

FAIRCHILD SEMICONDUCTOR INTERNATIONAL INC

FORM 10-Q (Quarterly Report)

Filed 11/04/10 for the Period Ending 09/26/10

Address	3030 ORCHARD PARKWAY SAN JOSE, CA 95134
Telephone	4088222000
CIK	0001036960
Symbol	FCS
SIC Code	3674 - Semiconductors and Related Devices
Industry	Semiconductors
Sector	Technology
Fiscal Year	12/25

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 September 26, 2010

[] 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: 001-15181

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3363001
(I.R.S. Employer
Identification No.)

82 Running Hill Road
South Portland, Maine 04106
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (207) 775-8100

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 []

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 [X] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large Accelerated filer [X] Accelerated filer []
Non-accelerated filer [] Smaller reporting company []

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on September 26, 2010:

Table with 2 columns: Title of Each Class, Number of Shares. Row 1: Common Stock, 123,845,248

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In millions)

	September 26, <u>2010</u> (Unaudited)	December 27, <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 384.5	\$ 415.8
Short-term marketable securities	0.1	0.1
Accounts receivable, net of allowances of \$25.8 and \$32.8 at September 26, 2010 and December 27, 2009, respectively	171.1	134.0
Inventories	220.1	189.5
Deferred income taxes, net of allowances	12.7	13.5
Other current assets	36.0	28.3
Total current assets	824.5	781.2
Property, plant and equipment, net	650.8	653.2
Deferred income taxes, net of allowances	14.1	12.0
Intangible assets, net	64.4	81.1
Goodwill	161.3	161.3
Long-term securities	29.8	35.8
Other assets	37.2	37.8
Total assets	<u>\$ 1,782.1</u>	<u>\$ 1,762.4</u>
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 3.8	\$ 5.3
Accounts payable	145.1	119.6
Accrued expenses and other current liabilities	127.0	70.6
Total current liabilities	275.9	195.5
Long-term debt, less current portion	317.8	466.9
Deferred income taxes	31.8	30.9
Other liabilities	39.3	40.2
Total liabilities	664.8	733.5
Commitments and contingencies (Note 11)		
Temporary equity - deferred stock units	2.2	2.3
Stockholders' equity:		
Common stock	1.3	1.3
Additional paid-in capital	1,421.8	1,406.6
Accumulated deficit	(238.5)	(340.7)
Accumulated other comprehensive loss	(5.2)	(1.9)
Less treasury stock (at cost)	(64.3)	(38.7)
Total stockholders' equity	1,115.1	1,026.6
Total liabilities, temporary equity and stockholders' equity	<u>\$ 1,782.1</u>	<u>\$ 1,762.4</u>

See accompanying notes to unaudited consolidated financial statements.

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FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share and percent data)
(Unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26,</u>	<u>September 27,</u>	<u>September 26,</u>	<u>September 27,</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Total revenue	\$ 414.4	\$ 331.8	\$ 1,202.0	\$ 833.0
Cost of sales	263.5	245.5	786.2	648.1
Gross margin	150.9	86.3	415.8	184.9
Gross margin %	36.4%	26.0%	34.6%	22.2%
Operating expenses:				
Research and development	30.5	24.9	88.0	74.3
Selling, general and administrative	57.3	43.4	165.6	131.8
Amortization of acquisition-related intangibles	5.5	5.6	16.7	16.7
Restructuring and impairments	1.3	4.1	3.7	22.1
Charge for litigation	8.0	—	8.0	—
Total operating expenses	102.6	78.0	282.0	244.9
Operating income (loss)	48.3	8.3	133.8	(60.0)
Other expense, net	3.8	4.4	8.8	15.4
Income (loss) before income taxes	44.5	3.9	125.0	(75.4)
Provision (benefit) for income taxes	8.7	1.2	22.8	(2.1)
Net income (loss)	\$ 35.8	\$ 2.7	\$ 102.2	\$ (73.3)
Net income (loss) per common share:				
Basic	\$ 0.29	\$ 0.02	\$ 0.82	\$ (0.59)
Diluted	\$ 0.28	\$ 0.02	\$ 0.80	\$ (0.59)
Weighted average common shares:				
Basic	124.5	123.9	124.8	123.8
Diluted	127.1	127.5	128.0	123.8

See accompanying notes to unaudited consolidated financial statements.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26,</u>	<u>September 27,</u>	<u>September 26,</u>	<u>September 27,</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income (loss)	\$ 35.8	\$ 2.7	102.2	\$ (73.3)
Other comprehensive income (loss), net of tax:				
Net change associated with hedging transactions	3.4	1.4	5.1	(0.2)
Net amount reclassified to earnings for hedging	(0.3)	1.6	(1.2)	8.3
Net change associated with fair value of securities	(5.5)	(3.9)	(4.8)	0.3
Net change associated with pension transactions	—	—	(2.4)	(0.4)
Comprehensive income (loss)	<u>\$ 33.4</u>	<u>\$ 1.8</u>	<u>\$ 98.9</u>	<u>\$ (65.3)</u>

See accompanying notes to unaudited consolidated financial statements.

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FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	September 26, 2010	September 27, 2009
Cash flows from operating activities:		
Net income (loss)	\$ 102.2	\$ (73.3)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	118.9	120.7
Non-cash stock-based compensation expense	15.9	11.7
Non-cash restructuring and impairment expense	—	0.8
Non-cash interest income	(0.4)	(0.4)
Non-cash financing expense	1.1	1.1
Non-cash write-off of deferred financing fees	2.1	—
(Gain) Loss on disposal of property, plant, and equipment	0.2	0.2
Deferred income taxes, net	(0.3)	(11.6)
Gain on debt buyback	—	(0.8)
Gain on sale of equity investment	—	(0.2)
Write-off of equity investment	—	2.3
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(37.1)	24.1
Inventories	(31.5)	49.5
Other current assets	(8.3)	6.3
Current liabilities	75.2	(9.4)
Other assets and liabilities, net	(0.7)	(2.1)
Net cash provided by operating activities	<u>237.3</u>	<u>118.9</u>
Cash flows from investing activities:		
Purchase of marketable securities	—	(0.4)
Sale of securities	1.5	0.3
Maturity of marketable securities	0.1	0.2
Capital expenditures	(89.5)	(33.0)
Purchase of molds and tooling	(0.9)	(1.2)
Purchase of equity investment	(3.0)	—
Acquisitions and divestitures, net of cash acquired	—	(1.5)
Net cash used in investing activities	<u>(91.8)</u>	<u>(35.6)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(150.6)	(17.7)
Proceeds from issuance of common stock and from exercise of stock options, net	0.2	—
Purchase of treasury stock	(25.6)	—
Debt financing costs	(0.8)	(0.7)
Net cash used in financing activities	<u>(176.8)</u>	<u>(18.4)</u>
Net change in cash and cash equivalents	(31.3)	64.9
Cash and cash equivalents at beginning of period	415.8	351.5
Cash and cash equivalents at end of period	<u>\$ 384.5</u>	<u>\$ 416.4</u>

See accompanying notes to unaudited consolidated financial statements.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation

The accompanying interim consolidated financial statements of Fairchild Semiconductor International, Inc. (the company) have been prepared in conformity with accounting principles generally accepted in the United States of America, consistent in all material respects with those applied in the company's Annual Report on Form 10-K for the year ended December 27, 2009. The interim financial information is unaudited, but reflects all normal adjustments, which are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. The financial statements should be read in conjunction with the financial statements in the company's Annual Report on Form 10-K for the year ended December 27, 2009. Certain amounts for prior periods have been reclassified to conform to the current presentation. The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, investments, intangible assets, and other long-lived assets, legal contingencies, and assumptions used in the calculation of income taxes and customer incentives, among others. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The company adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity and foreign currency markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Note 2 – Financial Statement Details

	September 26,	December 27,
	2010	2009
	(In millions)	
<i>Inventories, net</i>		
Raw materials	\$ 38.1	\$ 29.4
Work in process	113.5	96.4
Finished goods	68.5	63.7
	<u>\$ 220.1</u>	<u>\$ 189.5</u>
	September 26,	December 27,
	2010	2009
	(In millions)	
<i>Property, plant and equipment</i>		
Land and improvements	\$ 24.1	\$ 24.1
Buildings and improvements	336.6	332.3
Machinery and equipment	1,650.5	1,615.3
Construction in progress	79.8	46.7
Total property, plant and equipment	2,091.0	2,018.4
Less accumulated depreciation	1,440.2	1,365.2
	<u>\$ 650.8</u>	<u>\$ 653.2</u>

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	<u>September 26,</u>	<u>December 27,</u>
	<u>2010</u>	<u>2009</u>
	(In millions)	
<i>Accrued expenses and other current liabilities</i>		
Payroll and employee related accruals	\$ 79.6	\$ 34.8
Accrued interest	0.4	2.6
Taxes payable	20.7	5.0
Restructuring and impairments	9.7	10.2
Other	16.6	18.0
	<u>\$ 127.0</u>	<u>\$ 70.6</u>

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26,</u>	<u>September 27,</u>	<u>September 26,</u>	<u>September 27,</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In millions)			
<i>Other expense, net</i>				
Interest expense	\$ 2.3	\$ 5.0	\$ 8.4	\$ 16.6
Interest income	(0.7)	(0.7)	(2.1)	(2.7)
Other (income) expense, net	2.2	0.1	2.5	1.5
Other expense, net	<u>\$ 3.8</u>	<u>\$ 4.4</u>	<u>\$ 8.8</u>	<u>\$ 15.4</u>

Note 3 – Computation of Net Income (loss) per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to potentially dilutive securities. There is no dilution when a net loss exists. Potentially dilutive common equivalent securities consist of stock options, performance units (PUs), deferred stock units (DSUs) and restricted stock units (RSUs). In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the respective period using the treasury share method. Certain potential shares of the company's outstanding stock options were excluded because they were anti-dilutive, but could be dilutive in the future. The following table sets forth the computation of basic and diluted earnings per share.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 26, 2010	September 27, 2009	September 26, 2010	September 27, 2009
	(In millions, except per share data)			
Basic:				
Net income (loss)	\$ 35.8	\$ 2.7	\$ 102.2	\$ (73.3)
Weighted average shares outstanding	124.5	123.9	124.8	123.8
Net income (loss) per share	\$ 0.29	\$ 0.02	\$ 0.82	\$ (0.59)
Diluted:				
Net income (loss)	\$ 35.8	\$ 2.7	\$ 102.2	\$ (73.3)
Basic weighted average shares outstanding	124.5	123.9	124.8	123.8
Assumed exercise of common stock equivalents	2.6	3.6	3.2	—
Diluted weighted average common and common equivalent shares	127.1	127.5	128.0	123.8
Net income (loss) per share	\$ 0.28	\$ 0.02	\$ 0.80	\$ (0.59)
Anti-dilutive common stock equivalents, non-vested stock, DSUs, RSUs, and PUs	11.9	12.9	12.0	19.3

Note 4 – Supplemental Cash Flow Information

	Nine Months Ended	
	September 26, 2010	September 27, 2009
	(In millions)	
Cash paid for:		
Income taxes, net	\$ 8.5	\$ 10.7
Interest	\$ 7.1	\$ 16.9

Note 5 – Fair Value

Fair Value of Financial Instruments. In accordance with the requirements of the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the company groups its financial assets and liabilities measured at fair value on a recurring basis in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted market price for identical instruments traded in active markets.
- Level 2 – Valuation is based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. Valuation techniques include use of discounted cash flow models and similar techniques.

In accordance with the requirements of the Fair Value Measurements and Disclosures Topic of the FASB ASC, it is the company's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When available, the company uses quoted market prices to measure fair value. If market prices are not available, the fair value measurement is based on models that use primarily market based parameters including interest rate yield curves, option volatilities and currency rates. In certain cases where market rate assumptions are not available, the company is required to make judgments about assumptions market participants would use to estimate the fair value of a financial instrument. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows could significantly affect the results of current or future values. The results may not be realized in an actual sale or immediate settlement of an asset or liability.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The assets and liabilities measured at fair value on a recurring basis include securities and derivatives. Financial instruments classified as Level 1 are securities traded on an active exchange as well as U.S. Treasury, and other U.S. government and agency-backed securities that are traded by dealers or brokers in active over-the-counter markets. Derivatives are classified as Level 2 financial instruments. The only financial instruments classified as Level 3 are auction rate securities.

The fair value of securities is based on quoted market prices at the date of measurement, except for auction rate securities. The auction rate security market is no longer active and as a result there is no observable market data for these assets. Fair value estimates are based on judgments regarding current economic conditions, liquidity discounts and interest rate risks. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks and estimates of future cash flows could significantly affect these fair value estimates.

In 2009 and the first two quarters of 2010, the company performed its own discounted cash flow (DCF) calculation to determine the estimated fair value of the auction rate securities. The assumptions used in preparing the DCF model included estimates for the amount and timing of future interest and principal payments and the rate of return required by investors to own these securities in the current environment. In making these assumptions, relevant factors that were considered included: the formula applicable to each security which defines the interest rate paid to investors in the event of a failed auction; forward projections of the interest rate benchmarks specified in such formulas; the likely timing of principal repayments; the probability of full repayment considering guarantees by third parties and additional credit enhancements provided through other means. The estimate of the rate of return required by investors to own these securities also considers the current reduced liquidity for auction rate securities. The inputs for the company's DCF were based upon publicly available data as well as the company's own estimates. The primary unobservable input to the valuation was the maturity assumption which ranged from four to ten years depending on the individual auction rate security. The maturity assumptions were based on the terms of the underlying instrument and the potential for restructuring the auction rate security. Beginning in third quarter of 2010, the company used an outside valuation firm to calculate the fair value of one auction rate security issue due to the complex nature of the underlying securities. The value is also determined using a discounted cash flow model with a premium for illiquidity as well as indicative market information. The company continued to perform the discounted cash flow calculation to determine fair value on the rest of the auction rate securities.

All of the company's derivatives are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the company measures fair value using prices obtained from the counterparties with whom the company has traded. The counterparties price the derivatives based on models that use primarily market observable inputs, such as yield curves and option volatilities. Accordingly, the company classifies these derivatives as Level 2.

The company is exposed to credit-related losses in the event of non-performance by counterparties to hedging instruments. The counterparties to all derivative transactions are major financial institutions with investment grade credit ratings. However, this does not eliminate the company's exposure to credit risk with these institutions. This credit risk is generally limited to the unrealized gains in such contracts should any of these counterparties fail to perform as contracted. The company considers the risk of counterparty default to be minimal.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 26, 2010.

	Fair Value Measurements			
	Total (In millions)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Foreign Currency Derivatives				
Assets	\$ 3.4	\$ —	\$ 3.4	\$ —
Liabilities	—	—	—	—
	<u>\$ 3.4</u>	<u>\$ —</u>	<u>\$ 3.4</u>	<u>\$ —</u>
Securities				
Marketable securities	\$ 2.6	\$ 2.6	—	—
Auction rate securities	27.3	—	—	27.3
	<u>\$ 29.9</u>	<u>\$ 2.6</u>	<u>\$ —</u>	<u>\$ 27.3</u>

The following table summarizes the changes in level 3 securities measured at fair value on a recurring basis for the nine months ended September 26, 2010.

	Auction Rate Securities (In millions)
Balance at beginning of period	\$ 33.4
Total realized and unrealized gains or (losses)	
Included in net income	—
Included in OCI	(5.0)
Accretion of impairments included in net loss	0.4
Sales	(1.5)
Purchases , issuances and settlements	—
Balance at end of period	<u>\$ 27.3</u>

The company received an unsolicited tender offer for one of its auction rate security holdings in the third quarter of 2010. The tender offer was for slightly more than the amortized cost basis of the security so the company made the decision to participate in the tender offer and sell the security for \$1.5 million, recognizing an immaterial gain on the transaction. This does not change the company's intent regarding the remainder of the auction rate security portfolio in that the company does not intend to sell or believe it is more likely than not that the company would be required to sell the remaining securities before a recovery of the amortized cost basis of the investments.

Long term debt is carried at amortized cost. However, the company is required to estimate the fair value of long term debt under the Financial Instrument Topic of the FASB ASC . The fair value of the term loan is determined utilizing current trading prices obtained from indicative market data.

FAIRCHILD SEMICONDUCTOR INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	September 26, 2010		December 27, 2009	
	Carrying	Estimated	Carrying	Estimated
	<u>Amount</u>	<u>Fair Value</u>	<u>Amount</u>	<u>Fair Value</u>
	(In millions)			
Long-Term Debt:				
Term Loan	\$ 321.6	\$ 312.8	\$ 472.2	\$ 449.2

Note 6 – Derivatives

Derivatives. The company uses derivative instruments to manage exposures to changes in foreign currency exchange rates and interest rates. In accordance with the requirements of the Derivatives and Hedging Topic of the FASB ASC, the fair value of these hedges is recorded on the balance sheet. For the fair value of derivatives, see Note 5.

Foreign Currency Derivatives. The company uses currency forward and combination option contracts to hedge a portion of its forecasted foreign exchange denominated revenues and expenses. The company monitors its foreign currency exposures to maximize the overall effectiveness of its foreign currency hedge positions. Currencies hedged include the euro, Japanese yen, Philippine peso, Malaysian ringgit, Korean won and Chinese yuan. The company’s objectives for holding derivatives are to minimize the risks using the most effective methods to eliminate or reduce the impacts of these exposures. The maturities of the cash flow hedges are 15 months or less.

Changes in the fair value of derivative instruments related to time value are included in the assessment of hedge effectiveness. Hedge ineffectiveness, determined in accordance the Derivatives and Hedging Topic of the FASB ASC, did not have a material impact on earnings for the three and nine months ended September 26, 2010 and September 27, 2009. No cash flow hedges were derecognized or discontinued during the three and nine months ended September 26, 2010 and September 27, 2009.

Derivative gains and losses included in accumulated other comprehensive income (AOCI) are reclassified into earnings at the time the forecasted transaction is recognized. The company estimates that \$2.9 million of net unrealized derivative gains included in AOCI will be reclassified into earnings within the next twelve months.

The company also uses currency forward and combination option contracts to offset the foreign currency impact of balance sheet translation. These derivatives have one month terms and the initial fair value, if any, and the subsequent gains or losses on the change in fair value are reported in earnings within the same income statement line as the impact of the foreign currency translation.

Interest Rate Derivatives. The company’s variable-rate debt exposes the company to variability in interest payments due to changes in interest rates. The company used a forward interest rate swap to mitigate the interest rate risk on a portion of its variable-rate borrowings in order to manage fluctuations in cash flows resulting from changes in interest rates on variable-rate debt. This hedge expired on December 31, 2009.

Effectiveness of this hedge was calculated by comparing the fair value of the derivative to a hypothetical derivative that would be a perfect hedge of floating rate debt. The value of the hedge at inception was zero and any ineffectiveness during the life of the swap was immaterial.

Derivative gains and losses included in AOCI were reclassified into earnings at the time the forecasted transaction was recognized. The amounts were reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate debt obligations affect earnings.

The table below shows the notional principal and the location and amounts of the derivative fair values in the statement of operations and the consolidated balance sheet as of and for the periods ended September 26, 2010 and December 27, 2009. Pursuant to the Derivatives and Hedging Topic of the FASB ASC, the company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement is utilized. The notional principal

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amounts for these instruments provide one measure of the transaction volume outstanding as of year end and do not represent the amount of the company's exposure to credit or market loss. The estimates of fair value are based on applicable and commonly used pricing models using prevailing financial market information as of September 26, 2010 and December 27, 2009. Although the following table reflects the notional principal and fair value of amounts of derivative financial instruments, it does not reflect the gains or losses associated with the exposures and transactions that these financial instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures will depend on actual market conditions during the remaining life of the instruments.

The following tables present derivatives designated as hedging instruments under the Derivatives and Hedging Topic of the FASB ASC.

As of and for the Nine Months Ended September 26, 2010							
Balance Sheet Classification	Notional Amount	Fair Value	Amount of		Income Statement Classification of Gain (Loss)	Amount of	
			Gain (Loss) Recognized In AOCI (In millions)	Gain (Loss) Recognized In Income		Gain (Loss) Reclassified from AOCI	
Derivatives in Cash Flow Hedges Related to Existing Assets and Liabilities							
Interest rate contract	Current liabilities	\$ —	\$ —	\$ —	Interest expense	\$ (1.8)	\$ (1.8)
Derivatives in Cash Flow Hedges Related to Forecasted Transactions							
Foreign exchange contracts							
Derivatives for forecasted revenues	Current assets	\$ 49.2	\$ 1.0	\$ 1.0	Revenue		
Derivatives for forecasted revenues	Current liabilities	—	—	—	Revenue		
Derivatives for forecasted expenses	Current assets	123.2	2.4	2.4	Revenue		
Derivatives for forecasted expenses	Current liabilities	—	—	—	Expenses		
Total of derivatives position		<u>\$172.4</u>	<u>\$ 3.4</u>	<u>\$ 3.4</u>		<u>\$ —</u>	<u>\$ —</u>
Positions no longer open at quarter end					Revenue	\$ 0.4	\$ 0.4
Positions no longer open at quarter end					Expenses	2.6	2.6
Total of positions no longer open at quarter end						<u>\$ 3.0</u>	<u>\$ 3.0</u>
As of and for the Year Ended December 27, 2009							
Balance Sheet Classification	Notional Amount	Fair Value	Amount of		Income Statement Classification of Gain (Loss)	Amount of	
			Gain (Loss) Recognized In AOCI (In millions)	Gain (Loss) Recognized In Income		Gain (Loss) Reclassified from AOCI	
Derivatives in Cash Flow Hedges Related to Existing Assets and Liabilities							
Interest rate contract	Current liabilities	\$150.0	\$(1.8)	\$ (1.8)	Interest expense	\$ (6.2)	\$ (6.2)
Derivatives in Cash Flow Hedges Related to Forecasted Transactions							
Foreign exchange contracts							
Derivatives for forecasted revenues	Current liabilities	\$ 21.2	\$(0.2)	\$ (0.2)	Revenue	\$ —	\$ —
Derivatives for forecasted expenses	Current assets	63.4	1.5	1.5	Expenses	—	—
Derivatives for forecasted expenses	Current liabilities	14.5	—	—			
Total of derivatives position		<u>\$ 99.1</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>		<u>\$ —</u>	<u>\$ —</u>
Positions no longer open at quarter end					Revenue	\$ 1.0	\$ 1.0
Positions no longer open at quarter end					Expenses	(3.5)	(3.5)
Total of positions no longer open at quarter end						<u>\$ (2.5)</u>	<u>\$ (2.5)</u>

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Gain (Loss) Recognized in OCI for Derivative Instruments (1)

	Nine Months Ended
	September 26, 2010
Interest rate contract	\$ 1.8
Foreign exchange contracts	2.1
	<u>\$ 3.9</u>

(1) This amount is inclusive of both realized gains and losses recognized in OCL

The following tables present derivatives not designated as hedging instruments under Derivatives and Hedging Topic of the FASB ASC.

	As of and for the Nine Months Ended September 26, 2010				
	Balance Sheet Classification	Notional Amount	Fair Value (In millions)	Income Statement Classification of Gain (Loss)	Amount of Gain (Loss) Recognized In Income
Derivatives in Cash Flow Hedges					
Related to Existing Assets and Liabilities					
Foreign Exchange Contracts					
Derivatives related to existing assets	Current assets	\$ 17.3	\$ —	Revenue	\$ —
Derivatives related to existing liabilities	Current liabilities	—	—	Expenses	—
Total of derivatives in a net liability position		<u>\$ 17.3</u>	<u>\$ —</u>		<u>\$ —</u>
Positions no longer open at year end				Revenue	\$ (0.1)
Positions no longer open at year end				Expenses	0.7
Total of positions no longer open at year end					<u>\$ 0.6</u>

	As of and for the Year Ended December 27, 2009				
	Balance Sheet Classification	Notional Amount	Fair Value (In millions)	Income Statement Classification of Gain (Loss)	Amount of Gain (Loss) Recognized In Income
Derivatives in Cash Flow Hedges					
Related to Existing Assets and Liabilities					
Foreign Exchange Contracts					
Derivatives related to existing assets	Current liabilities	\$ 8.2	\$ —	Revenue	\$ —
Derivatives related to existing liabilities	Current liabilities	6.8	—	Expenses	—
Total of derivatives in a net liability position		<u>\$ 15.0</u>	<u>\$ —</u>		<u>\$ —</u>
Positions no longer open at year end				Revenue	\$ 0.6
Positions no longer open at year end				Expenses	(0.8)
Total of positions no longer open at year end					<u>\$ (0.2)</u>

Note 7 – Securities

The company invests excess cash in marketable securities consisting primarily of money markets, commercial paper, corporate notes and bonds, and U.S. government securities. While the company still holds auction rate securities, the company no longer actively invests in them.

All of the company's securities are classified as available-for-sale. In accordance with the Investments – Debt and Equity Securities Topic of the FASB ASC, available-for-sale securities are carried at fair value with unrealized gains and losses included as a component of AOCI within stockholders' equity, net of any related tax effect, if such gains and losses are considered temporary. Realized gains and losses on these investments are included in interest income and expense.

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Declines in value judged by management to be other-than-temporary and credit related are included in impairment of investments in the statement of operations. The noncredit component of impairment is included in AOCI. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis. There were no material realized gains or losses on sales of securities in the first nine months of 2010 or 2009. Proceeds from sales of available-for-sale securities totaled \$1.5 million during the third quarter of 2010 and \$0.3 million during the first quarter of 2009.

Securities are summarized as of September 26, 2010:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Market <u>Value</u>
	(In millions)			
Short-term available for sale securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 0.1	\$ —	\$ —	\$ 0.1
Total marketable securities	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.1</u>
	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Market <u>Value</u>
	(In millions)			
Long-term available for sale securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 1.9	\$ 0.3	\$ —	\$ 2.2
Corporate debt securities	0.3	—	—	0.3
Auction rate securities	35.2	—	(7.9)	27.3
Total securities	<u>\$ 37.4</u>	<u>\$ 0.3</u>	<u>\$ (7.9)</u>	<u>\$ 29.8</u>

In aggregate, the auction rate securities moved into an unrealized loss position during the second quarter of 2010. The continued unrealized loss is attributable to the ongoing volatility in the global equities markets and uncertainty in the credit markets primarily from European debt situation and other global economic uncertainty. However, the company does not intend to sell or believe it is more likely than not that the company would be required to sell the securities before a recovery of the amortized cost basis of the investment. In addition, as a result of the continued performance of the issue and its' insurance guarantee, the company considers this decrease in fair value to be temporary in nature.

Securities are summarized as of December 27, 2009:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Market <u>Value</u>
	(In millions)			
Short-term available for sale securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 0.1	\$ —	\$ —	\$ 0.1
Corporate debt securities	—	—	—	—
Total marketable securities	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.1</u>
	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Market <u>Value</u>
	(In millions)			
Long-term available for sale securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 1.9	\$ 0.2	\$ —	\$ 2.1
Corporate debt securities	0.3	—	—	0.3
Auction rate securities	36.3	—	(2.9)	33.4
Total securities	<u>\$ 38.5</u>	<u>\$ 0.2</u>	<u>\$ (2.9)</u>	<u>\$ 35.8</u>

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The following table presents the amortized cost and estimated fair market value of available-for-sale securities by contractual maturity as of September 26, 2010.

	Amortized	Market
	<u>Cost</u>	<u>Value</u>
	(In millions)	
Due in one year or less	\$ 0.1	\$ 0.1
Due after one year through three years	0.4	0.4
Due after three years through ten years	1.2	1.4
Due after ten years	35.7	28.0
	<u>\$ 37.4</u>	<u>\$ 29.9</u>

As of September 26, 2010, auction rate securities with a market value of \$27.3 million are included in the table above in contractual maturities due after ten years. The company's auction rate securities are composed of approximately \$15.8 million of securities that are structured obligations of special purpose reinsurance entities associated with life insurance companies and \$11.5 million of corporate debt securities issued by a special purpose financial services corporation that offers credit risk protection through writing credit derivatives. The company continues to accrue and receive interest on these securities based on a contractual rate.

In the fourth quarter of 2008, the company concluded that the impairment of its auction rate securities was other-than-temporary and recognized a loss of \$19.0 million in the income statement. However, the company does not intend to sell or believe it is more likely than not that the company would be required to sell the securities before a recovery of the amortized cost basis of the investment. In the second quarter of 2009, based on the requirements of the Investments – Debt and Equity Securities Topic of the FASB ASC, the company analyzed the \$19.0 million other-than-temporary loss that was recognized in the income statement in the fourth quarter of 2008 to determine the noncredit component. It was determined that \$15.5 million of the loss was attributable to credit loss. As a result, in the second quarter of 2009, a cumulative adjustment of the remaining \$3.5 million, which was attributable to changes in interest rates, was reclassified from retained earnings to AOCI. There is no portion of other-than-temporary impairment related to credit loss currently included in AOCI.

The following table presents a roll forward of the amount related to credit losses recognized in earnings during the nine months ended September 26, 2010.

	Credit Losses
	Recognized in Earnings
	(In millions)
Balance at beginning of period	\$ 15.1
Accretion of impairments included in net income	(0.4)
Balance at end of period	<u>\$ 14.7</u>

Note 8 – Segment Information

The company is currently organized into three reportable segments. The organization is an application based structure which corresponds with the way the company manages the business. The majority of the company's activities are aligned into two focus areas; MCCC, which focuses on handset, computing and multimedia applications, and PCIA, which focuses on power supply and motor control solutions. Each of these segments has a relatively small set of leading customers, common technology requirements and similar design cycles. The Standard Discrete and Standard Linear (SDT) business is managed separately as a third segment.

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The following table presents selected operating segment financial information for the three and nine months ended September 26, 2010 and September 27, 2009.

	<u>Three months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26,</u>	<u>September 27,</u>	<u>September 26,</u>	<u>September 27,</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In millions)			
Revenue and operating income (loss):				
MCCC				
Total revenue	\$ 172.2	\$ 144.8	\$ 497.1	\$ 373.4
Operating income	43.5	23.9	116.7	41.5
PCIA				
Total revenue	195.5	151.0	569.8	370.9
Operating income	54.1	26.7	150.2	37.8
SDT				
Total revenue	46.7	36.0	135.1	88.7
Operating income	10.3	4.2	27.1	4.1
Corporate				
Restructuring and impairments expense	(1.3)	(4.1)	(3.7)	(22.1)
Stock-based compensation expense	(4.7)	(5.2)	(16.4)	(11.7)
Selling, general and administrative expense	(43.7)	(37.2)	(126.9)	(109.6)
Charge for litigation	(8.0)	—	(8.0)	—
Other (1)	(1.9)	—	(5.2)	—
Total consolidated				
Total revenue	\$ 414.4	\$ 331.8	\$ 1,202.0	\$ 833.0
Operating income (loss)	\$ 48.3	\$ 8.3	\$ 133.8	\$ (60.0)
Other expense, net	\$ 3.8	\$ 4.4	\$ 8.8	\$ 15.4
Income (loss) before income taxes	\$ 44.5	\$ 3.9	\$ 125.0	\$ (75.4)

- (1) Other primarily consists of accelerated depreciation related to the planned closure of the Mountaintop facility and expenses associated with the 8-inch conversion effort at a facility.

Note 9 – Goodwill and Intangible Assets

The following table presents a summary of acquired intangible assets.

	<u>Period of</u> <u>Amortization</u>	<u>As of September 26, 2010</u>		<u>As of December 27, 2009</u>	
		<u>Gross Carrying</u>	<u>Accumulated</u>	<u>Gross Carrying</u>	<u>Accumulated</u>
		<u>Amount</u>	<u>Amortization</u>	<u>Amount</u>	<u>Amortization</u>
		(In millions)			
Identifiable intangible assets:					
Developed technology	2 -15 years	\$ 238.9	\$ (194.3)	\$ 238.9	\$ (180.3)
Customer base	8 -10 years	81.6	(65.2)	81.6	(63.3)
Core technology	10 years	3.9	(1.4)	3.9	(1.1)
Assembled workforce	5 years	1.0	(0.9)	1.0	(0.7)
Process technology	5 years	1.6	(1.1)	1.6	(0.9)
Patents	4 years	5.9	(5.6)	5.9	(5.5)
Subtotal		332.9	(268.5)	332.9	(251.8)
Goodwill		161.3	—	161.3	—
Total		\$ 494.2	\$ (268.5)	\$ 519.4	\$ (251.8)

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The following table presents the carrying value of goodwill by reporting unit.

	<u>MCCC</u>	<u>PCIA</u>	<u>SDT</u>	<u>Total</u>
	(In millions)			
Balance as of September 26, 2010 and December 27, 2009				
Goodwill	161.3	148.8	54.5	364.6
Accumulated Impairment Losses	—	(148.8)	(54.5)	(203.3)
	<u>\$161.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 161.3</u>

The following table presents the estimated amortization expense for intangible assets for the remainder of 2010 and for each of the five succeeding fiscal years.

<u>Estimated Amortization Expense:</u>	<u>(In millions)</u>
Remainder of 2010	\$ 5.6
Fiscal 2011	18.0
Fiscal 2012	15.8
Fiscal 2013	13.3
Fiscal 2014	5.4
Fiscal 2015	3.0

Note 10 – Restructuring and Impairments

During the three and nine months ended September 26, 2010, the company recorded restructuring and impairment charges, net of releases, of \$1.3 and \$3.7 million, respectively. In the third quarter of 2009, the charges include \$0.8 million of employee separation costs and \$0.4 million of fab closure costs associated with the 2009 Infrastructure Realignment Program as well as \$0.1 million in employee separation costs associated with the 2010 Infrastructure Realignment Program.

During the three and nine months ended September 27, 2009, the company recorded restructuring and impairment charges, net of releases, of \$4.1 million and \$22.1 million, respectively. In the third quarter of 2009, the charges include \$2.4 million of employee separation costs and \$1.7 million of fab closure costs associated with the 2009 Infrastructure Realignment Program. The third quarter restructuring charges also include \$0.1 million in employee separation costs associated with the 2008 Infrastructure Realignment Program and \$0.1 million in releases associated with the 2007 Infrastructure Realignment Program. The charges in the first six months of 2009 included \$6.8 million of employee separation costs, \$0.7 million in lease impairment costs and \$0.6 million in releases associated with the 2008 Infrastructure Realignment Program as well as \$0.8 million in asset impairment costs, \$9.1 million in employee separation costs and \$1.2 million in fab closure costs associated with the 2009 Infrastructure Realignment Program.

The 2010 Infrastructure Realignment Program includes costs to simplify and realign some activities within the MCCC segment, costs for the continued refinement of the company’s manufacturing strategy, and costs associated with centralizing the company’s accounting functions. The 2009 Infrastructure Realignment Program includes costs associated with the planned closure of the Mountaintop, Pennsylvania manufacturing facility and the four-inch manufacturing line in Bucheon, South Korea, both of which were announced in the first quarter of 2009. The 2009 Program also includes charges for a smaller worldwide cost reduction plan to further right-size our company and remain financially healthy.

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The following table presents a summary of the activity in the company's accrual for restructuring and impairment costs for the quarterly periods ended March 28, 2010, June 27, 2010, and September 26, 2010 (in millions).

	Accrual Balance at			Reserve		Accrual Balance at
	<u>12/27/2009</u>	New Charges	Cash Paid	Release	Non-Cash Items	<u>3/28/2010</u>
<i>2007 Infrastructure Realignment Program:</i>						
Employee Separation Costs	\$ 0.1		\$(0.1)			\$ 0.0
<i>2008 Infrastructure Realignment Program:</i>						
Employee Separation Costs	0.4		(0.1)			0.3
Lease Impairment Costs	1.6		(0.2)			1.4
<i>2009 Infrastructure Realignment Program:</i>						
Employee Separation Costs	8.1	1.6	(1.7)	(0.2)		7.8
Fab Closure Costs	—	0.6	(0.6)			—
<i>2010 Infrastructure Realignment Program:</i>						
Employee Separation Costs	—	0.4	(0.4)			—
	<u>\$ 10.2</u>	<u>\$ 2.6</u>	<u>\$(3.1)</u>	<u>\$ (0.2)</u>	<u>\$ —</u>	<u>\$ 9.5</u>
	Accrual Balance at			Reserve		Accrual Balance at
	<u>3/28/2010</u>	New Charges	Cash Paid	Release	Non-Cash Items	<u>6/27/2010</u>
<i>2008 Infrastructure Realignment Program:</i>						
Employee Separation Costs	0.3	(2.4)	2.4	—	—	0.3
Lease Impairment Costs	1.4		(0.3)			1.1
<i>2009 Infrastructure Realignment Program:</i>						
Employee Separation Costs	7.8	1.3	(1.2)	(0.2)		7.7
Fab Closure Costs	—	0.5	(0.5)			—
<i>2010 Infrastructure Realignment Program:</i>						
Employee Separation Costs	—	0.8	(0.6)			0.2
	<u>\$ 9.5</u>	<u>\$ 0.2</u>	<u>\$(0.2)</u>	<u>\$ (0.2)</u>	<u>\$ —</u>	<u>\$ 9.3</u>
	Accrual Balance at			Reserve		Accrual Balance at
	<u>6/27/2010</u>	New Charges	Cash Paid	Release	Non-Cash Items	<u>9/26/2010</u>
<i>2008 Infrastructure Realignment Program:</i>						
Employee Separation Costs	0.3					0.3
Lease Impairment Costs	1.1		(0.2)			0.9
<i>2009 Infrastructure Realignment Program:</i>						
Employee Separation Costs	7.7	0.8	(0.2)			8.3
Fab Closure Costs	—	0.4	(0.4)			—
<i>2010 Infrastructure Realignment Program:</i>						
Employee Separation Costs	0.2	0.1	(0.1)			0.2
	<u>\$ 9.3</u>	<u>\$ 1.3</u>	<u>\$(0.9)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9.7</u>

The company has substantially completed payment of the remaining employee severance accruals related to the 2008 Infrastructure Realignment Program. Payouts associated with the 2008 lease impairment will be made on a regular basis and will be complete by the fourth quarter of 2011. The consolidation of the South Korea fabrication processes and the

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planned closure of the Mountaintop facility were expected to be completed during the second quarter of 2011. Recently, during the third quarter of 2010, the company decided to extend the Mountaintop closure until the end of 2012 to better support strong customer demand and our significant pipeline of new products.

Note 11 – Contingencies

Patent Litigation with Power Integrations, Inc. There are four outstanding proceedings with Power Integrations.

POWI 1 : On October 20, 2004, the company and our wholly owned subsidiary, Fairchild Semiconductor Corporation, were sued by Power Integrations, Inc. in the U.S. District Court for the District of Delaware. Power Integrations alleged that certain of the company's pulse width modulation (PWM) integrated circuit products infringed four Power Integrations U.S. patents, and sought a permanent injunction preventing the company from manufacturing, selling or offering the products for sale in the U.S., or from importing the products into the U.S., as well as money damages for past infringement.

The trial in the case was divided into three phases. The first phase, held in October 2006, was on infringement, the willfulness of any infringement, and damages. On October 10, 2006, a jury returned a verdict finding that thirty-three of the company's PWM products infringe one or more of seven claims asserted in the four patents. The jury also found that the company willfully infringed the patents, and assessed damages against us in the amount of approximately \$34 million. The second phase of the trial, held in September 2007 before a different jury, focused on the validity of the Power Integrations patents. On September 21, 2007 a jury returned a verdict in the second phase, finding that the four Power Integrations patents asserted against us are valid. The third phase of the trial began on September 21, 2007, and covered the enforceability of the patents. On September 24, 2008, the court ruled that the patents are enforceable.

On December 12, 2008 the judge overseeing the case reduced the jury's October 10, 2006 damages award from approximately \$34 million to approximately \$6.1 million, and ordered a new trial on the issue of whether the company willfully infringed Power Integrations' asserted patents. The court also issued a permanent injunction on a limited number of the company's products enjoining the company from making, selling or offering to sell the products in the U.S., or from importing the products into the U.S. The injunction took effect on May 13, 2009. The company voluntarily stopped U.S. sales and importation of those products in 2007 and have been offering replacement products since 2006.

On June 22, 2009, the new trial on willfulness was held. On July 23, 2010, the court ruled that our infringement was willful. Based on this finding, the court has discretion to increase the \$6.1 million damages award by up to three times that amount. Additionally, the court has awarded Power Integrations pre-judgment interest and may also require us to pay Power Integrations' attorney's fees.

The final damages award, willfulness finding, injunction, and other issues are subject to appeal and the company expects to challenge several aspects of the litigation on appeal. When the company appeals, the company likely will be required to post a bond or provide other security in an amount equal to the final damages award for the duration of the appeal process.

POWI 2: On May 23, 2008, Power Integrations filed another lawsuit against the company, Fairchild Semiconductor Corporation and our wholly owned subsidiary System General Corporation in the U.S. District Court for the District of Delaware, alleging infringement of three patents. Of the three patents claimed in this lawsuit, two are patents that were asserted against the company and Fairchild Semiconductor Corporation in the October 2004 lawsuit described above. As mentioned below, the majority of the claims asserted in the first lawsuit from these two patents have now received final rejections from the patent office, and the third patent has also received preliminary rejections. The company believes that it has strong defenses against Power Integrations' claims and intends to vigorously defend this second lawsuit.

On October 14, 2008, Fairchild Semiconductor Corporation and System General Corporation filed a patent infringement lawsuit against Power Integrations in the U.S. District Court for the District of Delaware, alleging that certain PWM integrated circuit products infringe one or more claims of three U.S. patents owned by System General. The lawsuit seeks monetary damages and an injunction preventing the manufacture, use, sale, offer for sale or importation of Power Integrations products found to infringe the asserted patents.

Both lawsuits have been consolidated and will be heard together in Delaware District Court.

POWI 3: On November 4, 2009, Power Integrations, Inc. filed a complaint for patent infringement against the company and two of the company's subsidiaries in the United States District Court for the Northern District of California alleging that several of our products infringe three of Power Integrations' patents. One of those patents has since been dropped

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from the case. The company intends to put on a vigorous defense against these claims. In the same lawsuit we have filed counterclaims against Power Integrations, alleging Power Integrations' products infringe certain claims of one of our patents.

Reexaminations: Parallel to the above federal court proceedings, the company also petitioned the U.S. Patent and Trademark Office (USPTO) for reexamination of all unexpired patents claims asserted in POWI 1 and POWI 2 (those being all asserted claims from three of the four patents asserted in POWI 1 (the fourth patent has expired) and all of the patent claims asserted in POWI 2). Of the 24 claims at issue in the three patents from POWI 1, 22 have been finally rejected by the USPTO. In POWI 2, all claims from the third patent which was asserted against us (from the patent which was not previously asserted in POWI 1) have been initially rejected by the USPTO.

POWI 4 : On February 10, 2010 Fairchild and System General filed a lawsuit in Suzhou, China against four Power Integrations entities and seven vendors. The lawsuit claims that Power Integrations violates four Fairchild/System General patents. Fairchild is seeking an injunction against the Power Integrations products and over \$17.0 million in damages . Power Integrations is currently seeking to invalidate the Fairchild/System General patents in proceedings before the Chinese patent office.

Other Legal Claims. From time to time the company is involved in legal proceedings in the ordinary course of business. The company believes that there is no such ordinary-course litigation pending that could have, individually or in the aggregate, a material adverse effect on our business, financial condition, results of operations or cash flows. Legal costs are expensed as incurred.

The company has analyzed the potential litigation outcomes from current litigation in accordance with the Contingency Topic of the FASB ASC. While the exact amount of these losses is not known, the company has recorded net reserves for potential litigation outcomes in the consolidated statement of operations, based upon assessments of the potential liability using an analysis of the claims and historical experience in defending and/or resolving these claims. As of September 26, 2010, the balance for potential litigation outcomes was \$14.7 million. The company had previously accrued \$6.7 million for the POWI 1 damages plus accrued interest through the end of 2010. Based on the recent willfulness ruling, the court has the discretion to treble the \$6.1 million damages award, as well as award reimbursement of attorney and expert fees to the plaintiff. Based upon documents filed with the court, these fees are \$9.4 million. Under the Contingency Topic of the FASB ASC, the company must determine the probability of an award being made under the willfulness judgment, and if deemed probable determine a reasonable estimate to accrue. Based upon the company's estimates, the company believes the probability of the judge awarding damages in the willfulness trial is probable and we believe the range of possible outcomes is \$6.1 million to \$21.6 million. However, based upon our analysis, the company believes that the best estimate within this range is approximately \$8.0 million and has accrued this amount.

Note 12 – Long-Term Debt

Long-term debt consists of the following at:

	September 26, <u>2010</u>	December 27, <u>2009</u>
	(In millions)	
Term Loan	321.6	472.2
Total debt	321.6	472.2
Current portion of long-term debt	(3.8)	(5.3)
Long-term debt, less current portion	<u>\$ 317.8</u>	<u>\$ 466.9</u>

Effective May 25, 2010, the company amended the credit agreement to make certain technical modifications to the definition of cumulative net income and provide the company with greater operational flexibility over the remaining life of the loan. As a result of this amendment, the company incurred cash charges of \$0.8 million which were deferred and will be amortized over the remaining term of the debt.

On July 30, 2010, the company paid down \$121.6 million of long term debt. The company wrote off \$2.1 million in deferred financing fees associated with this tranche of debt.

Note 13 – Subsequent Events

The company has evaluated subsequent events and did not identify any events that required disclosure.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except as otherwise indicated in this Quarterly Report on Form 10-Q, the terms "we," "our," the "company," "Fairchild" and "Fairchild International" refer to Fairchild Semiconductor International, Inc. and its consolidated subsidiaries, including Fairchild Semiconductor Corporation, our principal operating subsidiary. We refer to individual subsidiaries where appropriate.

Overview

We entered 2010 as a leaner and more focused company positioned to gain market share and accelerate the improvement of our business in 2010 and beyond. We have built a combination of technologies, products and supply chain capabilities to support our target markets as we continue to develop innovative analog and power management solutions that enable greater energy efficiency and wireless mobility

We continue to proactively take actions to keep inventory as lean as possible while maintaining customer service. We prefer to maintain maximum flexibility by adjusting internal inventories in response to higher demand before adding more inventory to our distribution channels. We continue to manage our production output to maintain channel inventories within our new lower target range of 7.5 to 8.5 weeks. We ended the third quarter of 2010 with channel inventories at slightly under 8 weeks. Internal inventories increased by \$30.6 million during the first nine months of 2010, however days of internal inventory grew by only 6 days during the same time frame.

MCCC's main focus is to supply the mobile, computing, consumer and communication end market segments with innovative power and signal path solutions including our low voltage MOSFETs, Power Management IC's, Mixed Signal Analog and Logic products. We seek to deliver exceptional product performance by optimizing silicon processes and application specific design to satisfy specific requirements for our customers. This enables us to deliver solutions with greater energy efficiency and smaller footprint than is commonly available. We expect a steady acceleration of new product sales especially for solutions targeted to the handset and ultraportable market.

PCIA's focus is to capitalize on the growing demand for greater energy efficiency in power supplies, consumer electronics, battery chargers, electric motors, industrial electronics and automobiles. We are a leader in power factor correction, low standby power consumption designs, innovative switching techniques and power module technology that enable greater efficiency and better performance. Improving the efficiency of our customers' products is vital to meeting new energy efficiency regulations. Effectively managing the power conversion and initial voltage regulation in power supplies is one of the greatest opportunities we have to improve overall system efficiency. We believe the growing global focus on energy efficiency will continue to drive growth in this product line.

SDT products are core building block components for many electronic applications. This segment is moving to a more simplified and focused operating model to make the selling and support of these products easier and more profitable. The right operational structure and part portfolio should enable our standard products group to continue to generate solid cash flow with minimal investment

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Results of Operations

The following table summarizes certain information relating to our operating results as derived from our unaudited consolidated financial statements.

	Three Months Ended				Nine Months Ended			
	September 26, 2010		September 27, 2009		September 26, 2010		September 27, 2009	
	(Dollars in millions)							
Total revenue	\$414.4	100.0%	\$331.8	100.0%	\$1,202.0	100.0%	\$833.0	100.0%
Gross margin	150.9	36.4%	86.3	26.0%	415.8	34.6%	184.9	22.2%
Operating expenses:								
Research and development	30.5	7.4%	24.9	7.5%	88.0	7.3%	74.3	8.9%
Selling, general and administrative	57.3	13.8%	43.4	13.1%	165.6	13.8%	131.8	15.8%
Amortization of acquisition-related intangibles	5.5	1.3%	5.6	1.7%	16.7	1.4%	16.7	2.0%
Restructuring and impairments	1.3	0.3%	4.1	1.2%	3.7	0.3%	22.1	2.7%
Charge for litigation	8.0	1.9%	—	0.0%	8.0	0.7%	—	0.0%
Total operating expenses	102.6	24.8%	78.0	23.5%	282.0	23.5%	244.9	29.4%
Operating income (loss)	48.3	11.7%	8.3	2.5%	133.8	11.1%	(60.0)	-7.2%
Other expense, net	3.8	0.9%	4.4	1.3%	8.8	0.7%	15.4	1.8%
Income (loss) before income taxes	44.5	10.7%	3.9	1.2%	125.0	10.4%	(75.4)	-9.1%
Provision (benefit) for income taxes	8.7	2.1%	1.2	0.4%	22.8	1.9%	(2.1)	-0.3%
Net income (loss)	<u>\$ 35.8</u>	8.6%	<u>\$ 2.7</u>	0.8%	<u>\$ 102.2</u>	8.5%	<u>\$(73.3)</u>	-8.8%

Adjusted net income, adjusted gross margin, and free cash flow are also included in the table below. These are non-GAAP financial measures and should not be considered a replacement for GAAP results. We present adjusted results because we use them as additional measures of our operating performance. We believe the adjusted information is useful to investors because it illuminates underlying operational trends by excluding certain significant non-recurring or otherwise unusual transactions. Our criteria for adjusted results may differ from methods used by other companies and should not be considered as alternatives to net income or loss, gross margin, or other measures of consolidated operations and cash flow data prepared in accordance with US GAAP as indicators of our operating performance or as alternatives to cash flow as a measure of liquidity.

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	Three Months Ended				Nine Months Ended			
	September 26, 2010		September 27, 2009		September 26, 2010		September 27, 2009	
	(Dollars in millions)							
<i>Non GAAP measures</i>								
Adjusted net income (loss)	\$ 52.8		\$ 14.9		\$135.9		\$ (28.7)	
Adjusted gross margin	151.3	36.5%	89.2	26.9%	418.3	34.8%	192.1	23.1%
Free cash flow	57.6		34.5		147.8		85.9	
<i>Reconciliation of Net Income to Adjusted Net Income</i>								
Net income (loss)	35.8		2.7		102.2		(73.3)	
Adjustments to reconcile net income (loss) to adjusted net income (loss):								
Restructuring and impairments	1.3		4.1		3.7		22.1	
Gain on sale of equity investment	—		—		—		(0.2)	
Net impairment/gain on equity investments	—		—		—		2.3	
Gain associated with debt buyback	—		—		—		(0.8)	
Accelerated depreciation on assets related to fab closure	0.5		3.0		2.7		6.7	
Write-off of deferred financing fees	2.1		—		2.1		—	
Charge for litigation	8.0		—		8.0		—	
Inventory release associated with fab closure	(0.1)		(0.1)		(0.2)		0.5	
Amortization of acquisition-related intangibles	5.5		5.6		16.7		16.7	
Associated net tax effects of the above and other acquisition-related intangibles	(0.3)		(0.4)		0.7		(2.7)	
Adjusted net income (loss)	<u>\$ 52.8</u>		<u>\$ 14.9</u>		<u>\$135.9</u>		<u>\$ (28.7)</u>	
<i>Reconciliation of Gross Margin to Adjusted Gross Margin</i>								
Gross margin	150.9		86.3		415.8		184.9	
Adjustments to reconcile gross margin to adjusted gross margin:								
Accelerated depreciation on assets related to fab closure	0.5		3.0		2.7		6.7	
Inventory release associated with fab closure	(0.1)		(0.1)		(0.2)		0.5	
Adjusted gross margin	<u>\$151.3</u>		<u>\$ 89.2</u>		<u>\$418.3</u>		<u>\$192.1</u>	
<i>Reconciliation of Operating Cash Flow to Free Cash Flow</i>								
Cash provided by operating activities	\$ 96.2		\$ 46.1		\$237.3		\$118.9	
Capital expenditures	(38.6)		(11.6)		(89.5)		(33.0)	
Free cash flow	<u>\$ 57.6</u>		<u>\$ 34.5</u>		<u>\$147.8</u>		<u>\$ 85.9</u>	

Total Revenue. Total revenue in the third quarter and first nine months of 2010 increased by \$82.6 million and \$369.0 million or approximately 25% and 44%, respectively, compared to the same periods in 2009. The increase in revenue was primarily driven by an increase in unit sales as a result of stronger demand, and an increase in average selling prices when compared to the same period in 2009.

Geographic revenue information is based on the customer location within the indicated geographic region. The following table presents, as a percentage of sales, geographic sales for the U.S., Other Americas, Europe, China, Taiwan, Korea and Other Asia/Pacific (which for our geographic reporting purposes includes Japan and Singapore) for the three and nine months ended September 26, 2010 and September 27, 2009. We made solid progress increasing our industrial and automotive sales in the U.S. during the second and third quarter of 2010, leading to the increased revenue as a percentage of sales over the same periods in 2009. Taiwan and China showed decreases in their percentage of sales over the same periods of 2009 resulting primarily from price erosion. All other locations had minimal percentage changes.

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	Three Months Ended		Nine Months Ended	
	September 26,	September 27,	September 26,	September 27,
	2010	2009	2010	2009
U.S.	11%	8%	11%	8%
Other Americas	3	3	3	4
Europe	13	11	13	12
China	33	36	33	35
Taiwan	14	18	15	16
Korea	13	13	13	14
Other Asia/Pacific	13	11	12	11
Total	100%	100%	100%	100%

Gross Margin. In the third quarter and first nine months of 2010 gross margin dollars increased by \$64.6 million and \$230.9 million and gross margin percent improved from 26% to 36.4% and 22.2% to 34.6%, respectively, as compared to the same periods in 2009. The increase in gross margin is due to increased revenue, higher unit volumes, improvement in product mix, and lower manufacturing unit costs as a result of higher factory utilization due to higher demand.

Adjusted Gross Margin. In the third quarter and first nine months of 2010 adjusted gross margin dollars increased by \$62.1 million and \$226.2 million and adjusted gross margin percent improved from 26.9% to 36.5% and 23.1% to 34.8%, respectively, as compared to the same periods in 2009 for the reasons listed above. Adjusted gross margin does not include the accelerated depreciation due to the planned closure of the Mountaintop facility. See reconciliation of gross margin to adjusted gross margin above.

Operating Expenses. Research and development (R&D) expenses increased during the third quarter and first nine months of 2010 as compared to the same periods in 2009 primarily due to the increases in variable compensation and as a result of increased investment in R&D programs, including the purchase of a new design center in Irvine, California. Increases in selling expenses were driven by higher variable compensation, increased travel expenses as well as higher sales commissions. General and administrative (G&A) expenses also increased during the third quarter and first nine months of 2010 as compared to the same periods in 2009 due to increases in variable compensation, increases in equity compensation, and other payroll related increases including merit and headcount increases. Increased travel, higher legal expenses and the reinstatement of benefits that were temporarily suspended in early 2009 also drove the increase in G&A.

Restructuring and Impairment. During the three and nine months ended September 26, 2010, we recorded restructuring and impairment charges, net of releases, of \$1.3 and \$3.7 million, respectively. In the third quarter of 2009, the charges include \$0.8 million of employee separation costs and \$0.4 million of fab closure costs associated with the 2009 Infrastructure Realignment Program as well as \$0.1 million in employee separation costs associated with the 2010 Infrastructure Realignment Program.

During the three and nine months ended September 27, 2009, we recorded restructuring and impairment charges, net of releases, of \$4.1 million and \$22.1 million, respectively. In the third quarter of 2009, the charges include \$2.4 million of employee separation costs and \$1.7 million of fab closure costs associated with the 2009 Infrastructure Realignment Program as well \$0.1 million in employee separation costs associated with the 2008 Infrastructure Realignment Program and \$0.1 million in releases associated with the 2007 Infrastructure Realignment Program. The charges in the first six months of 2009 included \$6.8 million of employee separation costs, \$0.7 million in lease impairment costs and \$0.6 million in releases associated with the 2008 Infrastructure Realignment Program as well as \$0.8 million in asset impairment costs, \$9.1 million in employee separation costs and \$1.2 million in fab closure costs associated with the 2009 Infrastructure Realignment Program.

The 2010 Infrastructure Realignment Program includes costs to simplify and realign some of the activities within the MCCC segment, costs for the continued refinement of our manufacturing strategy and costs to centralize several of our accounting functions.

The closure of the Mountaintop, Pennsylvania manufacturing facility and the four-inch manufacturing line in Bucheon, South Korea was announced in the first quarter of 2009 and the charges associated with those programs are included in

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the 2009 Infrastructure Realignment Program. The 2009 Infrastructure Realignment Program also includes charges for a smaller worldwide cost reduction plan to further right-size our company and remain financially healthy. While we had originally anticipated that this closure would be completed in 2010, we recently decided to extend the Mountaintop closure until the end of 2012 to better support strong customer demand and our significant pipeline of new products. We remain committed to closing the Mountaintop facility to further streamline the company by eliminating an entire manufacturing site.

The 2009 worldwide restructuring action, excluding facility closures, is substantially complete and reduced headcount by 270 employees. We achieved annual savings associated with these employee separations of \$13.8 million by the end of 2009. Once the planned closure of the Mountaintop facility and the consolidation of South Korea fabrication process are complete we expect to achieve annualized cost savings ranging from \$20 to \$25 million from the 2008 baseline. We anticipate that the financial impact of higher revenues as a result of extending the Mountaintop closure will more than offset the cost savings delayed from continuing to operate the facility. We expect to transfer the majority of Mountaintop's manufacturing capacity to other Fairchild facilities and support similar revenue levels upon closure.

Charge for litigation

We increased our reserves for potential litigation outcomes by \$8.0 million as a result of the recent willfulness ruling in the POW1 litigation. (See Item 1, Note 11 of this report for additional information.)

Other Expense, net.

The following table presents a summary of other expense, net for the three and nine months ended September 26, 2010 and September 27, 2009.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26,</u>	<u>September 27,</u>	<u>September 26,</u>	<u>September 27,</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In millions)			
<i>Other expense, net</i>				
Interest expense	\$ 2.3	\$ 5.0	\$ 8.4	\$ 16.6
Interest income	(0.7)	(0.7)	(2.1)	(2.7)
Other (income) expense, net	2.2	0.1	2.5	1.5
Other expense, net	\$ 3.8	\$ 4.4	\$ 8.8	\$ 15.4

Interest expense. Interest expense in the third quarter and first nine months of 2010 decreased \$2.7 million and \$8.2 million, respectively, as compared to the same periods in 2009, primarily due to the expiration of the interest rate swap early in the first quarter of 2010 as well as lower interest rates on outstanding debt and lower debt balances.

Interest income. Interest income in the third quarter remained fairly flat when compared to the third quarter of 2009. Interest income in the first nine months of 2010 decreased \$0.6 million as compared to the same periods in 2009 as a result of lower cash balances.

Income Taxes. Income tax provision in the third quarter and first nine months of 2010 was \$8.7 million and \$22.8 million on income before taxes of \$44.5 million and \$125.0 million, respectively, as compared to income tax provision (benefits) of \$1.2 million and \$(2.1) million on income (loss) before taxes of \$3.9 million and \$(75.4) million, respectively, for the same period of 2009. The effective tax rate for the third quarter and first nine months of 2010 was 19.6% and 18.2% compared to 30.8% and (2.8%), respectively, for the comparable periods of 2009. The change in effective tax rate is primarily due to shifts of income and loss among jurisdictions with differing tax rates, foreign currency revaluations of tax assets and liabilities and discrete tax benefits as a result of finalization of certain tax filings in the prior year. For the first quarter of 2010, we decreased unrecognized tax benefits by \$10.4 million representing the settlement of a Korea income tax audit. The decrease was due to cash payments payable to the taxing authority along with the effective settlement of other unrecognized tax benefits. There was no net material impact to the effective tax rate as a result of the settlement of the Korea income tax audit. In the first nine months of 2010, the valuation allowance on our deferred tax assets decreased by \$16.4 million. The overall decrease did not impact our results of operations.

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In accordance with the Income Taxes Topic in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), deferred taxes have not been provided on undistributed earnings of foreign subsidiaries which are reinvested indefinitely. Certain non-U.S. earnings, which have been taxed in the U.S. but earned offshore, have and continue to be part of our repatriation plan. As of September 26, 2010, we have recorded a deferred tax liability of \$1.9 million, with no impact to the consolidated statement of operations as we have a full valuation allowance against our net U.S. deferred tax assets.

Free Cash Flow. Free cash flow is a non-GAAP financial measure. To determine free cash flow, we subtract capital expenditures from cash provided by operating activities. Free cash flow increased approximately \$23.1 million in the third quarter of 2010 when compared to the third quarter of 2009. The increase was mainly due to an increase in cash provided by operating activities which was driven by increased net income in 2010, offset partially by unfavorable changes in our working capital accounts. This increase was offset in part by an increase in capital expenditures. See free cash flow reconciliation in the results of operations section above.

Reportable Segments.

The following tables present comparative disclosures of revenue and gross margin of our reportable segments.

	Three Months Ended							
	Sept 26, 2010				Sept 27, 2009			
	Operating				Operating			
	Revenue	% of total	Gross Margin %	Income (loss)	Revenue	% of total	Gross Margin %	Income (loss)
	(Dollars in millions)							
MCCC	\$172.2	41.6%	39.8%	\$ 43.5	\$144.8	43.6%	30.2%	\$ 23.9
PCIA	195.5	47.2%	37.3%	54.1	151.0	45.5%	28.1%	26.7
SDT	46.7	11.3%	25.7%	10.3	36.0	10.9%	15.6%	4.2
Corporate (1)	—	—	—	(59.6)	—	—	—	(46.5)
Total	<u>\$414.4</u>	<u>100.0%</u>	<u>36.4%</u>	<u>\$ 48.3</u>	<u>\$331.8</u>	<u>100.0%</u>	<u>26.0%</u>	<u>\$ 8.3</u>

	Nine Months Ended							
	Sept 26, 2010				Sept 27, 2009			
	Operating				Operating			
	Revenue	% of total	Gross Margin %	Income (loss)	Revenue	% of total	Gross Margin %	Income (loss)
	(Dollars in millions)							
MCCC	\$ 497.1	41.4%	37.9%	\$ 116.7	\$373.4	44.8%	26.8%	\$ 41.5
PCIA	569.8	47.4%	36.0%	150.2	370.9	44.5%	23.3%	37.8
SDT	135.1	11.2%	23.5%	27.1	88.7	10.7%	9.2%	4.1
Corporate (1)	—	—	—	(160.2)	—	—	—	(143.4)
Total	<u>\$1,202.0</u>	<u>100.0%</u>	<u>34.6%</u>	<u>\$ 133.8</u>	<u>\$833.0</u>	<u>100.0%</u>	<u>22.2%</u>	<u>\$ (60.0)</u>

- (1) The three and nine months ended September 26, 2010 includes \$4.7 million and \$16.4 million of stock-based compensation expense, \$1.3 million and \$3.7 million of restructuring and impairments expense, \$8.0 million and \$8.0 million of litigation charges, \$1.9 million and \$5.2 million of other costs which consist primarily of accelerated depreciation related to the closure of the Mountaintop facility and the eight inch conversion process at the Salt Lake facility, and \$43.7 million and \$126.9 million of SG&A expenses, respectively. The three and nine months ended September 27, 2009 includes \$5.2 million and \$11.7 million of stock-based compensation expense, \$4.1 million and \$22.1 million of restructuring and impairments expense, and \$37.2 million and \$109.6 million of SG&A expenses, respectively.

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MCCC revenue increased \$27.4 million and \$123.7 million or approximately 19% and 33% in the third quarter and first nine months of 2010, respectively, compared to the same periods in 2009. Higher revenue was due to stronger unit demand with improvements in overall market conditions, business gained on newly released higher value parts, and additional market share with several customers. We also continued to see solid growth in our MOSFET and Mobile products. Average selling prices for the first nine months of 2010 were fairly flat when compared to the same period of 2009 while average selling prices for the third quarter of 2010 improved when compared to the same period in 2009. The increase in revenue was partially offset by a reduction in distribution channel inventory. Gross margin dollars increased \$24.8 million and \$88.5 million in the third quarter and first nine months of 2010, respectively, from the prior year attributable to increased revenue, higher factory utilization, and the introduction of new products at higher gross margins

MCCC had operating incomes of \$43.5 million and \$116.7 million for the third quarter and nine months of 2010, respectively, as compared to \$23.9 million and \$41.5 million in the same period of 2009. Higher operating income from better gross margin was mitigated in part by additional operating expenses from higher variable costs on stronger unit demand as well as an increase in R&D and SG&A expense due to increased variable compensation, the reinstatement of certain employee benefits which were temporarily suspended in early 2009, and the purchase of a new design center.

PCIA revenue increased \$44.5 million and \$198.8 million or approximately 29% and 54% in the third quarter and first nine months of 2010, respectively, as compared to the same periods in 2009. Revenue was higher in all product lines due to increased overall unit demand and to a lesser degree higher average selling prices, offset in part by continued reduction in distribution channel inventory. Gross margin increased \$30.7 million and \$118.8 million in the third quarter and first nine months of 2010, as compared to the same periods in 2009. Increased gross margin was driven by higher revenue, improved product mix, and lower manufacturing unit costs as a result of increased factory utilization. In addition, there was an unfavorable impact from a strengthening of the Korean Won.

PCIA had operating incomes of \$54.1 million and \$150.2 million in the third quarter and first nine months of 2010, compared to \$26.7 million and \$37.8 million for the same periods in 2009, respectively. Increased operating income was mainly attributed to higher gross margin as mentioned above. The increase was partially offset by higher R&D and SG&A expense due to increased variable compensation and the reinstatement of certain employee benefits which were temporarily suspended in early 2009. In addition, there was further investment in R&D programs, increased travel, and an unfavorable impact from a strengthening of the Korean Won.

SDT revenue increased \$10.7 million and \$46.4 million or approximately 30% and 52% in the third quarter and first nine months of 2010, respectively, as compared to the same periods in 2009. The year to date improvement in revenue was driven by increased unit demand and higher average selling prices. The third quarter improvement in revenue is due primarily to increases in average selling prices from new design wins going into production. The overall improvement in revenue is a result of the continued economic recovery, combined with new design wins in lighting, power supply and motor control applications. Gross margin was higher by \$6.4 million and \$23.7 million in the third quarter and first nine months of 2010, as compared to the same periods in 2009. Increased gross margins were driven mainly by better unit demand and improved product mix, as lower margin products were mixed out to make room for new design wins.

SDT had operating income of \$10.3 million and \$27.1 million for the third quarter and first nine months of 2010, respectively, as compared to an operating income of \$4.2 million and \$4.1 million for the same periods in 2009. The improvement in operating income was due to higher gross margin as well as lower overall operating expenses as a percentage of revenue. In total operating expenses were up slightly year to date with marketing expenses higher as a result of variable compensation and other volume related marketing expenses, mitigated in part by lower G&A expenses as a result of a reallocation of resources.

Liquidity and Capital Resources

Our main sources of liquidity are our cash flows from operations, cash and cash equivalents and revolving credit facility.

Our senior credit facility consists of a \$321.6 million term loan facility and a \$100.0 million revolving line of credit. The senior credit facility imposes various restrictions upon us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities. It also includes restrictive covenants that limit our ability to consolidate, merge or enter into acquisitions, create liens, pay dividends or make similar restricted payments, sell assets, invest in capital expenditures and incur indebtedness. The senior credit facility also limits our ability to modify our certificate of incorporation and bylaws, or enter into shareholder agreements, voting trusts or similar arrangements. In addition, the affirmative covenants in the senior credit facility also require our financial

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performance to comply with certain financial measures, as defined by the credit agreement. These financial covenants require us to maintain a minimum interest coverage ratio of 2.5 to 1.0, a maximum net leverage ratio of 4.0 to 1.0 and to maintain four quarter trailing EBITDA (earnings before interest, taxes, depreciation and amortization) less capital expenditures of at least \$30.0 million. It defines the interest coverage ratio as the ratio of annualized interest expense to the cumulative four quarter trailing EBITDA and defines the maximum net leverage ratio as the ratio of debt, less up to \$100 million (to the extent our unrestricted cash on hand exceeds \$200 million), to the cumulative four quarter trailing EBITDA. EBITDA, as defined by the senior credit facility excludes restructuring, non-cash equity compensation and other adjustments as defined by the credit agreement. At September 26, 2010, we were in compliance with these covenants. Based on our current models, we expect to remain in compliance with our senior credit facility covenants. This expectation is subject to various risks and uncertainties discussed more thoroughly in Item 1A, and include, among others, the risk that our assumptions and expectations about business conditions, expenses and cash flows for the remainder of the year may be inaccurate.

Effective May 25, 2010, we amended the credit agreement to make certain technical modifications to the definition of cumulative net income and provide the company with greater operational flexibility over the remaining life of the loan.

On July 30, 2010, we paid down \$121.6 million of our long term debt. After taking into consideration regularly scheduled principal payments and the debt paid down our new long term debt balance was \$321.6 million.

While our senior credit facility places restrictions on the payment of dividends, it does not restrict the subsidiaries of Fairchild Semiconductor Corporation, except to a limited extent, from paying dividends or making advances to Fairchild Semiconductor Corporation. As a result, we believe that funds generated from operations, together with existing cash and funds from our senior credit facility will be sufficient to meet our debt obligations, operating requirements, capital expenditures and research and development funding needs over the next twelve months. In the first nine months of 2010, our capital expenditures totaled \$89.5 million.

Under our senior credit facility, we have revolving borrowing capacity of \$100.0 million for working capital and general corporate purposes, including acquisitions. At September 26, 2010, the revolver was undrawn and after adjusting for outstanding letters of credit, we had \$98.8 million available under the revolving credit facility. We had additional outstanding letters of credit of \$1.1 million that do not fall under the senior credit facility. We also had \$2.0 million of undrawn credit facilities at certain of our foreign subsidiaries. These outstanding amounts do not impact available borrowings under the senior credit facility.

We frequently evaluate opportunities to sell additional equity or debt securities, obtain credit facilities from lenders or restructure our long-term debt to further strengthen our financial position. As of September 26, 2010, Standard and Poor's rates our corporate unsecured debt at BB+. The sale of additional equity securities could result in additional dilution to our stockholders. Additional borrowing or equity investment may be required to fund future acquisitions.

During the first nine months of 2010, our cash provided by operating activities was \$237.3 million compared to \$118.9 million in the same period of 2009. The following table presents a summary of net cash provided by operating activities during the first nine months of 2010 and 2009.

	Nine Months Ended	
	Sept 26, 2010	Sept 27, 2009
	(In millions)	
Net income (loss)	\$102.2	\$ (73.3)
Depreciation and amortization	118.9	120.7
Non-cash stock-based compensation	15.9	11.7
Deferred income taxes, net	(0.3)	(11.6)
Other, net	3.0	3.0
Change in other working capital accounts	(2.4)	68.4
Net cash provided by operating activities	<u>\$237.3</u>	<u>\$118.9</u>

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Cash provided by operating activities increased \$118.4 million during the first nine months of 2010 as compared to the same period of 2009. The increase was mainly due to increased net income in 2010, offset partially by unfavorable changes in our working capital accounts.

Cash used in investing activities during the first nine months of 2010 totaled \$91.8 million compared to \$35.6 million for the same period of 2009. The increase in the use of cash is primarily the result of higher capital expenditures in the first nine months of 2010. Our capital expenditures during the first nine months of 2010 were \$89.5 million compared to \$33.0 million in the same period in 2009.

Cash used in financing activities totaled \$176.8 million in the first nine months of 2010 compared to \$18.4 million in the same period of 2009. The increase in the use of cash was primarily due to the pay down of \$123.0 million of debt in the first nine months of 2010, compared to only \$17.7 million during the same period of 2009. In addition, we purchased \$25.6 million of treasury stock in the first six months of 2010. There were no purchases of treasury stock in 2009.

As of September 26, 2010, we have not recorded any net unrecognized tax benefits, compared to approximately \$10.4 million at December 27, 2009. For the first quarter of 2010, we decreased unrecognized tax benefits by \$10.4 million representing the settlement of a Korea income tax audit. The decrease was due to cash payments payable to the taxing authority along with the effective settlement of other unrecognized tax benefits. There was no net material impact to the effective tax rate as a result of the settlement of the Korea income tax audit.

Liquidity and Capital Resources of Fairchild International, Excluding Subsidiaries

Fairchild Semiconductor International, Inc. is a holding company, the principal asset of which is the stock of its sole subsidiary, Fairchild Semiconductor Corporation. Fairchild Semiconductor International, Inc. on a stand-alone basis had no cash flow from operations and has no cash requirements for the next twelve months.

Forward Looking Statements

This quarterly report contains “forward-looking statements” as that term is defined in Section 21E of the Securities Exchange Act of 1934. Forward-looking statements can be identified by the use of forward-looking terminology such as “we believe,” “we expect,” “we intend,” “may,” “will,” “should,” “seeks,” “approximately,” “plans,” “estimates,” “anticipates,” or “hopeful,” or the negative of those terms or other comparable terms, or by discussions of our strategy, plans or future performance. For Example, the Outlook section below contains numerous forward-looking statements. All forward-looking statements in this report are made based on management’s current expectations and estimates, which involve risks and uncertainties, including those described below and more specifically in the Risk Factors section. Among these factors are the following: current economic uncertainty, including disruptions in the credit markets, as well as future economic conditions; changes in demand for our products; changes in inventories at our customers and distributors; changes in regional or global economic or political conditions (including as a result of terrorist attacks and responses to them); technological and product development risks, including the risks of failing to maintain the right to use some technologies or failing to adequately protect our own intellectual property against misappropriation or infringement; availability of manufacturing capacity; the risk of production delays; the inability to attract and retain key management and other employees; risks related to warranty and product liability claims; risks inherent in doing business internationally; changes in tax regulations or the migration of profits from low tax jurisdictions to higher tax jurisdictions; availability and cost of raw materials; competitors’ actions; loss of key customers, including but not limited to distributors; order cancellations or reduced bookings; changes in manufacturing yields or output; and significant litigation. Factors that may affect our operating results are described in the Risk Factors section in the quarterly and annual reports we file with the Securities and Exchange Commission. Such risks and uncertainties could cause actual results to be materially different from those in the forward-looking statements. Readers are cautioned not to place undue reliance on the forward-looking statements.

Recently Issued Financial Accounting Standards

In January 2010, the FASB issued Accounting Standards Update No. 2010-06 (ASU 2010-06), *Improving Disclosures about Fair Value Measurements*. This ASU amends ASC 820, Fair Value Measurements and Disclosures Topic to provide further guidance on fair value disclosures. This statement is effective as of the beginning of the first reporting period beginning after issuance. The adoption of ASU 2010-06 did not have a material effect on our consolidated financial position and results of operations and statements of cash flows.

In March 2010, the FASB issued Accounting Standards Update No. 2010-11 (ASU 2010-11), *Scope Exceptions Related to Embedded Credit Derivative*. This ASU amends ASC 815, Derivatives and Hedging Topic to amend the embedded

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derivative scope exceptions for credit derivatives. This statement is effective as of the first fiscal quarter beginning after June 15, 2010. The adoption of ASU 2010-11 did not have a material effect on our consolidated financial position and results of operations and statements of cash flows.

In April, 2010, the FASB issued Accounting Standards Update No. 2010-17 (ASU 2010-17), *Revenue Recognition – Milestone Method*. This ASU provided guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. This statement is effective for milestones achieved in interim and annual periods beginning on or after June 15, 2010. ASU 2010-17 did not have an effect on our consolidated financial position and results of operations and statements of cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosure about Market Risk, in Fairchild Semiconductor International’s annual report on Form 10-K for the year ended December 27, 2009 and under the subheading “Quantitative and Qualitative Disclosures about Market Risk” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” on page 52 of the Form 10-K. There were no material changes in the information we provided in our Form 10-K during the period covered by this Quarterly Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to assure, as much as is reasonably possible, that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is communicated to management and recorded, processed, summarized and disclosed within the specified time periods. As of the end of the period covered by this report, our chief executive officer (CEO) and chief financial officer (CFO), with the participation of our management, have evaluated the effectiveness of our disclosure controls and procedures. Based on the evaluation, our CEO and CFO concluded that as of September 26, 2010, our disclosure controls and procedures are effective.

Inherent Limitations on Effectiveness of Controls

The company’s management, including the CEO and CFO, 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 the 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. There can be no assurance that any control system will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate if conditions change or compliance with policies or procedures deteriorates.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the first three months of 2010 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are four outstanding proceedings with Power Integrations.

POWI 1 : On October 20, 2004, we and our wholly owned subsidiary, Fairchild Semiconductor Corporation, were sued by Power Integrations, Inc. in the U.S. District Court for the District of Delaware. Power Integrations alleged that certain of our pulse width modulation (PWM) integrated circuit products infringed four Power Integrations U.S. patents, and sought a permanent injunction preventing us from manufacturing, selling or offering the products for sale in the U.S., or from importing the products into the U.S., as well as money damages for past infringement.

The trial in the case was divided into three phases. The first phase, held in October 2006, was on infringement, the willfulness of any infringement, and damages. On October 10, 2006, a jury returned a verdict finding that thirty-three of our PWM products infringe one or more of seven claims asserted in the four patents. The jury also found that we willfully infringed the patents, and assessed damages against us in the amount of approximately \$34 million. The second phase of the trial, held in September 2007 before a different jury, focused on the validity of the Power Integrations patents. On September 21, 2007 a jury returned a verdict in the second phase, finding that the four Power Integrations patents asserted against us are valid. The third phase of the trial began on September 21, 2007, and covered the enforceability of the patents. On September 24, 2008, the court ruled that the patents are enforceable.

On December 12, 2008 the judge overseeing the case reduced the jury's October 10, 2006 damages award from approximately \$34 million to approximately \$6.1 million, and ordered a new trial on the issue of whether we willfully infringed Power Integrations' asserted patents. The court also issued a permanent injunction on a limited number of our products enjoining us from making, selling or offering to sell the products in the U.S., or from importing the products into the U.S. The injunction took effect on May 13, 2009. We voluntarily stopped U.S. sales and importation of those products in 2007 and have been offering replacement products since 2006.

On June 22, 2009, the new trial on willfulness was held. On July 23, 2010, the court ruled that our infringement was willful. Based on the finding, the court has discretion to increase the \$6.1 million damages award by up to three times that amount. Additionally, the court has awarded Power Integrations pre-judgment interest and may also require us to pay Power Integrations' attorney's fees.

The final damages award, willfulness finding, injunction, and other issues are subject to appeal and, we expect to challenge several aspects of the litigation on appeal. When we appeal, we likely will be required to post a bond or provide other security in an amount equal to the final damages award for the duration of the appeal process.

POWI 2 : On May 23, 2008, Power Integrations filed another lawsuit against us, Fairchild Semiconductor Corporation and our wholly owned subsidiary System General Corporation in the U.S. District Court for the District of Delaware, alleging infringement of three patents. Of the three patents claimed in this lawsuit, two are patents that were asserted against us and Fairchild Semiconductor Corporation in the October 2004 lawsuit described above. As mentioned below, the majority of the claims asserted in the first lawsuit from these two patents have now received final rejections from the patent office, and the third patent has also received preliminary rejections. We believe we have strong defenses against Power Integrations' claims and intend to vigorously defend this second lawsuit.

On October 14, 2008, Fairchild Semiconductor Corporation and System General Corporation filed a patent infringement lawsuit against Power Integrations in the U.S. District Court for the District of Delaware, alleging that certain PWM integrated circuit products infringe one or more claims of three U.S. patents owned by System General. The lawsuit seeks monetary damages and an injunction preventing the manufacture, use, sale, offer for sale or importation of Power Integrations products found to infringe the asserted patents.

Both lawsuits have been consolidated and will be heard together in Delaware District Court.

POWI 3 : On November 4, 2009, Power Integrations, Inc. filed a complaint for patent infringement against us and two of our subsidiaries in the United States District Court for the Northern District of California alleging that several of our products infringe three of Power Integrations' patents. One of those patents has since been dropped from the case. We intend to put on a vigorous defense against these claims. In the same lawsuit we have filed counterclaims against Power Integrations, alleging Power Integrations' products infringe certain claims of one of our patents.

Reexaminations: Parallel to the above federal court proceedings, we also petitioned the U.S. Patent and Trademark Office (USPTO) for reexamination of all unexpired patents claims asserted in POWI 1 and POWI 2 (those being all asserted claims from three of the four patents asserted in POWI 1 (the fourth patent has expired) and all of the patent claims asserted in POWI 2). Of the 24 claims at issue in the three patents from POWI 1, 22 have been finally rejected by the USPTO. In POWI 2, all claims from the third patent which was asserted against us (from the patent which was not previously asserted in POWI 1) have been initially rejected by the USPTO.

POWI 4: On February 10, 2010 Fairchild and System General filed a lawsuit in Suzhou, China against four Power Integrations entities and seven vendors. The lawsuit claims that Power Integrations violates four Fairchild/System General patents. Fairchild is seeking an injunction against the Power Integration products and over \$17.0 million in damages. Power Integrations is currently seeking to invalidate the Fairchild/System General patents in proceedings before the Chinese patent office.

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Other Legal Claims. From time to time we are involved in legal proceedings in the ordinary course of business. We believe that there is no such ordinary-course litigation pending that could have, individually or in the aggregate, a material adverse effect on our business, financial condition, results of operations or cash flows.

We have analyzed the potential litigation outcomes from our current litigation in accordance with the Contingency Topic of the FASB ASC. While the exact amount of these losses is not known, we have recorded net reserves for potential litigation outcomes in the consolidated statement of operations, based upon our assessments of the potential liability using an analysis of the claims and historical experience in defending and/or resolving these claims. As of September 26, 2010, the balance for potential litigation outcomes was \$14.7 million. We had previously accrued \$6.7 million for the POWI 1 damages plus accrued interest through the end of 2010. Based on the recent willfulness ruling, the court has the discretion to treble the \$6.1 million damages award, as well as award reimbursement of attorney and expert fees to the plaintiff. Based upon documents filed with the court, these fees are \$9.4 million. Under the Contingency Topic of the FASB ASC, we must determine the probability of an award being made under the willfulness judgment, and if deemed probable determine a reasonable estimate to accrue. Based upon our estimates, we believe a probability of the judge awarding damages in the willfulness trial is probable and we believe the range of possible outcomes is \$6.1 million to \$21.6 million. However, based upon our analysis, we believe that the best estimate within this range is approximately \$8.0 million and have accrued this amount.

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 the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2009. 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 also may impair our business operations and financial condition.

The price of our common stock has fluctuated widely in the past and may fluctuate widely in the future.

Our common stock, which is traded on The New York Stock Exchange, has experienced and may continue to experience significant price and volume fluctuations that could adversely affect its market price without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in financial results, earnings below analysts' estimates and financial performance and other activities of other publicly traded companies in the semiconductor industry could cause the price of our common stock to fluctuate substantially. In addition, our common stock, the stock market in general and the market for shares of semiconductor industry-related stocks in particular have experienced extreme price fluctuations which have often been unrelated to the operating performance of the affected companies. Any similar fluctuations in the future could adversely affect the market price of our common stock.

We maintain a backlog of customer orders that is subject to cancellation, reduction or delay in delivery schedules, which may result in lower than expected revenues.

We manufacture products primarily pursuant to purchase orders for current delivery or to forecast, rather than pursuant to long-term supply contracts. The semiconductor industry is occasionally subject to double booking and rapid changes in customer outlooks or unexpected build ups of inventory in the supply channel as a result of shifts in end market demand and macro economic conditions. Accordingly, many of these purchase orders or forecasts may be revised or canceled without penalty. As a result, we must commit resources to the production of products without binding purchase commitments from customers. Even in cases where our standard terms and conditions of sale or other contractual arrangements do not permit a customer to cancel an order without penalty, we may from time to time accept cancellations to maintain customer relationships or because of industry practice, custom or other factors. Our inability to sell products after we devote significant resources to them could have a material adverse effect on both our levels of inventory and revenues. While we currently believe our inventory levels are appropriate for the current economic environment, continued global economic uncertainty may result in lower than expected demand. Lower demand may further impact our customers' target inventory levels as they manage their business through this period. We continue to carefully manage our inventory and anticipate that demand will continue to improve throughout the remainder of 2010; however our current business forecasting is still qualified by the risk that our backlog may deteriorate as a result of customer cancellations.

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Downturns in the highly cyclical semiconductor industry or changes in end user market demands could reduce the profitability and overall value of our business, which could cause the trading price of our stock to decline or have other adverse effects on our financial position.

The semiconductor industry is highly cyclical, and the value of our business may decline during the “down” portion of these cycles. As we have experienced in the past, uncertainty in global economic conditions may continue to negatively affect us and the rest of the semiconductor industry, by causing us to experience backlog cancellations and reduced demand for our products. We may experience renewed, possibly severe and prolonged, downturns in the future as a result of such cyclicity. Even as demand increases following such downturns, our profitability may not increase because of price competition that historically accompanies recoveries in demand. In addition, we may experience significant changes in our profitability as a result of variations in sales, changes in product mix, changes in end user markets and the costs associated with the introduction of new products, and our efforts to reduce excess inventories that may have built up as a result of any of these factors. The markets for our products depend on continued demand for consumer electronics such as personal computers, cellular telephones and digital cameras, and automotive, household and industrial goods. These end user markets may experience changes in demand, such as decreases we experienced as a result of deteriorating global economic conditions that could adversely affect our prospects.

Our failure to execute on our cost reduction initiatives and the impact of such initiatives could adversely affect our business.

We have recently taken cost reduction actions to keep pace with the evolving economic environment. These actions include plans to streamline and consolidate wafer manufacturing by closing our wafer manufacturing facility in Pennsylvania and closing our four-inch manufacturing line in South Korea. Additionally, we initiated an insourcing program to replace higher-cost outside subcontractors with internal manufacturing, we lowered our materials costs, implemented workforce reductions, and reduced employee benefits. We expect these actions will simplify operations, improve productivity and reduce costs.

We cannot guarantee that any of these actions will be successfully implemented, or will sufficiently help in reducing costs. Because our restructuring activities involve changes to many aspects of our business, the cost reductions could adversely impact productivity and sales to an extent we have not anticipated. Even if we fully execute and implement these activities and they generate the anticipated cost savings, there may be other unforeseeable and unintended factors or consequences that could adversely impact our profitability and business.

We may not be able to develop new products to satisfy changing customer demands or we may develop the wrong products.

Our failure to develop new technologies, or react to changes in existing technologies, could materially delay development of new products and lead to decreased revenues and a loss of market share to our competitors. The semiconductor industry is characterized by rapidly changing technologies and industry standards, together with frequent new product introductions. Our financial performance depends on our ability to identify important new technology advances and to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. While new products often command higher prices and higher profit margins, we may not successfully identify new product opportunities and develop and bring new products to market or succeed in selling them for use in new customer applications in a timely and cost-effective manner. Products or technologies developed by other companies may render our products or technologies obsolete or noncompetitive. Many of our competitors are larger, older and more established companies with greater engineering and research and development resources than us. If we fail to identify a fundamental shift in technologies or in our product markets such failure could have material adverse effects on our competitive position within the industry. In addition, to remain competitive, we must continue our efforts to reduce die sizes, develop new packages and improve manufacturing yields. We cannot assure you that we can accomplish these goals.

If some original equipment manufacturers do not design our products into their equipment, our revenue may be adversely affected.

The success of our products often depends on whether OEMs, or their contract manufacturers, choose to incorporate or “design in” our products, or identify our products, with those from a limited number of other vendors, as approved for use in particular OEM applications. Without “design wins,” we may only be able to sell our products to customers as a second

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source, if at all. If an OEM designs another supplier's product into one of its applications, it is more difficult for us to achieve future design wins for that application because changing suppliers involves significant cost, time, effort and risk for the customer. Even if a customer designs in our products, we are not guaranteed to receive future sales from that customer. We may be unable to achieve these "design wins" because of competition or a product's functionality, size, electrical characteristics or other aspect of its design or price. Additionally, we may be unable to service expected demand from the customer. In addition, achieving a design win with a customer does not ensure that we will receive significant revenue from that customer and we may be unable to convert design into actual sales.

We depend on demand from the consumer, original equipment manufacturer, contract manufacturing, industrial, automotive and other markets we serve for the end market applications which incorporate our products. Reduced consumer or corporate spending due to increased energy prices or other economic factors could affect our revenues.

If we provide revenue and gross margin guidance, it is based on our projections of consumer and corporate spending. If our projections of these expenditures are wrong, our revenues and gross margins could be adversely affected. For example, beginning in the third quarter and continuing into the fourth quarter of 2008, we observed progressively weakening order rates which we attributed to uncertainty and deterioration of global economic conditions. While order rates improved throughout 2009 and the first half of 2010, our current business forecasting remains limited, as our OEM and distributor customers remain cautious in their booking activity.

Our failure to protect our intellectual property rights could adversely affect our future performance and growth.

Failure to protect our intellectual property rights may result in the loss of valuable technologies. We rely on patent, trade secret, trademark and copyright law to protect such technologies. These laws are subject to legislative and regulatory change or through changes in court interpretations of those laws and regulations. For example, there have been recent developments in the laws and regulations governing the issuance and assertion of patents in the U.S., including modifications to the rules governing patent prosecution. There have also been court rulings on the issues of willfulness, obviousness and injunctions, that may affect our ability to obtain patents and/or enforce our patents against others. Some of our technologies are not covered by any patent or patent application. With respect to our intellectual property generally, 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.

In addition, effective patent, trademark, copyright and trade secret protection may be unavailable, limited or not applied for in some countries. We cannot assure that we will be able to effectively enforce our intellectual property rights in every country in which our products are sold or manufactured.

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 such persons or institutions will not assert rights to intellectual property arising out of such research. We have non-exclusive licenses to some of our technology from National Semiconductor, Infineon, Samsung Electronics and other companies. These companies may license such technologies to others, including our competitors or may compete with us directly. In addition, National Semiconductor and Infineon have limited royalty-free, worldwide license rights to some of our technologies. 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.

Our failure to obtain or maintain the right to use some technologies may negatively affect our financial results.

Our future success and competitive position depend in part upon our ability to obtain or maintain proprietary technologies used in our principal products. From time to time we are required to defend against claims by competitors and others of intellectual property infringement. Claims of intellectual property infringement and litigation regarding patent and other intellectual property rights are commonplace in the semiconductor industry. From time to time, we may be notified of

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claims that we may be infringing patents issued to other companies. Such claims may relate both to products and manufacturing processes. We may engage in license negotiations regarding these claims from time to time. Even though we maintain procedures to avoid infringing others' rights as part of our product and process development efforts, it is impossible to be aware of every possible patent which our products may infringe, and we cannot assure you that we will be successful in our efforts to avoid infringement claims. Furthermore, even if we conclude our products do not infringe another's patents, others may not agree. We have been and are involved in lawsuits, and could become subject to other lawsuits, in which it is alleged that we have infringed upon the patent or other intellectual property rights of other companies. For example, since October 2004, we have been in litigation with Power Integrations, Inc. See Item 3, Legal Proceedings. Our involvement in this litigation and future intellectual property litigation, or the costs of avoiding or settling litigation by purchasing licenses rights or by other means, could result in significant expense to our company, adversely affecting sales of the challenged products or technologies and diverting the efforts and attention of our technical and management personnel, whether or not such litigation is resolved in our favor. We may decide to settle patent infringement claims or litigation by purchasing license rights from the claimant, even if we believe we are not infringing, in order to reduce the expense of continuing the dispute or because we are not sufficiently confident that we would eventually prevail. In the event of an adverse outcome as a defendant in any such litigation, we may be required to:

- pay substantial damages;
- indemnify our customers for damages they might suffer if the products they purchase from us violate the intellectual property rights of others;
- stop our manufacture, use, sale or importation of infringing products;
- expend significant resources to develop or acquire non-infringing technologies;
- discontinue manufacturing processes; or
- obtain licenses to the intellectual property we are found to have infringed.

We cannot assure you that we would be successful in such development or acquisition or that such licenses would be available under reasonable terms. Any such development, acquisition or license could require the expenditure of substantial time and other resources.

We may not be able to consummate future acquisitions or successfully integrate acquisitions into our business.

We have made numerous acquisitions of various sizes since we became an independent company in 1997 and we plan to pursue additional acquisitions of related businesses. The costs of acquiring and integrating related businesses, or our failure to integrate them successfully into our existing businesses, could result in our company incurring unanticipated expenses and losses. In addition, we may not be able to identify or finance additional acquisitions or realize any anticipated benefits from acquisitions we do complete.

We are constantly evaluating acquisition opportunities and consolidation possibilities and are frequently conducting due diligence or holding preliminary discussions with respect to possible acquisition transactions, some of which could be significant.

If we acquire another business, the process of integrating an acquired business into our existing operations may result in unforeseen operating difficulties and may require us to use significant financial resources on the acquisition that may otherwise be needed for the ongoing development or expansion of existing operations. Some of the risks associated with acquisitions include:

- unexpected losses of key employees, customers or suppliers of the acquired company;
- conforming the acquired company's standards, processes, procedures and controls with our operations;
- coordinating new product and process development;
- hiring additional management and other critical personnel;

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- inability to realize anticipated synergies;
- negotiating with labor unions; and
- increasing the scope, geographic diversity and complexity of our operations.

In addition, we may encounter unforeseen obstacles or costs in the integration of other businesses we acquire.

Possible future acquisitions could result in the incurrence of additional debt, contingent liabilities and amortization expenses related to intangible assets, all of which could have a material adverse effect on our financial condition and operating results.

We may face risks associated with dispositions of assets and businesses.

From time to time we may dispose of assets and businesses in an effort to grow our more profitable product lines. When we do so, we face certain risks associated with these exit activities, including but not limited to the risk that we will disrupt service to our customers, the risk of inadvertently losing other business not related to the exit activities, the risk that we will be unable to effectively continue, terminate, modify and manage supplier and vendor relationships, and the risk that we may be subject to consequential claims from customers or vendors as a result of eliminating, or transferring the production of affected products or the renegotiation of commitments related to those products.

We depend on suppliers for timely deliveries of raw materials of acceptable quality. Production time and product costs could increase if we were to lose a primary supplier or if we experience a significant increase in the prices of our raw materials. Product performance could be affected and quality issues could develop as a result of a significant degradation in the quality of raw materials we use in our products.

Our manufacturing processes use many raw materials, including silicon wafers, gold, copper lead frames, mold compound, ceramic packages and various chemicals and gases. Our manufacturing operations depend upon our ability to obtain adequate supplies of raw materials on a timely basis. Our results of operations could be adversely affected if we were unable to obtain adequate supplies of raw materials in a timely manner or if the costs of raw materials increased significantly. If the prices of these raw materials rise significantly we may be unable to pass on our increased operating expenses to our customers, which would result in decreased profit margins for the products in which they are used. Results could also be adversely affected if there is a significant degradation in the quality of raw materials used in our products, or if the raw materials give rise to compatibility or performance issues in our products, any of which could lead to an increase in customer returns or product warranty claims. Although we maintain rigorous quality control systems, errors or defects may arise from a supplied raw material and be beyond our detection or control. For example, some phosphorus-containing mold compound received from one supplier and incorporated into our products in the past resulted in a number of claims for damages from customers. We purchase some of our raw materials such as silicon wafers, lead frames, mold compound, ceramic packages and chemicals and gases from a limited number of suppliers on a just-in-time basis. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. We subcontract a minority of our wafer fabrication needs, primarily to Advanced Semiconductor Manufacturing Corporation, Central Semiconductor Manufacturing Corporation, Jilin Magic Semiconductor, Macronix International Co. Ltd., Phenitec Semiconductor and Taiwan Semiconductor Manufacturing Company. In order to maximize our production capacity, some of our back-end assembly and testing operations are also subcontracted. Primary back-end subcontractors include Amkor, ASE, AUK, GEM Services, Hana Semiconductor, Liteon, Tak Cheong Electronics, Greatek, Etrend, AIC and UTAC Thai Ltd. Our operations and ability to satisfy customer obligations could be adversely affected if our relationships with these subcontractors were disrupted or terminated.

Delays in expanding capacity at existing facilities, implementing new production techniques, or incurring problems associated with technical equipment malfunctions, all could adversely affect our manufacturing efficiencies.

Our manufacturing efficiency is an important factor in our profitability, and we cannot assure you that we will be able to maintain our manufacturing efficiency or increase manufacturing efficiency to the same extent as our competitors. Our manufacturing processes are highly complex, require advanced and costly equipment and are continuously being modified in an effort to improve yields and product performance. Impurities or other difficulties in the manufacturing process can lower yields. We are constantly looking for ways to expand capacity or improve efficiency at our manufacturing facilities. As is common in the semiconductor industry, we have from time to time experienced difficulty in completing transitions to new manufacturing processes at existing facilities. As a consequence, we have suffered delays in product deliveries or reduced yields in the past and may experience such delays again in the future.

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We may experience delays or problems in bringing new manufacturing capacity to full production. Such delays, as well as possible problems in achieving acceptable yields, or product delivery delays relating to existing or planned new capacity could result from, among other things, capacity constraints, construction delays, upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues. Our operating results could also be adversely affected by the increase in fixed costs and operating expenses related to increases in production capacity if revenues do not increase proportionately.

Slightly less than two-thirds of our sales are made to distributors who can terminate their relationships with us with little or no notice. The termination of a distributor could reduce sales and result in inventory returns.

Distributors accounted for 64% of our net sales for the quarter ended September 26, 2010. Our top five distributors worldwide accounted for 19% of our net sales for the quarter ended September 26, 2010. As a general rule, we do not have long-term agreements with our distributors, and they may terminate their relationships with us with little or no advance notice. Distributors generally offer competing products. The loss of one or more of our distributors, or the decision by one or more of them to reduce the number of our products they offer or to carry the product lines of our competitors, could have a material adverse effect on our business, financial condition and results of operations. The termination of a significant distributor, whether at our or the distributor's initiative, or a disruption in the operations of one or more of our distributors, could reduce our net sales in a given quarter and could result in an increase in inventory returns.

The semiconductor business is very competitive, especially in the markets we serve, and increased competition could reduce the value of an investment in our company.

We participate in the standard component or "multi-market" segment of the semiconductor industry. While the semiconductor industry is generally highly competitive, the "multi-market" segment is particularly so. Our competitors offer equivalent or similar versions of many of our products, and customers may switch from our products to our competitors' products on the basis of price, delivery terms, product performance, quality, reliability and customer service or a combination of any of these factors. Competition is especially intense in the multi-market semiconductor segment because it is relatively easy for customers to switch between suppliers of more standardized, multi-market products like ours. In the past we have experienced decreases in prices during "down" cycles in the semiconductor industry, and this may occur again as a result of the recent downturn in global economic conditions. Even in strong markets, price pressures may emerge as competitors attempt to gain a greater market share by lowering prices. We compete in a global market and our competitors are companies of various sizes in various countries around the world. Many of our competitors are larger than us and have greater financial resources available to them. As such, they tend to have a greater ability to pursue acquisition candidates and can better withstand adverse economic or market conditions. Additionally, companies with whom we do not currently compete may introduce new products that may cause them to compete with us in the future.

We may not be able to attract or retain the technical or management employees necessary to remain competitive in our industry.

Our continued success depends on our ability to attract and retain skilled personnel, including technical, marketing, management and staff personnel. In the semiconductor industry, the competition for qualified personnel, particularly experienced design engineers and other technical employees, is intense, particularly in the "up" portions of our business cycle, when competitors may try to recruit our most valuable technical employees. While we devote a great deal of our attention to designing competitive compensation programs aimed at accomplishing this goal, we modified many of our compensation programs in fiscal 2009 in response to the global economic crisis. As a result of these modifications, total compensation for many employees was reduced and many were required to take on additional responsibilities to compensate for headcount reductions. While many of the compensation programs have been restored for fiscal 2010, our current equity compensation programs are significantly different than those offered prior to 2009 and there can be no assurance that we will be able to retain our current personnel or recruit the key personnel we require.

If we must reduce our use of equity awards to compensate our employees, our competitiveness in the employee marketplace could be adversely affected. Our results of operations could vary as a result of the methods, estimates and judgments we use to value our stock-based compensation.

Like most technology companies, we have a history of using broad-based employee stock programs to recruit and retain our workforce in a competitive employment marketplace. Our success will depend in part upon the continued use of stock options, restricted stock units, deferred stock units and performance-based equity awards as a compensation tool. We are currently seeking and we plan to seek stockholder approval in the future for increases in the number of shares available

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for grant under the Fairchild Semiconductor 2007 Stock Plan as well as other amendments that may be adopted from time to time which require stockholder approval. If these proposals do not receive stockholder approval, we may not be able to grant stock options and other equity awards to employees at the same levels as in the past, which could adversely affect our ability to attract, retain and motivate qualified personnel, and we may need to increase cash compensation in order to attract, retain and motivate employees, which could adversely affect our results of operations. Additionally, in 2009 we relied almost exclusively on grants of restricted stock units, deferred stock units and performance based equity awards in place of stock options. We expect to continue that practice in 2010. While we believe that our compensation policies remained competitive with our peers, we cannot provide any assurance that we have not, and will not continue in the future to lose opportunities to recruit and retain key employees as a result of these changes.

The calculation of stock-based compensation expense under the Compensation – Stock Compensation Topic of the FASB ASC requires us to use valuation methodologies and a number of estimates, assumptions and conclusions regarding matters such as the expected volatility of our share price, the expected life of our options, the expected dividend rate with respect to our common stock, expected forfeitures and the exercise behavior of our employees. There are no means, under applicable accounting principles, to compare and adjust this expense if and when we learn of additional information that may affect the estimates that we previously made, with the exception of changes in expected forfeitures of stock-based awards. Certain factors may arise over time that lead us to change our estimates and assumptions with respect to future stock-based compensation, resulting in variability in our stock-based compensation expense over time. Changes in forecasted stock-based compensation expense could impact our gross margin percentage, research and development expenses, marketing, general and administrative expenses and our tax rate.

We may face product warranty or product liability claims that are disproportionately higher than the value of the products involved.

Our products are typically sold at prices that are significantly lower than the cost of the equipment or other goods in which they are incorporated. For example, our products that are incorporated into a personal computer may be sold for several dollars, whereas the personal computer might be sold by the computer maker for several hundred dollars. Although we maintain rigorous quality control systems, we manufacture and sell approximately 16 billion individual semiconductor devices per year to customers around the world, and in the ordinary course of our business we receive warranty claims for some of these products that are defective or that do not perform to published specifications. Since a defect or failure in our product could give rise to failures in the goods that incorporate them (and consequential claims for damages against our customers from their customers), we may face claims for damages that are disproportionate to the revenues and profits we receive from the products involved. We attempt, through our standard terms and conditions of sale and other customer contracts, to limit our liability by agreeing only to replace the defective goods or refund the purchase price. Nevertheless, we have received claims for other charges, such as for labor and other costs of replacing defective parts or repairing the products into which the defective products are incorporated, lost profits and other damages. In addition, our ability to reduce such liabilities, whether by contracts or otherwise, may be limited by the laws or the customary business practices of the countries where we do business. And, even in cases where we do not believe we have legal liability for such claims, we may choose to pay for them to retain a customer's business or goodwill or to settle claims to avoid protracted litigation. Our results of operations and business could be adversely affected as a result of a significant quality or performance issue in our products, if we are required or choose to pay for the damages that result. For example, from 2001 to 2008 we received claims from a number of customers seeking damages resulting from certain products manufactured with a phosphorus-containing mold compound, and we were named in lawsuits relating to these mold compound claims.

Our international operations subject our company to risks not faced by domestic competitors.

Through our subsidiaries we maintain significant operations and facilities in the Philippines, Malaysia, China, South Korea and Singapore. We have sales offices and customers around the world. Approximately 72% of our revenues in the quarter ended September 26, 2010 were from Asia. The following are some of the risks inherent in doing business on an international level:

- economic and political instability;
- foreign currency fluctuations;
- transportation delays;

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- trade restrictions;
- changes in laws and regulations relating to, amongst other things, import and export tariffs, taxation, environmental regulations, land use rights and property,
- work stoppages; and
- the laws of, including tax laws, and the policies of the U.S. toward, countries in which we manufacture our products.

We acquired significant operations and revenues when we acquired a business from Samsung Electronics and, as a result, are subject to risks inherent in doing business in Korea, including political risk, labor risk and currency risk.

As a result of the acquisition of the power device business from Samsung Electronics in 1999, we have significant operations and sales in South Korea and are subject to risks associated with doing business there. Korea accounted for approximately 13% of our revenue for the quarter ended September 26, 2010.

Relations between South Korea and North Korea have been tense over most of South Korea's history, and more recent concerns over North Korea's nuclear capability, and relations between the U.S. and North Korea, have created a global security issue that may adversely affect Korean business and economic conditions. We cannot assure you as to whether or when this situation will be resolved or change abruptly as a result of current or future events. An adverse change in economic or political conditions in South Korea or in its relations with North Korea could have a material adverse effect on our Korean subsidiary and our company. In addition to other risks disclosed relating to international operations, some businesses in South Korea are subject to labor unrest.

Our Korean sales are increasingly denominated primarily in U.S. dollars while a significant portion of our Korean operations' costs of goods sold and operating expenses are denominated in South Korean won. Although we have taken steps to fix the costs subject to currency fluctuations and to balance won revenues and won costs as much as possible, a significant change in this balance, coupled with a significant change in the value of the won relative to the dollar, could have a material adverse effect on our financial performance and results of operations (see Item 3, Quantitative and Qualitative Disclosures about Market Risk).

A change in foreign tax laws or a difference in the construction of current foreign tax laws by relevant foreign authorities could result in us not recognizing any anticipated benefits.

Some of our foreign subsidiaries have been granted preferential income tax or other tax holidays as an incentive for locating in those jurisdictions. A change in the foreign tax laws or in the construction of the foreign tax laws governing these tax holidays, or our failure to comply with the terms and conditions governing the tax holidays, could result in us not recognizing the anticipated benefits we derive from them, which would decrease our profitability in those jurisdictions. We continue to monitor the tax holidays, the income tax laws governing the tax holidays, and our compliance with the terms and conditions of the tax holidays, to ensure that the current and future tax impacts on our subsidiaries in these countries are anticipated and refined.

We have significantly expanded our manufacturing operations in China and, as a result, will be increasingly subject to risks inherent in doing business in China, which may adversely affect our financial performance.

We expect a significant portion of our production from our Suzhou, China facility will be exported out of China, however, we are hopeful that a significant portion of our future revenue will result from the Chinese markets in which our products are sold, and from demand in China for goods that include our products. Our ability to operate in China may be adversely affected by changes in that country's laws and regulations, including those relating to taxation, import and export tariffs, environmental regulations, land use rights, property and other matters. In addition, our results of operations in China are subject to the economic and political situation there. We believe that our operations in China are in compliance with all applicable legal and regulatory requirements. However, there can be no assurance that China's central or local governments will not impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures. Changes in the political environment or government policies could result in revisions to laws or regulations or their interpretation and enforcement, increased taxation, restrictions on imports, import duties or currency revaluations. In addition, a significant destabilization of relations between China and the U.S. could result in restrictions or prohibitions on our operations or the sale of our products in China. The legal system of China relating to foreign trade

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is relatively new and continues to evolve. There can be no certainty as to the application of its laws and regulations in particular instances. Enforcement of existing laws or agreements may be sporadic and implementation and interpretation of laws inconsistent. Moreover, there is a high degree of fragmentation among regulatory authorities resulting in uncertainties as to which authorities have jurisdiction over particular parties or transactions.

We are subject to many environmental laws and regulations that could affect our operations or result in significant expenses.

Increasingly stringent environmental regulations restrict the amount and types of pollutants 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 our use, transportation, emission, discharge, storage, recycling or disposal of hazardous materials, including personal injury claims and civil and criminal fines, any of which could be material to our cash flow or earnings. For example:

- we currently are remediating contamination at some of our operating plant 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.

Although most of our known environmental liabilities are covered by indemnification agreements with Raytheon Company, National Semiconductor, Samsung Electronics and Intersil Corporation, these indemnities are limited to conditions that occurred prior to the consummation of the transactions through which we acquired facilities from those companies. Moreover, we cannot assure you that their indemnity obligations to us for the covered liabilities will be available, or, if available, adequate to protect us.

We are a leveraged company with a ratio of debt to equity at September 26, 2010 of approximately 0.3 to 1, which could adversely affect our financial health and limit our ability to grow and compete.

At September 26, 2010, we had total debt of \$321.6 million and the ratio of this debt to equity was approximately 0.3 to 1. As of September 26, 2010, our senior credit facility includes \$321.6 million in term loans and the \$100 million revolving line of credit. Adjusted for outstanding letters of credit, we had up to \$98.8 million available under the revolving loan portion of the senior credit facility. In addition, there is a \$150 million uncommitted incremental term loan feature. Despite reducing some of our long-term debt, we continue to carry substantial indebtedness which could have significant consequences on our operations. For example, it could:

- require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;
- increase the amount of our interest expense, because certain of our borrowings (namely borrowings under our senior credit facility) are at variable rates of interest, which, if interest rates increase, could result in higher interest expense;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from making strategic acquisitions, introducing new technologies or exploiting business opportunities;
- make it more difficult for us to satisfy our obligations with respect to the instruments governing our indebtedness;

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- place us at a competitive disadvantage compared to our competitors that have less indebtedness; or
- limit, along with the financial and other restrictive covenants in our debt instruments, among other things, our ability to borrow additional funds, dispose of assets, repurchase stock or pay cash dividends. Failing to comply with those covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations.

Despite current indebtedness levels, we may still be able to incur substantially more indebtedness. Incurring more indebtedness could exacerbate the risks described above.

We may be able to incur substantial additional indebtedness in the future. Although the terms of the credit agreement relating to the senior credit facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, additional indebtedness incurred in compliance with these restrictions or upon further amendment of the credit facility could be substantial. As of September 26, 2010, the senior credit facility permits borrowings of up to \$100 million in revolving loans under the line of credit and up to \$150 million under the uncommitted incremental term loan feature, in addition to the outstanding \$ 321.6 million term loans that are currently outstanding under that facility. As of September 26, 2010, adjusted for outstanding letters of credit, we had up to \$98.8 million available under the revolving loan portion of the senior credit facility. If new debt is added to our subsidiaries' current debt levels, the substantial risks described above would intensify.

We may not be able to generate the necessary amount of cash to service our indebtedness, which may require us to refinance our indebtedness or default on our scheduled debt payments. Our ability to generate cash depends on many factors beyond our control.

Our historical financial results have been, and we anticipate that our future financial results will be subject to substantial fluctuations, many of which are the result of the recent downturn in the global economy. While we currently have sufficient cash flow to satisfy all of our current obligations, we cannot assure you that our business will continue to generate sufficient cash flow from operations to enable us to pay our indebtedness or to fund our other liquidity needs in the future. Further, we can make no assurances that our currently anticipated cost savings and operating improvements will be realized on schedule or at all, or that future borrowings will be available to us under our senior credit facility in an amount sufficient to satisfy our liquidity needs. In addition, because our senior credit facility has a variable interest rate, our cost of borrowing will increase if market interest rates increase. If we are unable to meet our expenses and debt obligations, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity. We cannot assure you that we would be able to renew or refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Restrictions imposed by the credit agreement relating to our senior credit facility restrict or prohibit our ability to engage in or enter into some business operating and financing arrangements, which could adversely affect our ability to take advantage of potentially profitable business opportunities.

The operating and financial restrictions and covenants in the credit agreement relating to our senior credit facility may limit our ability to finance our future operations or capital needs or engage in other business activities that may be in our interests. The credit agreement imposes significant operating and financial restrictions on us that affect our ability to incur additional indebtedness or create liens on our assets, pay dividends, sell assets, engage in mergers or acquisitions, make investments or engage in other business activities. These restrictions could place us at a disadvantage relative to our competitors many of which are not subject to such limitations.

In addition, the senior credit facility also requires us to maintain specified financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet those ratios. As of December 27, 2009, we were in compliance with these ratios. A breach of any of these covenants, ratios or restrictions could result in an event of default under the senior credit facility. Upon the occurrence of an event of default under the senior credit facility, the lenders could elect to declare all amounts outstanding under the senior credit facility, together with accrued interest, to be immediately due and payable. If we were unable to repay those amounts, the lenders could proceed against our assets, including any collateral granted to them to secure the indebtedness. If the lenders under the senior credit facility accelerate the payment of the indebtedness, we cannot assure you that our assets would be sufficient to repay in full that indebtedness and our other indebtedness.

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We have investments in auction rate securities that subject us to market risk which could adversely affect our liquidity and financial results.

As of September 26, 2010, we owned auction rate securities with a par value of \$49.5 million and market value of \$27.3 million. We originally purchased these securities believing them to be safe, short-term and highly liquid investments. However, as a result of the systemic failure of the auction rate securities market, these securities are no longer liquid. While we continue to accrue and receive interest on these securities at the contractual rate, there can be no assurance that there will ever be an active market for our auction rate securities. Uncertainties in the credit and capital markets could lead to further downgrades of our auction rate securities and additional impairments. Additionally, auction failures have limited our ability to fully recover the par value of our investment in the short term and even if we hold the securities to maturity, the long-term value of the auction rate securities may potentially be impacted by issuer defaults. We do not anticipate that the lack of liquidity or future downgrades and impairments will materially impact our ability to fund out working capital needs, capital expenditures or other business requirements.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases made by the company of its own common stock during the third quarter of 2010.

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</u>
June 28, 2010 - July 25, 2010	—		—	—
July 26, 2010 - August 22, 2010	—		—	—
August 23, 2010 - September 26, 2010	1,000,000	7.98	—	—
Total	<u>1,000,000</u>	<u>\$ 7.98</u>	<u>—</u>	<u>—</u>

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.01	Section 302 Certification of the Chief Executive Officer.
31.02	Section 302 Certification of the Chief Financial Officer.
32.01	Certification, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Mark S. Thompson.
32.02	Certification, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Mark S. Frey.

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101.INS	¹	XBRL Instance Document
101.SCH	¹	XBRL Taxonomy Extension Schema Document
101.CAL	¹	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	¹	XBRL Taxonomy Definition Linkbase Document
101.LAB	¹	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	¹	XBRL Taxonomy Extension Presentation Linkbase Document

Items 3, 4 and 5 are not applicable and have been omitted.

¹ XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURE

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

Date: November 4, 2010

Fairchild Semiconductor International, Inc.

/ s / R O B I N A . S A W Y E R

Robin A. Sawyer
Vice President, Corporate Controller
(Principal Accounting Officer)

CERTIFICATION

I, Mark S. Thompson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fairchild Semiconductor International, Inc.;
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 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 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:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2010

/s/ Mark S. Thompson

Mark S. Thompson

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Mark S. Frey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fairchild Semiconductor International, Inc.;
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 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 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:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2010

/s/ Mark S. Frey

Mark S. Frey
Executive Vice President,
Chief Financial Officer and Treasurer

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 Fairchild Semiconductor International, Inc. (the “company”) on Form 10-Q for the period ended September 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark S. Thompson, Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the operations of the company.

/s/ Mark S. Thompson

Mark S. Thompson
Chief Executive Officer
November 4, 2010

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 Fairchild Semiconductor International, Inc. (the “company”) on Form 10-Q for the period ended September 26, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark S. Frey, Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the operations of the company.

/s/ Mark S. Frey

Mark S. Frey
Chief Financial Officer
November 4, 2010