| Goodwill | 4.6 |
| Deferred tax liability | (0.6) |

| | | |
|---|---|---|
| Total | $ | 6.1 |

Goodwill is included in our Analog segment and primarily represents the expected value of future customers and future technologies that have yet to be determined. Future customers and technologies do not meet the criteria for recognition separately from goodwill, because they are part of the future development and growth of the business. No amount of goodwill is expected to be deductible for tax purposes.

Revenue and earnings of ERI since the acquisition date included in our operating results for the third quarter and first nine months of fiscal 2010 were immaterial. In addition, pro forma results of operations related to this acquisition have not been presented since ERI's operating results up to the date of acquisition were immaterial to our consolidated financial statements.

Note 7. Goodwill

The following table presents goodwill by reportable segments:

| (In Millions) | Analog Segment | All Others | Total |
|---|---|---|---|
| Balances at May 31, 2009 | $ 54.2 | $ 7.3 | $ 61.5 |
| Acquisition of ERI | 4.6 | - | 4.6 |
| Balances at February 28, 2010 | $ 58.8 | $ 7.3 | $ 66.1 |

Note 8. Debt

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 2009. The agreement contains restrictive covenants, conditions and default provisions that require the maintenance of certain financial ratios. As of February 28, 2010, we were in compliance with all financial covenants under the agreement. The agreement expires in October 2010.

Note 9. Income Taxes

We had income tax expense of $19.2 million in the third quarter of fiscal 2010. In the third quarter of fiscal 2009, we had an income tax benefit of $6.5 million that included tax benefits of $10.6 million related to the realization of deferred taxes associated with a non-marketable investment we previously held. Income tax expense for the first nine months of fiscal 2010 was $42.1 million compared to $56.2 million in the first nine months of fiscal 2009. Although lower income in fiscal 2010 compared to fiscal 2009 was a primary factor for lower income tax expense for the nine-month period, lower income tax expense in the first nine months of fiscal 2010 was also due to a higher proportion of our earnings coming from our Malaysian subsidiary. Earnings from our Malaysian subsidiary are not taxable because of a tax holiday granted by the Malaysian government that is effective for a ten-year period that began in our fiscal 2010. In addition, higher tax benefits from restructuring charges that specifically arose in the first nine months of fiscal 2010 contributed to lower income tax expense in the first nine months of fiscal 2010 compared to the same period of fiscal 2009. Furthermore, we had higher income tax expense in the first nine months of fiscal 2009 because the tax holiday granted by the Malaysian government required us to write-down foreign deferred tax assets during that period.

Note 10. Retirement and Pension Plans

Net periodic pension costs for our defined benefit pension plans maintained in the United Kingdom, Germany and Taiwan are presented in the following table:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 | Feb. 28, 2010 | Mar. 1, 2009 |
| Service cost of benefits earned during the period | $ 0.8 | $ 0.7 | $ 2.5 | $ 2.6 |
| Plan participant contributions | (0.2) | (0.1) | (0.6) | (0.6) |
| Interest cost on projected benefit obligation | 4.0 | 3.5 | 12.1 | 11.7 |
| Expected return on plan assets | (3.5) | (3.9) | (10.4) | (13.1) |

| | | | | |
|---|---|---|---|---|
| Net amortization and deferral | 1.4 | 0.7 | 4.2 | 2.4 |
| Net periodic pension cost | $ 2.5 | $ 0.9 | $ 7.8 | $ 3.0 |

Total contributions paid to these plans during fiscal 2010 were $0.4 million in the third quarter and $1.4 million in the first nine months. Total contributions paid to these plans during fiscal 2009 were $0.4 million in the third quarter and $11.4 million in the first nine months. We currently expect our total fiscal 2010 contribution to these plans to be approximately $7 million.

Note 11. Shareholders' Equity

Stock Repurchase Programs

During the third quarter and first nine months of fiscal 2010, we did not repurchase any shares of our common stock in connection with the $500 million stock repurchase program we announced in June 2007. Under this program, we had a balance of $127.4 million remaining available for future stock repurchases as of February 28, 2010. We do not have any plans to terminate the program prior to its completion, and there is no expiration date for this repurchase program.

Dividends

We paid cash dividends of $19.1 million ($0.08 per outstanding share of common stock) in the third quarter and a total of $56.7 million in the first nine months of fiscal 2010. We paid cash dividends of $18.3 million ($0.08 per outstanding share of common stock) in the third quarter and a total of $46.0 million in the first nine months of fiscal 2009.

On March 11, 2010, our Board of Directors declared a cash dividend of $0.08 per outstanding share of common stock, which will be paid on April 12, 2010 to shareholders of record at the close of business on March 22, 2010.

Note 12. Share-based Compensation Plans

Stock Option Plans

In September 2009, the shareholders of National Semiconductor approved the 2009 Incentive Award Plan (the 2009 Plan). The 2009 Plan replaces our four existing equity compensation plans that provide share-based awards to employees and officers of the company. The 2009 Plan authorizes 16,000,000 shares of our common stock for issuance to eligible individuals in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, dividend equivalents, stock payments, deferred stock, other stock-based awards and performance-based awards. In addition to employees and officers of the company, members of our Board of Directors and consultants to the company are eligible to participate, as determined by the Compensation Committee of the Board of Directors.

The 2009 Plan provides for the grant of both nonqualified stock options and incentive stock options (as defined in the U.S. tax code). The 2009 Plan provides for the grant of stock options at fair market value on the date of grant. The term and vesting period of the stock options are set by the Compensation Committee of our Board of Directors. To date, options granted under the terms of the 2009 Plan expire no later than six years and one day after the date of grant and vest one-fourth of the total grant one year after grant and the rest in equal monthly installments over the next three years.

Restricted stock and restricted stock units granted under the 2009 Plan are subject to restrictions which may be based exclusively on the passage of time or may also include performance conditions as determined by the Compensation Committee of our Board of Directors. Vesting for both restricted stock and restricted stock units can begin to occur six months after grant and the minimum full vesting period for non-performance contingent restricted shares is three years. The minimum vesting period for any performance contingent restricted shares is one year.

We will continue to grant awards to members of our Board of Directors under the existing directors stock plan until all remaining authorized shares have been used. At that time, future awards will then be granted under the 2009 Plan.

The following table summarizes the activity of common stock shares related to stock options granted under our equity plans (including the 2009 Plan, but excluding the director stock option plan under which new options can no longer be granted) during the first nine months of fiscal 2010:

| | Number of Shares (In Millions) | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at May 31, 2009 | 53.8 | $19.95 |
| Granted | 6.4 | $13.11 |
| Exercised | (4.2) | $11.48 |
| Forfeited | (13.3) | $23.70 |
| Expired | (4.3) | $21.54 |
| Outstanding at February 28, 2010 | 38.4 | $18.26 |

The total intrinsic value of options exercised in fiscal 2010 was $1.0 million in the third quarter and $7.1 million in the first nine months. The total intrinsic value of options exercised in fiscal 2009 was $1.0 million in the third quarter and $22.9 million in the first nine months. Total unrecognized compensation cost related to stock option grants as of February 28, 2010 was $25.4 million, which is expected to be recognized over a weighted-average period of 2.5 years.

The following table provides additional information about total options outstanding under the stock option plans (excluding the director stock option plan) at February 28, 2010:

| | 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 | 37.9 | $18.33 | $48.9 | 2.3 |
| Currently exercisable | 28.6 | $19.49 | $36.7 | 1.4 |

Other Stock Plans

The following table provides a summary of activity during the first nine months of fiscal 2010 for grants of restricted stock not yet vested and restricted stock units under the restricted stock plan, the EEP and the 2009 Plan (excluding units granted with performance based restrictions):

| | Number of Shares (In Millions) | Weighted-Average Grand-Date Fair Value |
|---|---|---|
| Outstanding at May 31, 2009 | 1.1 | $15.59 |
| Granted | 2.1 | $13.74 |
| Vested | (0.1) | $22.03 |
| Forfeited | (0.1) | $13.20 |
| Outstanding at February 28, 2010 | 3.0 | $14.19 |

The total fair value of restricted shares that vested in fiscal 2010 was $0.3 million in the third quarter and $1.2 million in the first nine months. The total fair value of restricted shares that vested in fiscal 2009 was $0.2 million in the third quarter and $1.1 million in the first nine months. Total unrecognized compensation cost related to non-vested restricted stock shares and restricted stock units outstanding as of February 28, 2010 was $29.8 million, which is expected to be recognized over a weighted-average period of 3.2 years.

Under the director stock plan, we granted 111,924 restricted shares of common stock to our directors in the first nine months of fiscal 2010, which includes 12,000 restricted shares of common stock granted to one of our directors in July 2009 in connection with his appointment to our Board of Directors. Total unrecognized compensation cost as of February 28, 2010 related to non-vested awards granted under this plan was $0.6 million, which is expected to be recognized over a weighted-average period of 2.1 years.

Under the 2005 Executive Officer Equity Plan (EOEP), options to purchase 1,280,000 shares of common stock were granted in the first nine months of fiscal 2010. These shares are included in the amounts presented in the table above that summarizes stock option activity. Grants will no longer be made under the EOEP.

With respect to performance share units under the EOEP, 259,374 shares were issued in July 2009 upon completion of the third two-year performance period. Targets for a fifth two-year performance period were established in July 2009 and will be measured after the end of fiscal 2011. In addition, targets for a one-year performance period were established, which will be measured after the end of fiscal 2010, but requires a two-year vesting period. Performance against targets for a fourth two-year performance period, which targets were established in July 2008, will be measured after the end of fiscal 2010. Total unrecognized compensation cost related to unvested performance share units as of February 28, 2010 was $15.1 million, which is expected to be recognized over a weighted-average period of 1.1 years.

Total unrecognized compensation cost as of February 28, 2010 related to the executive officer retention awards, which are indexed to the price of our common stock, was $4.9 million and is expected to be recognized over a weighted-average period of 0.7 year.

Stock Option Exchange Program

We completed a stock option exchange program in November 2009 prior to the end of our fiscal 2010 second quarter. Like many companies, we had experienced a significant decline in our stock price during calendar 2008 and 2009 as a result of the global financial and economic crisis. Our employees held stock options with exercise prices significantly above the recent trading prices of our common stock. The stock option exchange program offered our employees the opportunity to surrender certain of those outstanding stock options for cancellation in exchange for a number of restricted stock units to be granted under the 2009 Plan having a value roughly equivalent to the value of the options exchanged. Named executive officers and members of our Board of Directors were not eligible to participate in the option exchange program.

Under the exchange program, eligible stock options with an exercise price of $17.00 and above could be exchanged for restricted stock units at an exchange ratio that ranged between 5 to 1 and 10 to 1 depending on the actual exercise prices of the eligible stock options. The exchange ratios for the option exchange were determined using the Black-Scholes option pricing model with a computation of expected volatility based on a combination of historical and implied volatility. We used this model to enable us to calculate exchange ratios that would result in a fair value of the new restricted stock units to be effectively equal to the fair value of the surrendered eligible stock options and as such, incremental compensation expense was immaterial.

Under the exchange program, eligible stock options to purchase an aggregate of 12,830,732 shares held by 1,713 employees were cancelled. Of this amount, eligible options to purchase 11,988,793 shares were cancelled and exchanged for a total of 1,670,944 new restricted stock units on November 16, 2009. The aggregate fair value of the restricted stock units was $22.7 million based on the closing price of our common stock on the exchange date. These restricted stock units will vest ratably each year for four years unless the exchanged stock options were fully vested, in which case they will vest ratably each year for three years. Under the terms of the exchange program, a cash payment was offered for the surrender of eligible stock options for which application of the exchange ratios would result in the issuance of less than 100 restricted stock units. Eligible options to purchase 841,939 shares were cancelled in exchange for an aggregate $1.3 million cash payment made to employees on November 16, 2009. As a result of the cash payments, share-based compensation expense in the first nine months of fiscal 2010 includes an incremental expense of $1.7 million.

Note 13. Segment Information

The following tables present information related to our reportable segments:

| (In Millions) | Analog Segment | All Others | Total |
|---|---|---|---|
| Three months ended February 28, 2010: | | | |
| Sales to unaffiliated customers | $ 339.5 | $ 22.4 | $ 361.9 |
| Segment income (loss) before taxes | $ 87.5 | $ (15.1) | $ 72.4 |
| Three months ended March 1, 2009: | | | |
| Sales to unaffiliated customers | $ 267.3 | $ 25.1 | $ 292.4 |
| Segment income (loss) before taxes | $ 21.8 | $ (7.2) | $ 14.6 |
| Nine months ended February 28, 2010: | | | |
| Sales to unaffiliated customers | $ 957.2 | $ 63.7 | $1,020.9 |
| Segment income (loss) before taxes | $ 212.0 | $ (39.9) | $ 172.1 |
| Nine months ended March 1, 2009: | | | |
| Sales to unaffiliated customers | $1,074.0 | $ 105.6 | $1,179.6 |
| Segment income (loss) before taxes | $ 211.3 | $ (18.1) | $ 193.2 |

The information in the table above for the three and nine months ended March 1, 2009 has been reclassified to present segment information based on the structure of our operating segments in fiscal 2010. Operating segments that do not meet the criteria of a reportable segment are combined under the category “All Others.” Sales for the category “All Others,” include sales of products from non-analog business units that are no longer a part of our core focus, as well as sales generated from foundry and contract service arrangements.

Note 14. 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 third quarter and first nine months of fiscal 2010.

We have retained responsibility for environmental claims and matters connected with businesses we sold in fiscal 1996 and 1997. 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

We have been notified by the IRS that our tax returns for fiscal 2007 and 2008 will be audited beginning in our fourth quarter of fiscal 2010. In addition, the IRS will audit our amended tax returns for fiscal 2005 and 2006. Several U.S. state taxing jurisdictions are examining our state tax returns for fiscal 2001 through 2005, and tax authorities from several foreign jurisdictions are also examining our foreign tax returns. During the first nine months of fiscal 2010, the state of California closed its audits of fiscal years up through fiscal 2000, which resulted in an immaterial adjustment. We believe we have made adequate tax payments and/or accrued adequate amounts of reserves such that the outcomes of these audits will have no material adverse effects on our financial statements.

Other Matters

In May 2008, eTool Development, Inc. and eTool Patent Holdings Corporation (collectively eTool) brought suit in the U.S. District Court for the Eastern District of Texas alleging that our WEBENCH® online design tools infringe an eTool patent and seeking an injunction and unspecified amounts of monetary damages (trebled because of the alleged willful infringement), attorneys' fees and costs. In December 2008, eTool amended the complaint and counterclaims to include our SOLUTIONS online tool in its allegations of infringement of the eTool patent. We filed an answer to the amended complaint and counterclaims for declaratory judgment of non-infringement and invalidity of the patent. On February 27, 2009, the Court held a scheduling conference setting a claim construction hearing for August 2011 and a jury trial for January 2012. eTool served its infringement contentions in March 2009 and we served our invalidity contentions in May 2009. Both parties exchanged initial disclosures on May 29, 2009. The discovery phase of the case is now open and ongoing. In February 2010, we filed our inter partes reexamination petition with the United States Patent and Trademark Office (PTO), seeking a determination that the '919 patent is invalid. On March 15, 2010, the PTO issued a communication granting our inter partes reexamination petition. We intend to contest the case through all available means.

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 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 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.

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

This MD&A contains 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 (the Exchange Act). 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, Item 1A. “Risk Factors” and the “Outlook” section of this MD&A. These statements relate to, among other things, sales, gross margins, operating expenses, capital expenditures, economic and market conditions, research and development efforts, asset dispositions, and acquisitions of and investments in other companies, and are indicated by words or phrases such as “anticipate,” “expect,” “outlook,” “foresee,” “believe,” “could,” “intend,” “will,” ar words or phrases. These statements involve risks and 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 (SEC). 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 Quarterly Report on Form 10-Q for the period ended February 28, 2010 and in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009.

### 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, energy-efficient analog and mixed-signal solutions. Many of these solutions are marketed under our PowerWise® brand. We are focused on the following:

- growing our core revenues by marketing our extensive portfolio of general purpose analog products to a broad base of customers utilizing our established distribution channels and industry leading design tools;
- identifying and understanding the complex application-specific system problems addressable by analog innovation;
- providing energy efficient, analog-intensive solutions that enable customers to differentiate their products while reducing the power consumption of their systems;
- targeting our analog solutions towards emerging areas or applications that can provide further growth on top of our core business (current examples would include LED lighting, renewable energy, portable medical, communications infrastructure and personal mobile devices);
- consistently delivering competitive products with superior manufacturing and logistics execution to our customers, and
- consistently delivering superior returns on invested capital to our shareholders.

Approximately 94 percent of our net sales in the first nine months of fiscal 2010 came from Analog segment products. Beyond the standard linear categories defined by the World Semiconductor Trade Statistics or WSTS, we also sell analog subsystems specifically targeted at certain particular markets and applications. Energy efficiency is our overarching theme, and our PowerWise® products enable systems that consume less power, extend battery life and generate less heat. Our leading-edge products include power management circuits and sub-systems, audio and operational amplifiers, communication interface products and data conversion solutions. One of our most recently launched products, the SolarMagic® power optimizer, was awarded the ELEKTRA 2009 Renewable Energy Design Award and the 2009 InterSolar Innovation Award. 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 31, 2009.

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:

a) 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 62 percent of our semiconductor product sales were made to distributors in the first nine months of fiscal 2010, compared to approximately 53 percent in the first nine months of fiscal 2009. 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. We continuously monitor the claimed allowance against the rates assumed in our estimates of the allowances. 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 our 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 $13.7 million in the first nine months of fiscal 2010 and $13.4 million in the first nine months of 2009.

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 $1.2 million in the first nine months of fiscal 2010 and $2.1 million in the first nine months of fiscal 2009. 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 condensed 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 perfunctory or inconsequential to the other party.

b) 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 reduced for any 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.

c) 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;
- 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 our estimate of future undiscounted net cash flows is 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.

We classify long-lived assets as assets held for sale when the criteria have been met, in accordance with ASC Topic 360, “Property, Plant, and Equipment.” Upon classification of an asset as held for sale, we cease depreciation of the asset and classify the asset as a current asset at the lower of its carrying value or fair value (less cost to sell). If an asset is held for sale as a result of a restructuring of operations, any write down to fair value (less cost to sell) is included as a restructuring expense in the consolidated statement of income. When we commit to a plan to abandon a long-lived asset before the end of its previously estimated useful life, we revise depreciation estimates to reflect the use of the asset over its shortened useful life. We review depreciation estimates periodically, including both estimated useful lives and estimated salvage values. These reviews may result in changes to historical depreciation rates, which are considered to be changes in accounting estimates and are accounted for on a prospective basis.

Our impairment evaluation of goodwill is based on comparing the fair value to the carrying value of our reporting units containing goodwill. Our reporting units are based on our operating segments as defined under ASC Topic 280, "Segment Reporting." 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 February 28, 2010, our reporting units containing goodwill include our high speed product, infrastructure power, mobile devices power, performance power products and precision signal path business units, all of which are operating segments within our Analog reportable segment, and our custom solutions business unit which is included in the category "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.

d) 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 realized. 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 losses 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 our operation in Malaysia, as we have concluded that the deferred tax assets will not be realized in the foreseeable future due to a tax holiday granted by the Malaysian government that is effective for a ten-year period that began in our fiscal 2010 and the uncertainty of sufficient taxable income in Malaysia beyond fiscal 2019.

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 United States and international jurisdictions or changes in our tax structure 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 an 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 ASC Topic 740, "Income Taxes," provides further clarification on the accounting for uncertainty in income taxes recognized in the financial statements, the threshold and measurement attribute prescribed by the FASB guidance will continue to require significant judgment by management. If the ultimate resolution of tax uncertainties is different from what we have currently estimated, this could have a material impact on income tax expense.

e) Share-based Compensation

We measure and record compensation expense for all share-based payment awards based on estimated fair values in accordance with ASC Topic 718, "Compensation-Stock Compensation." We provide share-based awards to our employees, executive officers and directors through various equity compensation plans including our employee equity, stock option, stock purchase and restricted stock plans. The fair value of stock option and stock purchase equity awards is measured at the date of grant using a Black-Scholes option pricing model, and the fair value of restricted stock awards is based on the market price of our common stock on the date of grant. Compensation expense for cash awards to be paid in connection with retention arrangements with each of our executive officers (approved by the Compensation Committee of our Board of Directors in November 2008) is considered a share-based payment award and measured at fair value under the FASB guidance since the award is indexed to the price of our common stock. The fair value of these cash awards is measured each reporting period and is calculated using the Monte Carlo valuation method.

In determining fair value using the Black-Scholes option pricing model and the Monte Carlo valuation method, management is required to make certain estimates of the key assumptions such as expected life, expected volatility, dividend yields and risk free interest rates. The estimates of these key assumptions involve judgment regarding subjective future expectations of market price and trends. The assumptions used in determining expected life and expected volatility have the most significant effect on calculating the fair value of share-based awards. For all options granted after December 31, 2007, we determine expected life based on historical stock option exercise experience for the last four years, adjusted for our expectation of future exercise activity. For options granted prior to January 1, 2008, we use the simplified method specified by the SEC's Staff Accounting Bulletin No. 107, to determine the expected life of stock options. 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 and Monte Carlo computations of fair value would also increase, thereby resulting in higher compensation costs being recorded.

The FASB guidance 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 cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed.

We also grant performance share units to executive officers that require us to estimate expected achievement of performance targets over the performance period. This estimate involves judgment regarding future expectations of various financial performance measures such as those described in the overview section below. If there are changes in our estimate of the level of financial performance measures expected to be achieved, the related share-based compensation expense may be significantly increased or reduced in the period that our estimate changes.

Overview

We focus on providing leading-edge analog solutions, with a large portion of our sales classified within the analog standard linear categories as defined by WSTS. In the first nine months of fiscal 2010, approximately 94 percent of our total sales came from our Analog segment. We believe that the success we have achieved in these markets has been driven by our knowledge of the analog markets, our circuit design capabilities and our understanding of electronic systems, especially as they pertain to the energy efficiency that is enabled by our products. Our success has also been due to our innovative packaging and proprietary analog process technology, as well as our comprehensive manufacturing supply and logistics network.

Net sales in the third quarter of fiscal 2010 were higher than net sales in the third quarter of fiscal 2009 reflecting recent improvement in our business as the global economy has slowly begun to recover. However, net sales in the first nine months of fiscal 2010 were lower compared to net sales in the first nine months of fiscal 2009 due to the fact that net sales in the first half of fiscal 2010 were below what they were in the first half of fiscal 2009. Our gross margin percentages were higher in fiscal 2010 compared to fiscal 2009. Improved product mix, lower inventory write downs and better manufacturing cost efficiencies that were helped by factory consolidation activities in fiscal 2010 contributed to higher gross margin percentage in the third quarter and first nine months of fiscal 2010. We continue to direct our research and development investments on high-value growth areas in analog markets and applications, with particular focus on power management and energy efficiency where our PowerWise® products enable systems that consume less power, extend battery life and generate less heat.

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. 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. Notwithstanding the economic downturn that has affected our sales and profitability, our earnings per share have increased sequentially in each of the last three quarters. We remain focused on growing our revenue and earnings over time while generating a consistently high return on invested capital by concentrating on operating margins, 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.

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 third quarter and first nine months of fiscal 2010, we did not repurchase shares of our common stock in connection with the $500 million stock repurchase program announced in June 2007. Under this program, we had a balance of $127.4 million remaining available for future common stock repurchases as of February 28, 2010.

We continued with our dividend program in the third quarter of fiscal 2010, during which time we paid a total of $19.1 million in cash dividends. Through the first nine months of fiscal 2010, we paid a total of $56.7 million in cash dividends. On March 11, 2010, our Board of Directors declared a cash dividend of $0.08 per outstanding share of common stock, which will be paid on April 12, 2010 to shareholders of record at the close of business on March 22,

2010. We paid cash dividends of $18.3 million in the third quarter of fiscal 2009 and a total of $46.0 million in the first nine months of fiscal 2009.

The following table and discussion provide an overview of our operating results for the third quarter and first nine months of fiscal 2010 and 2009:

| (In Millions) | Three Months Ended Feb. 28, 2010 | % Change | Three Months Ended Mar. 1, 2009 | Nine Months Ended Feb. 28, 2010 | % Change | Nine Months Ended Mar. 1, 2009 |
|---|---|---|---|---|---|---|
| Net sales | $ 361.9 | 23.8 % | $ 292.4 | $ 1,020.9 | (13.5 %) | $ 1,179.6 |
| Gross margin | $ 243.7 | | $ 168.1 | $ 660.9 | | $ 752.7 |
| As a % of net sales | 67.3% | | 57.5% | 64.7% | | 63.8% |
| Operating income | $ 86.0 | | $ 30.3 | $ 210.2 | | $ 253.4 |
| As a % of net sales | 23.8% | | 10.4% | 20.6% | | 21.5% |
| Net income | $ 53.2 | | $ 21.1 | $ 130.0 | | $ 137.0 |
| As a % of net sales | 14.7% | | 7.2% | 12.7% | | 11.6% |

Net income for fiscal 2010 includes a net charge of $6.4 million in the third quarter and $12.8 million in the first nine months for severance and restructuring expenses related to the planned closures of our manufacturing facilities in Texas and China announced in March 2009 (See Note 5 to the Condensed Consolidated Financial Statements). In addition, net income for fiscal 2010 includes other operating expense of $0.6 million in the third quarter and other operating income of $0.3 million in the first nine months (See Note 3 to the Condensed Consolidated Financial Statements). Net income for the third quarter of fiscal 2009 includes a recovery of $1.4 million for severance and restructuring expenses and other operating income of $0.2 million (See Note 3 to the Condensed Consolidated Statements). Net income for the first nine months of fiscal 2009 includes a charge of $27.8 million for severance and restructuring expenses and other operating income of $0.4 million (See Note 3 to the Condensed Consolidated Financial Statements).

Share-based Compensation Expense

Our operating results include the recognition of share-based compensation expense, which totaled $19.2 million in the third quarter of fiscal 2010 compared to $18.3 million in the third quarter of fiscal 2009 and $56.4 million in the first nine months of fiscal 2010 compared to $53.8 million in the first nine months of fiscal 2009. Our share-based compensation expense in the third quarter and first nine months of fiscal 2010 was higher than the amounts in the comparable periods of fiscal 2009 primarily due to higher compensation expense related to the share-based awards for our executive officers. For further information and a description of these plans, see Note 1 and Note 14 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 31, 2009. Also, see Note 1 and Note 12 to the Condensed Consolidated Financial Statements in this Form 10-Q for additional discussion regarding our share-based compensation plans and the effect of share-based compensation expense for the third quarter and first nine months of fiscal 2010 and 2009.

Net Sales

| (In Millions) | Three Months Ended Feb. 28, 2010 | % Change | Three Months Ended Mar. 1, 2009 | Nine Months Ended Feb. 28, 2010 | % Change | Nine Months Ended Mar. 1, 2009 |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| Analog segment | $ 339.5 | 27.0% | $ 267.3 | $ 957.2 | (10.9%) | $ 1,074.0 |
| As a % of net sales | 93.8% | | 91.4% | 93.8% | | 91.0% |
| All others | $ 22.4 | (10.8%) | $ 25.1 | $ 63.7 | (39.7%) | $ 105.6 |
| As a % of net sales | 6.2% | | 8.6% | 6.2% | | 9.0% |
| Total net sales | $ 361.9 | | $ 292.4 | $ 1,020.9 | | $ 1,179.6 |
| | 100.0% | | 100.0% | 100.0% | | 100.0% |

The table above and the following discussion are based on our reportable segments described in Note 16 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2009. The information for fiscal 2009 has been reclassified to present segment information based on the structure of our operating segments in fiscal 2010.

During the first quarter of fiscal 2010, the advanced power business unit was reorganized into the infrastructure power business unit. As a result, the Analog segment now comprises five operating segments which include the high-speed product, infrastructure power, mobile devices power, performance power products and precision signal path business units.

Analog segment sales were higher in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 reflecting recent improvement in our business as the global economy has slowly begun to recover. Analog segment sales were lower in the first nine months of fiscal 2010 compared to fiscal 2009 due to lower overall demand from customers, particularly from customers in the wireless handset market, who were negatively affected by the downturn in the overall global economy throughout calendar 2009. Unit shipments in our Analog segment increased 27 percent in the third quarter, but were down 12 percent in the first nine months of fiscal 2010 compared to the volume shipped in the third quarter and first nine months of fiscal 2009. Blended-average selling prices in our Analog segment were essentially flat in both the third quarter and first nine months of fiscal 2010 compared to the corresponding periods of fiscal 2009.

For purposes of the following discussion, we have combined as one group the business units whose products are targeted for the power management market (infrastructure power, mobile devices power and performance power products). Net sales from this group increased by 22 percent in the third quarter, but decreased 12 percent in the first nine months of fiscal 2010 compared to the corresponding periods of fiscal 2009. Net sales from our high-speed product and precision signal path business units in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 increased by 34 percent and 32 percent, respectively. For the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009, net sales from our high-speed product and precision signal path business units decreased by 8 percent and 10 percent, respectively.

For other operating business units included in "All Others," the decrease in sales for the third quarter and first nine months of fiscal 2010 compared to the corresponding periods of fiscal 2009 was primarily due to declining sales from non-analog business units that are no longer a part of our core focus. The sales from these non-analog business units also include sales generated from foundry and contract service arrangements.

Gross Margin

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | % Change | Mar. 1, 2009 | Feb. 28, 2010 | % Change | Mar. 1, 2009 |
| Net sales | $ 361.9 | 23.8% | $ 292.4 | $ 1,020.9 | (13.5 %) | $ 1,179.6 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cost of sales | | 118.2 | (4.9 %) | | 124.3 | | 360.0 | (15.7 %) | | 426.9 |
| Gross margin | $ | 243.7 | | $ | 168.1 | $ | 660.9 | | $ | 752.7 |
| As a % of net sales | | 67.3% | | | 57.5% | | 64.7% | | | 63.8% |

Our gross margin percentage was higher in the third quarter and first nine months of fiscal 2010 compared to the third quarter and the first nine months of fiscal 2009. Higher gross margin percentage in fiscal 2010 compared to fiscal 2009 was primarily due to the favorable effects of cost control measures, including cost savings from the closure of our China assembly plant. Although our blended-average analog selling prices in the third quarter and first nine months of fiscal 2010 were essentially flat compared to the same periods of fiscal 2009, product mix within our portfolio of analog products continues to have a positive influence on our performance in gross margin percentage. Lower inventory write downs also affected our gross margin percentages favorably in fiscal 2010 compared to fiscal 2009. Wafer fabrication capacity utilization (based on wafer starts) was 47 percent in the first nine months of fiscal 2010 compared to 58 percent in the first nine months of fiscal 2009. In the third quarter of fiscal 2010, wafer fabrication capacity utilization was 49 percent compared to 37 percent in the third quarter of fiscal 2009. Gross margin includes share-based compensation expense of $2.4 million in the third quarter and $8.2 million in the first nine months of fiscal 2010 compared to fiscal 2009 which was $4.6 million in the third quarter and $12.5 million in the first nine months.

Research and Development

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | % Change | Mar. 1, 2009 | Feb. 28, 2010 | % Change | Mar. 1, 2009 |
| Research and development | $ 69.0 | (5.3 %) | $ 72.9 | $ 202.5 | (20.3 %) | $ 254.1 |
| As a % of net sales | 19.1% | | 24.9% | 19.8% | | 21.5% |

The decrease in research and development expenses in the third quarter and first nine months of fiscal 2010 compared to the corresponding periods of fiscal 2009 primarily reflects cost savings associated with the cost reduction actions announced in fiscal 2009, including lower payroll and employee benefit expenses. Share-based compensation expense included in R&D expense for fiscal 2010 was $4.4 million in the third quarter and $13.9 million in the first nine months compared to fiscal 2009 which was $6.5 million in the third quarter and $19.3 million in the first nine months. We are continuing to concentrate our ongoing research and development spending on analog products and underlying analog capabilities with particular emphasis on circuits that enable greater energy efficiency. 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, industrial, communications infrastructure, renewable energy products, medical, and sensing and detection applications. Because of our focus on markets that require or involve greater energy efficiency, a significant portion of our research and development is directed at power management technology.

Selling, General and Administrative

| | Three Months Ended | | | Nine Months Ended | | |
|---|---|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | % Change | Mar. 1, 2009 | Feb. 28, 2010 | % Change | Mar. 1, 2009 |
| Selling, general and administrative | $ 81.7 | 22.9 % | $ 66.5 | $ 235.7 | 8.2 % | $ 217.8 |
| As a % of net sales | 22.6% | | 22.7% | 23.1% | | 18.5% |

Selling, general and administrative expenses in fiscal 2010 includes charges of $0.5 million in the third quarter and $5.8 million in the first nine months compared to fiscal 2009, which included a charge of $1.0 million in the third quarter and a credit of $14.1 million in the first nine months. These charges and credit represent changes in the liability associated with the employee deferred compensation plan due to changes in the market value of the employees' corresponding investment assets for the plan. See the discussion of the corresponding gain and loss on the employees' investment asset described in the paragraph, "Other Non-Operating Income (Expense), Net." Excluding these amounts, SG&A expenses for fiscal 2010 compared to fiscal 2009 increased in the third quarter by $15.7 million, or 24 percent, and decreased in the first nine months by $2.0 million, or 1 percent. We believe that excluding the charges and credit relating to changes in the liability associated with the employee deferred compensation plan liability provides a better understanding of the changes in our SG&A expenses that are related to our core operating performance during the relevant periods. SG&A expenses in fiscal 2010 compared to fiscal 2009 include higher employee benefit expenses and higher share-based compensation expenses from executive officer awards, which are offset by cost savings associated with the cost reduction actions announced in fiscal 2009. SG&A expenses in the third quarter of fiscal 2009 also benefited from temporary savings measures that we deployed in response to the rapidly weakening economic environment that was present at that time. Those temporary measures were no longer in effect in the third quarter of fiscal 2010. In contrast, SG&A expenses (excluding the charge and credit previously described) in the first nine months of fiscal 2010 were lower since higher employee benefit and share-based compensation expenses were only partially offset by the costs savings from the cost reduction actions compared to the first nine months of fiscal 2009. Share-based compensation expense for fiscal 2010 included in SG&A expense was $12.4 million in the third quarter and $34.3 million in the first nine months compared to fiscal 2009, which was $7.2 million in the third quarter and $22.0 million in the first nine months.

Interest Income

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 | Feb. 28, 2010 | Mar. 1, 2009 |
| Interest income | $ 0.4 | $ 2.0 | $ 1.3 | $ 9.6 |

The decrease in interest income in the third quarter and first nine months of fiscal 2010 compared to the third quarter and the first nine months of fiscal 2009 is due to lower interest rates.

Interest Expense

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 | Feb. 28, 2010 | Mar. 1, 2009 |
| Interest expense | $ 14.8 | $ 18.7 | $ 45.5 | $ 55.7 |

The decrease in interest expense in the third quarter and first nine months of fiscal 2010 compared to the third quarter and first nine months of fiscal 2009 is due to lower interest rates related to the portion of our debt that has floating interest rates and also to a lower overall debt balance.

Other Non-Operating Income (Expense), Net

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 | Feb. 28, 2010 | Mar. 1, 2009 |
| Gain (loss) on investments | $ 0.8 | $ 1.0 | $ 6.1 | $ (14.1) |
| Total other non-operating income (expense), net | $ 0.8 | $ 1.0 | $ 6.1 | $ (14.1) |

Non-operating income (expense), net, is derived from activities or market value fluctuations related to investment assets. The gain on investments in fiscal 2010 and in the third quarter of fiscal 2009 reflects an increase in the market value of the investment assets held in a trust for the employee deferred compensation plan, while the loss in the first nine months of fiscal 2009 reflected a decline in its market value. As described in the paragraph, “Selling, General and Administrative,” SG&A expenses for fiscal 2010 and 2009 include an offsetting charge and credit pertaining to the corresponding liability. In addition, the gain on investments in the third quarter of fiscal 2010 includes a $0.3 million gain from the liquidation of a non-marketable investment we previously held.

Income Tax Expense

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 | Feb. 28, 2010 | Mar. 1, 2009 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income tax expense (benefit) | $ | 19.2 | $ | (6.5) | $ | 42.1 | $ | 56.2 |
| Effective tax rate | | 26.5% | | 44.5% | | 24.5% | | 29.1% |

The effective tax rate was lower in the third quarter and first nine months of fiscal 2010, primarily due to a higher proportion of our earnings coming from our Malaysian subsidiary. Earnings from our Malaysian subsidiary are not taxable because of a tax holiday granted by the Malaysian government that is effective for a ten-year period that began in our fiscal 2010. In addition, higher tax benefits from restructuring charges that arose in the first nine months of fiscal 2010 contributed to a lower effective tax rate in fiscal 2010 compared to the same period of fiscal 2009. Furthermore, we had higher income tax expense in the first nine months of fiscal 2009 because the tax holiday granted by the Malaysian government required us to write-down foreign deferred tax assets during that period.

Liquidity and Capital Resources

| | Nine Months Ended | |
|---|---|---|
| (In Millions) | Feb. 28, 2010 | Mar. 1, 2009 |
| Net cash provided by operating activities | $ 246.2 | $ 292.2 |
| Net cash used in investing activities | (24.8) | (69.8) |
| Net cash used in financing activities | (53.1) | (182.1) |
| Net change in cash and cash equivalents | $ 168.3 | $ 40.3 |

The primary factors contributing to the changes in cash and cash equivalents in the first nine months of fiscal 2010 and 2009 are described below:

Net cash provided by operating activities during the first nine months of fiscal 2010 was positively affected by net income, adjusted for non-cash items (primarily depreciation and amortization, and share-based compensation expense), combined with a positive effect from changes in working capital components. The positive changes in working capital consisted of a decrease in inventory plus increases in accounts payable and accrued expenses, as well as other non-current liabilities. These positive changes were partially offset by the negative change in working capital from an increase in receivables and a decrease in current and deferred income taxes. During the first nine months of fiscal 2009, cash from operating activities was generated by net income, adjusted for non-cash items (primarily depreciation and amortization, and share-based compensation expense), partially offset by a negative effect from changes in working capital components.

The primary use of cash for investing activities in the first nine months of fiscal 2010 was the purchase of property, plant and equipment of $25.9 million, mainly representing the purchase of machinery and equipment, combined with a net payment of $4.8 million associated with the acquisition of ERI. The primary use of cash for investing activities in the first nine months of fiscal 2009 was the purchase of property, plant and equipment of $75.7 million, mainly representing the purchase of machinery and equipment.

The primary use of cash for financing activities in the first nine months of fiscal 2010 was for payments of $56.7 million for cash dividends, $46.8 million of principal payments on the bank term loan and $6.3 million for software license obligations. This amount was partially offset by proceeds of $59.5 million from the issuance of common stock under employee benefit plans.  The primary use of cash for financing activities in the first nine months of fiscal 2009 was for the repurchase of 6.2 million shares of our common stock in the open market for $128.4 million and payments of $46.0 million for cash dividends and $47.0 million of principal payments on the bank term loan. These amounts were partially offset by proceeds of $35.1 million from the issuance of common stock under employee benefit plans.

On March 11, 2010, our Board of Directors declared a cash dividend of $0.08 per outstanding share of common stock, which will be paid on April 12, 2010 to shareholders of record at the close of business on March 22, 2010.

We anticipate that our fiscal 2010 capital expenditures will be lower than our fiscal 2009 capital expenditures and we will continue to manage the level of capital expenditures relative to sales levels, capacity utilization and industry business conditions. Activities associated with the closures of our manufacturing facilities in China (where we have ceased production activity) and Texas are expected to continue over the next 3 quarters. Our senior floating rate notes with an aggregate principal amount of $250 million are due in June 2010. In addition, our floating rate bank term loan in the aggregate principal amount of $218.7 million as of February 28, 2010 requires principal repayments of $15.6

million in fiscal 2010, $62.5 million in fiscal 2011, $109.3 million in fiscal 2012 and $31.3 million in fiscal 2013. Our remaining debt as of February 28, 2010 includes our 6.15 percent fixed rate notes with a aggregate principal amount of $375 million due in June 2012 and our 6.6 percent fixed rate notes with an aggregate principal amount of $375 million due in June 2017. 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 the remainder of fiscal 2010 and into the first half of fiscal 2011, as well as principal and interest payments due on our debt, and payments for severance and other exit-related costs associated with the China and Texas closure activities. We may seek to obtain additional debt financing to fund our business or to refinance, retire or restructure all or a portion of our existing indebtedness. We cannot be certain that if economic conditions were to substantially deteriorate within the next year, we would have the appropriate financial resources to meet our business requirements.

Our cash and investment 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, further declines in overall economic conditions could lead to deterioration in the quality of customer receivables in the future. Since we no longer hold investments with maturities greater than 90 days, we did not experience any major declines in our cash equivalents or marketable investments as a result of the downturn in the financial markets. However, major declines in financial markets could cause reductions in our cash equivalents and marketable investments in the future.

Recently Issued Accounting Pronouncements

In February 2010, the FASB issued FASB Accounting Standards Update (ASU) No. 2010-09, “Subsequent Events (Topic 855) – Amendments to Certain Disclosure Requirements.” The amendments remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This ASU is effective immediately upon issuance and we do not expect its adoption to have a significant effect on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements.” This ASU requires new disclosures regarding significant transfers in and out of Levels 1 and 2, and information about activity in Level 3 fair value measurements. In addition, this ASU clarifies existing disclosures regarding input and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities. This ASU is effective for us beginning in fiscal 2011. We do not expect the adoption of this ASU to have a significant effect on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, “Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force.” In the absence of vendor-specific objective evidence (VSOE) or other third party evidence (TPE) of the selling price for the deliverables in a multiple-element arrangement, this ASU requires companies to use an estimated selling price (ESP) for the individual deliverables. Companies are to apply the relative-selling price model for allocating an arrangement’s total consideration to its individual elements. Under this model, the ESP is used for both the delivered and undelivered elements that do not have VSOE or TPE of the selling price. This ASU will be applied on a prospective basis for revenue arrangements entered into or materially modified beginning in our fiscal 2012, with earlier application permitted. Since we will apply the requirements of this ASU on a prospective basis, we are currently evaluating its requirements and have not yet determined its effect on our consolidated financial statements.

Outlook

During the first nine months of fiscal 2010, we have seen improvement in our business as the global economy has slowly begun to recover. New orders increased sequentially in each of the first three quarters of fiscal 2010 over the previous respective quarters. This has led to sequential growth in net sales in each of the first three quarters of fiscal 2010 and net sales in the third quarter of fiscal 2010 were higher on a year-over year basis for the first time since the global economic downturn began in calendar 2008.

Although the increase in new orders throughout fiscal 2010 has come primarily from our distributors, we experienced a sequential increase in new orders from our OEM customers in the third quarter of fiscal 2010, as orders from our wireless handset customers picked up. A portion of the improvement in total company new orders in the third quarter of fiscal 2010 was attributable to higher-than-expected turns orders, which represent orders received with delivery requested in the same quarter. This increase in turns orders came mainly from increasing levels of demand in the industrial markets which are served through our distribution channel. The increase in new orders also caused our opening 13-week backlog as we entered the fourth quarter of fiscal 2010 to be higher than it was when we began the third quarter of fiscal 2010.

Considering all factors, including those described above, we provided guidance for net sales in the fourth quarter of fiscal 2010 to range from $375 million to $390 million, or approximately 4 percent to 8 percent higher than the level achieved in the third quarter of fiscal 2010. 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 anticipate that our gross margin percentage in the fourth quarter of fiscal 2010 will range from 67 percent to 68 percent based upon our projected range of net sales. However, if factory utilization declines significantly or there are changes in the expected sales level or product mix, our gross margin percentage could be unfavorably affected.

In connection with the cost reduction action that was announced in March 2009, we expect to complete the remaining activities primarily associated with the closures of our manufacturing facilities in China and Texas over the next 3 quarters. As a result, we expect to incur approximately $3 million to $4 million for exit-related costs in the fourth quarter of fiscal 2010.

## 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 31, 2009 and to the subheading “Financial Market Risks” under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 36 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2009 and to Note 1, “Summary of Significant Accounting Policies,” and Note 3, “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 31, 2009. There have been no material changes in market risk from the information reported in these sections.

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, we recognize that management necessarily is required to apply its judgment in evaluating 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 are effective.

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 control 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 third quarter of fiscal 2010, 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 control 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 on compliance with policies or procedures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We currently are a party to various legal proceedings, including those noted below. 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 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 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.

Tax Matters

We have been notified by the IRS that our tax returns for fiscal years 2007 and 2008 will be audited beginning in our fourth quarter of fiscal 2010. In addition, the IRS will audit our amended tax returns for fiscal 2005 and 2006. Several U.S. state taxing jurisdictions are examining our state tax returns for fiscal 2001 through 2005, and tax authorities from several foreign jurisdictions are also examining our foreign tax returns. During the first nine months of fiscal 2010, the state of California closed its audits of fiscal years up through fiscal 2000, which resulted in an immaterial adjustment. We believe we have made adequate tax payments and/or accrued adequate amounts of reserves such that the outcomes of these audits will have no material adverse effects on our financial statements.

Environmental Matters

We have been named to the National Priorities List (Superfund) for our Santa Clara, California site and we have completed a remedial investigation/feasibility study with the Regional Water Quality Control Board (RWQCB), which is acting as agent for the EPA. We have agreed in principle with the RWQCB on a site remediation plan, and we are conducting remediation and cleanup efforts at the site. In addition to the Santa Clara site, we have been designated from time to time as a potentially responsible party 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 the claims have been asserted against a number of other entities for the same cost recovery or other relief as is sought from us. We have also retained responsibility for environmental matters connected with businesses we sold in fiscal 1996 and 1997, but we are not currently involved in any legal proceedings relating to those liabilities.

Other

In May 2008, eTool Development, Inc. and eTool Patent Holdings Corporation (collectively eTool) brought suit in the U.S. District Court for the Eastern District of Texas alleging that our WEBENCH® online design tools infringe an eTool patent and seeking an injunction and unspecified amounts of monetary damages (trebled because of the alleged willful infringement), attorneys' fees and costs. In December 2008, eTool amended the complaint and counterclaims to include our SOLUTIONS online tool in its allegations of infringement of the eTool patent. We filed an answer to the amended complaint and counterclaims for declaratory judgment of non-infringement and invalidity of the patent. On February 27, 2009, the Court held a scheduling conference setting a claim construction hearing for August 2011 and a jury trial for January 2012. eTool served its infringement contentions in March 2009 and we served our invalidity contentions in May 2009. Both parties exchanged initial disclosures on May 29, 2009. The discovery phase of the case is now open and ongoing. In February 2010, we filed our inter partes reexamination petition with the United States Patent and Trademark Office (PTO), seeking a determination that the '919 patent is invalid. On March 15, 2010, the

PTO issued a communication granting our inter partes reexamination petition. We intend to contest the case through all available means.

## 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 31, 2009 and our subsequent Quarterly Reports on Form 10-Q. 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, results or 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.

### RISK FACTORS RELATING TO GENERAL BUSINESS CONDITIONS

Significant deterioration in the global economy has reduced demand for our products, and our business has been and may continue to be adversely affected.

As a result of the credit market crisis (including uncertainties with respect to financial institutions and the global capital markets) and other macro-economic challenges affecting the economy of the United States and other parts of the world, customers have modified, delayed and cancelled plans to purchase our products. During fiscal 2009, we experienced a significant reduction in order rates due to the weak global economy. While near-term market conditions have shown some improvement, it is not clear that this improvement will continue. It is possible that current conditions could remain or worsen.

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

The wireless handset market (including smart phones) is a significant source of our overall sales. Global economic difficulties have resulted in a slowdown in the sales of handsets and have adversely affected our revenues and profitability. This environment may continue even though we continue to develop new products to address new features and functionality in handsets. The worldwide handset market is large and future trends and other variables are difficult to predict. As a consumer-driven market, changes in the economy that adversely affect consumer demand for wireless handsets will impact demand for our products and adversely affect our business and operating results.

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, characterized by significant and rapid increases and decreases in product demand. Substantial capital and R&D investment are required to support products and manufacturing processes in the semiconductor industry, which amplify the effect of this cyclicality. As a result of this environment, we may experience rapid and significant fluctuations in our operating results. Market or other shifts in our product mix toward or away from higher margin products, including analog products, or reductions in our product margins may also have a significant impact on our operating results.

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. 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.

RISK FACTORS RELATING TO INTERNATIONAL OPERATIONS

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

During the first nine months of fiscal 2010, approximately 77 percent of our sales 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 Scotland, Malaysia and China (we have ceased production activity in 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 legal and regulatory requirements, 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.

Global disruptions and events 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 Afghanistan and the threat of future hostilities involving the United States 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 United States or other regions of the world. Significant destabilization of relations between the United States and other countries where we operate or the countries where we operate and other countries could result in restrictions and prohibitions in the countries where we operate. Continued increases in oil prices, as well as spreading subprime mortgage failures, could also affect our operations. Pandemic illnesses that spread globally and/or substantial natural disasters, as well as geopolitical events, may also affect our future costs, operating capabilities and revenues.

We have significant manufacturing operations in Malaysia and, as a result, are subject to risks.

We have significant assembly and test facilities in Melaka, Malaysia. We may be adversely affected by laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. We cannot assure you that we will be able to maintain compliance with all of these laws and regulations, that new, stricter laws or regulations will not be imposed or that interpretations of existing regulations will not be changed, each of which would require additional expenditures or result in other adverse effects. Changes in the political environment or government policies could result in laws or regulations that impact us adversely. A significant destabilization of relations between the United States and Malaysia or with either of these countries and other countries could result in restrictions or prohibitions on our operations in that country.

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 net sales, 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.

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 limited our operations and sales in the past and could significantly limit them in the future. We maintain a compliance program but there are risks of noncompliance exposing us to significant legal liabilities. We must also comply with export restrictions and laws imposed by other countries affecting trade and investments which may conflict with the laws and regulations in the United States or other countries in which we do business. There is a risk that these restrictions and laws could significantly restrict our operations in the future.

RISK FACTORS RELATING TO SALES AND OPERATIONS

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 or increases in the cost of these items, or 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 subcontracted 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. We have had difficulties in the past with supplies and subcontractors and could experience them in the future, including as a result of weak global economic conditions.

A substantial portion of our sales are made to distributors and the termination of an agreement with one or more distributors could result in a negative impact on our business.

In the first nine months of fiscal 2010, our distributors accounted for approximately 62 percent of our sales, with two of our distributors together accounting for 32 percent of total sales. Distributors typically sell products from several of our competitors along with our products. A significant reduction of effort to sell our products, the termination of our relationship with one or more distributors or distributor cash flow problems or other financial difficulties may reduce our access to certain end-customers and adversely impact our ability to sell our products. The termination of the distributor relationship agreement with a specific distributor could also result in the return of our inventory held by the distributor.

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 or strategy. Because we own most of our manufacturing capacity, a significant portion of our operating costs is 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 or increase as volume increases. Failure to maintain utilization rates of our manufacturing facilities or maintain the fixed costs associated with these facilities at current levels will result in higher average unit costs and lower gross margins.

We make forecasts of customer demand that may be inaccurate.

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.

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. Any future costs or payments made in connection with warranty claims or product recalls could materially affect our results of operations and financial condition in future periods.

We may be harmed by natural disasters and other disruptions.

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 wafer manufacturing facilities 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 maintain property and business interruption insurance, but there is no guarantee that such insurance will be available or adequate to protect against all costs associated with such disasters and disruptions.

RISK FACTORS RELATING TO R&D, INTELLECTUAL PROPERTY AND LITIGATION

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 are also directing efforts to develop new and different types of products to serve emerging mega trends such as energy efficiency. We believe that continued focused investment in research and development, especially the timely development, introduction and market acceptance of new 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 cannot assure you, however, that we will be successful in timely developing and introducing successful new products demanded by the market, or in achieving anticipated revenues from new products, and a failure to bring new products to market or achieve market success with them 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.

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; or
- our products will not be held to infringe patents of others.

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 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 in which we are involved is contained in Note 14 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.

RISK FACTORS RELATED TO OUR DEBT

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

Our total liabilities at February 28, 2010 were $1.8 billion. Of total liabilities, $1.2 billion was debt incurred in connection with the accelerated stock repurchase program announced in June 2007. In June 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 issued $1.0 billion in senior unsecured notes and entered into a bank loan in the aggregate principal amount of $0.5 billion, of which we have since repaid approximately $280 million. Our senior floating rate notes with an aggregate principal amount of $250 million are due in June 2010. We may seek to obtain additional debt financing to fund our business or to refinance, retire or restructure all or a portion of our existing indebtedness. Our long-term debt and any future increase in our level of indebtedness will have important effects on our future operations, including, without limitation:

- we would have additional cash requirements in order to support the payment of principal and 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 particularly in light of recent challenging credit market conditions; 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. In addition, under our unsecured term loan with a consortium of banks, we are required to comply with certain covenants, including the maintenance of certain financial ratios. If we are unable to generate sufficient cash flow from operations in the future to service our debt or maintain compliance with the covenants of our unsecured term loan due to current economic conditions or otherwise, we may take certain actions which require us to, among other things:

- seek additional financing in the debt or equity markets;
- refinance, retire or restructure all or a portion of our indebtedness;
- 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, particularly if our credit rating is not strong.

Difficulties in the credit markets may limit our ability to refinance our debt as it becomes due.

As a result of the recent difficulties in the credit markets and limited availability of credit, we cannot assure you that we will be able to refinance our debt as it becomes due. The cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Continued turbulence in the U.S. and international markets and economies may adversely affect the liquidity and financial conditions of issuers.

Increases in interest rates could adversely affect our financial condition.

Increases in prevailing interest rates has an immediate effect on the interest rates charged on our variable rate debt, including the senior floating rate notes due June 2010 and bank debt, which rise and fall upon changes in interest rates on a quarterly basis. Although interest rates remained stable during the third quarter and first nine months of fiscal 2010, any increased interest expense associated with increases in interest rates affects our cash flow and our ability to service our debt. As a protection against rising interest rates, we may enter into agreements such as interest rate swaps, caps, floors and other interest rate exchange contracts. However, even if we do enter into such agreements, the other parties to the agreements may fail to perform or the terms may be unfavorable to us depending on rate movements.

RISK FACTORS RELATING TO PERSONNEL AND MERGER AND ACQUISITION ACTIVITY

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. We cannot assure you that we will be able to successfully recruit and retain the key personnel we require.

We may pursue acquisitions and investments 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.

RISK FACTORS RELATING TO TAX AND ENVIRONMENTAL REGULATIONS

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.

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 enacted 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. Proposals and discussions in Congress and the Executive branch for new U.S. tax legislation could, if adopted, adversely affect 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.

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.

For more information on environmental matters, see Note 14 to the Condensed Consolidated Financial Statements.

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

(a) During the third quarter of fiscal 2010, we did not make any unregistered sales of our securities.

(b) The following table summarizes our purchases of our common stock during the third quarter of fiscal 2010:

| 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) |
|---|---|---|---|---|
| Month # 1: November 30, 2009 - December 29, 2009 | 396 | $14.92 | - | $127 million |
| Month # 2: December 30, 2009 - January 29, 2010 | 1,819 | $13.61 | - | $127 million |
| Month # 3: January 30, 2010 - February 28, 2010 | 8,922 | $13.59 | - | $127 million |
| Total | 11,137 | | - | |

(1) Represents 3,197 shares that were reacquired through the withholding of shares to pay employee tax obligations upon the vesting of restricted stock and 7,940 shares purchased by the rabbi trust utilized by our Deferred Compensation Plan, which permits participants to direct investment of their accounts in our common stock in accordance with their instructions.

(2) No purchases were made under our $500 million stock repurchase program announced in June 2007. As of February 28, 2010, $127 million of the $500 million stock repurchase program remains available for future stock repurchases. We do not have any plans to terminate the program prior to its completion, and there is no expiration date for this repurchase program.

## ITEM 6. EXHIBITS

(a) Exhibits

31.1 Rule 13a-14 (a) /15d-14 (a) Certifications.

32.1 Section 1350 Certifications.

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: March 29, 2010

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

Exhibit 31.1

CERTIFICATION

I, Donald Macleod, 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: March 29, 2010 | /s/ Donald Macleod<br>Donald Macleod<br>President and Chief Executive Officer |

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;

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: March 29, 2010

/s/ Lewis Chew
Lewis Chew
Senior Vice President, Finance and Chief Financial Officer

Exhibit 32.1

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 February 28, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald Macleod, President and 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:

- 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: March 29, 2010 | /s/ Donald Macleod<br>Donald Macleod<br>President 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 February 28, 2010 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: March 29, 2010 | /s/ Lewis Chew<br>Lewis Chew<br>Senior Vice President, Finance and Chief<br>Financial Officer |