

INFINEON TECHNOLOGIES AG

Form 6-K

August 01, 2008

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

**Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

August 1, 2008

INFINEON TECHNOLOGIES AG

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(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____.

Table of Contents

This Report on Form 6-K dated August 1, 2008, contains a quarterly report of Infineon Technologies AG for the Company's third quarter of the 2008 fiscal year.

INFINEON TECHNOLOGIES AG

**QUARTERLY REPORT
FOR THE THREE AND NINE MONTHS ENDED
JUNE 30, 2008**

INDEX

	Page
<u>Interim Group Management Report (Unaudited)</u>	1
Condensed Consolidated Financial Statements (Unaudited) for the three and nine months ended June 30, 2007 and 2008:	
<u>Condensed Consolidated Statements of Operations (Unaudited) for the three months ended June 30, 2007 and 2008</u>	12
<u>Condensed Consolidated Statements of Operations (Unaudited) for the nine months ended June 30, 2007 and 2008</u>	13
<u>Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2007 and June 30, 2008</u>	14
<u>Condensed Consolidated Statements of Shareholders' Equity (Unaudited) for the nine months ended June 30, 2007 and 2008</u>	15
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended June 30, 2007 and 2008</u>	16
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	17
<u>Supplementary Information (Unaudited)</u>	36

Table of Contents

Interim Group Management Report (Unaudited)

This interim group management report should be read in conjunction with our condensed consolidated financial statements and other financial information included elsewhere in this report.

This interim group management report contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement.

The following were key developments in our business during the nine months ended June 30, 2008:

Corporate Activities

With plans for the ultimate disposal and resulting deconsolidation of Qimonda AG (Qimonda), the assets and liabilities of Qimonda are classified as held for disposal in our condensed consolidated balance sheets for all periods presented. Following this reclassification, Qimonda has been re-measured to its estimated current fair value less costs to sell, resulting in a write-down of 1,004 million in the second quarter of fiscal year 2008 and an additional 411 million in the third quarter of fiscal year 2008, which were recorded in Income (loss) from discontinued operations, net of tax . With this reclassification, the individual line items in our condensed consolidated statements of operations, including net sales , reflect our continuing operations without Qimonda for all periods presented. All results relating to Qimonda are reported in the line item Income (loss) from discontinued operations, net of tax for all periods presented. In addition, the definition of EBIT excludes Qimonda, and is now being referred to as Infineon EBIT . Furthermore, earnings per share as well as the statements of cash flows differentiate between continuing and discontinued operations for all periods presented.

In October 2007, we completed the acquisition of the mobility products business of LSI Corporation (LSI) for cash consideration of 321 million (\$450 million) plus a contingent performance-based payment of up to \$50 million, in order to further strengthen our activities in the field of communications. The mobility products business designs semiconductors and software for cellular telephone handsets.

In November 2007, we closed a joint venture agreement with Siemens AG (Siemens), whereby we contributed all assets and liabilities of our high power bipolar business into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) and Siemens subsequently acquired a 40 percent interest in Bipolar. We realized a gain of 27 million from the sale.

On April 25, 2008, we closed the sale of our hard disk drive (HDD) business to LSI for cash consideration of 60 million (\$95 million). The HDD business designs, manufactures and markets semiconductors for HDD devices. We transferred our complete HDD activities, including customer relations as well as know-how to LSI, and we granted LSI a license for intellectual property. The transaction did not encompass the sale of significant assets or transfer of employees. We realized a gain of 41 million for the sale of the HDD business.

On April 28, 2008, we acquired Primarion, Inc., Torrance, California (Primarion) for cash consideration of 32 million (\$50 million) plus a contingent performance-based payment of up to \$30 million, in order to further

strengthen our activities in the field of power management applications. Primarion is among the leaders in designing, manufacturing and marketing digital power ICs for computing, graphics and communication applications.

In December 2007, our Supervisory Board appointed Dr. Marco Schröter as Chief Financial Officer and Labor Director. Dr. Marco Schröter took office on April 1, 2008, succeeding Peter J. Fischl, who retired.

On June 1, 2008, Dr. Wolfgang Ziebart resigned from his position as our company's Chief Executive Officer. Peter Bauer, Member of our Management Board assumed the company's Chief Executive Officer position.

Table of Contents

During the three months ended June 30, 2008, we repurchased a notional amount of 100 million of convertible subordinated notes due 2010. The transaction resulted in a net gain of 2 million before tax, which was recognized in interest expense, net during the three months ended June 30, 2008. The repurchase was made out of available cash.

Addressing rising risks in the current market environment, adverse currency trends as well as below benchmark margins, we implemented our cost-reduction program IFX 10+ in the third quarter of the 2008 fiscal year. From the third quarter of the 2008 fiscal year to the fourth quarter of the 2009 fiscal year, assuming a continuation of current market conditions and an exchange rate of U.S. dollar 1.55 against the Euro, IFX 10+ is expected to yield at least 200 million of annualized savings. To achieve those cost savings, measures have been defined in the following areas:

Product portfolio management to eliminate unprofitable or insufficiently profitable product families and to increase efficiency in Research & Development (R&D);

Reduction of manufacturing costs and optimization of the value chain;

Improved efficiency of processes and tasks in the fields of G&A, R&D and marketing & sales; and

Re-organization of the company's structure along its target markets. Effective October 1, 2008, we will be organized into five divisions: Automotive, Chipcard & Security, Industrial & Multimarket, Wireline Communications and Wireless Solutions.

Taking into account the levels of risk in the current market conditions, the adverse foreign exchange rate development and the requirements of the re-organization of the company, headcount reductions will be inevitable. We must adapt our size to today's market conditions. It will be necessary to reduce headcount by a gross figure of approximately 3,000 employees. This figure refers to all sites, functions and levels across the company.

Financial Results

For the third quarter of the 2008 fiscal year, net sales were 1,029 million, a decrease of 20 million or 2 percent from 1,049 million in the previous quarter, and an increase of 18 million or 2 percent from 1,011 million in the same quarter last year. In the nine months ended June 30, 2008, net sales increased year-on-year by 7 percent from 2,947 million to 3,168 million.

Infineon EBIT in the third quarter of fiscal year 2008 was 71 million, compared to 13 million for the same quarter last year and 36 million in the previous quarter. Infineon EBIT improved significantly from negative 23 million to 172 million in the nine months ended June 30, 2007 and 2008, respectively.

For the third quarter of the 2008 fiscal year, we reported a net loss of 592 million, and basic and diluted loss per share of 0.79, compared to a net loss of 197 million and basic and diluted loss per share of 0.26 in the same quarter last year. For the nine months ended June 30, 2008, we realized a net loss of 2,359 million and basic and diluted loss per share of 3.15, compared to a net loss of 88 million and basic and diluted loss per share of 0.12 in the nine months ended June 30, 2007.

Our net cash provided by operating activities from continuing operations was 270 million for the nine months ended June 30, 2008, improving from net cash used in operating activities from continuing operations of 66 million in the nine months ended June 30, 2007.

Product and Technology Developments

We achieved a design win at Volkswagen AG (Volkswagen) for our 16-bit microcontroller for use in automotive body and convenience electronics. Volkswagen will use the XC2200 family microcontroller starting with model year 2009 cars that are based on the Golf platform, to provide greater gateway capabilities in automobile body and convenience electronics and to support the increasing networking and communication requirements between individual automotive subsystems.

Focusing on energy efficiency, we developed our HybridPACK 1 power module solution for automotive hybrid applications. We recently had a design win for a mild hybrid platform with our HybridPACK 1 at a major car manufacturer. In addition, we had design wins for our automotive power modules (HEV) used to power hybrid electric vehicles at the fifth largest Chinese and at a major European car manufacturer. We support this activity with our full range of competency comprising power semiconductors (IGBTs), sensors and microcontrollers.

Table of Contents

The Korean mobile phone manufacturer Samsung Electronics, Inc., (Samsung) chose our HSDPA platform XMMtm6080 for its new family of HEDGE mobile handsets. We have already started volume shipments of our HSDPA platform. Furthermore, we introduced a new generation 3G platform family. The new XMM61xx platform family addresses all major 3G market segments from cost efficient HSDPA to high-end HSUPA phones.

We further extended our leading position in single-chip solutions for mobile phones by sampling our 65-nanometer GSM/GPRS single-chip solution X-GOLDtm113 and EDGE single-chip solution X-GOLDtm213 in February 2008. Both chips integrate the baseband, RF transceiver, power management unit, and FM radio in one single die.

Net Sales by Segment

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions)			
Net sales:				
Automotive, Industrial & Multimarket	752	712	2,203	2,196
Communication Solutions	259	313	733	971
Other Operating Segments ⁽¹⁾	54	15	174	92
Corporate and Eliminations ⁽²⁾	(54)	(11)	(163)	(91)
Total	1,011	1,029	2,947	3,168

⁽¹⁾ Includes sales of 47 million and 8 million for the three months ended June 30, 2007 and 2008, respectively, and of 146 million and 78 million for the nine months ended June 30, 2007 and 2008, respectively, from sales of wafers from our 200-millimeter facility in Dresden to Qimonda under a foundry agreement.

⁽²⁾ Includes the elimination of sales of 57 million and 9 million for the three months ended June 30, 2007 and 2008, respectively, and of 166 million and 87 million for the nine months ended June 30, 2007 and 2008, respectively, primarily in connection with sales of wafers from our 200-millimeter facility in Dresden to Qimonda under a foundry agreement, since these sales are not expected to be part of the Qimonda disposal plan.

Automotive, Industrial & Multimarket

In the third quarter of the 2008 fiscal year, the Automotive, Industrial & Multimarket segment reported sales of 712 million, down 4 percent sequentially and 5 percent year-on-year. The sequential decline was mostly due to the impact of the weakening U.S. dollar, the weak U.S. automotive business and the sale of the HDD business, effective April 25, 2008. Excluding the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, and acquisitions and divestitures, net sales of the segment decreased 1 percent sequentially and rose 5 percent year-on-year. Results in the Automotive business decreased compared to the prior quarter as ongoing weakness in demand from U.S. car manufacturers could not be offset by continued solid demand in the European and Asian markets. In the Industrial & Multimarket business, net sales were relatively flat compared to the last quarter, despite a more moderate environment in the consumer, computing and telecom markets. Demand for high-power products

remained strong. The results of the Security & ASICs business decreased compared to the second quarter, as anticipated, mostly due to the expected normalization in demand for chip card ICs as well as the sale of the HDD business following its sale to LSI.

In the nine months ended June 30, 2008, the Automotive, Industrial & Multimarket segment reported net sales of 2,196 million, a decrease of 7 million compared to the nine months ended June 30, 2007. Excluding the effects of the divestiture of the Polymer Optical Fiber (POF) business, the sale of part of our interest in the high-power bipolar business, the sale of the HDD business and the weakening U.S. dollar, segment net sales increased by 10 percent.

Communication Solutions

In the third quarter of the 2008 fiscal year, net sales in the Communication Solutions segment were 313 million, up 4 percent compared to the prior quarter and up 21 percent year-on-year. Excluding the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, and the contributions from the mobility products business acquired from LSI and the DSL Customer Premises Equipment (CPE) activities acquired from Texas Instruments Inc. (TI), net sales of the segment increased 8 percent sequentially and 9 percent year-on-year. In the wireless business, net sales increased compared to the

Table of Contents

second quarter, mainly due to the ramp-up of the HSDPA mobile phone platform. Results in the broadband business increased slightly, driven by the infrastructure business.

In the first nine months of the 2008 fiscal year, net sales strongly increased by 32 percent compared with the first nine months of fiscal year 2007, mainly driven by the wireless business, resulting from a strong increase in mobile phone platform shipments and the consolidation of the mobility products business acquired from LSI. Net sales in the wireline business increased slightly mainly due to the consolidation of the DSL CPE business acquired from TI and despite negative currency effects.

Other Operating Segments and Corporate and Eliminations

Net Sales in Other Operating Segments for the three and nine months ended June 30, 2007 and 2008 principally reflected sales of wafers from our 200-millimeter facility in Dresden to Qimonda under a foundry agreement, which are eliminated in the Corporate and Eliminations segment. On November 30, 2007, Qimonda cancelled its foundry agreement, effective March 1, 2008, which is primarily responsible for the sales decrease year-on-year.

Net Sales by Region

The following is a summary of net sales by region:

	Three months ended June 30,				Nine months ended June 30,			
	2007		2008		2007		2008	
	(in millions, except percentages)							
Net sales:								
Germany	220	22%	217	21%	672	23%	677	21%
Other Europe	220	22%	205	20%	663	22%	614	19%
North America	143	14%	122	12%	404	14%	404	13%
Asia/Pacific	357	35%	422	41%	1,013	35%	1,270	40%
Japan	57	6%	43	4%	157	5%	147	5%
Other	14	1%	20	2%	38	1%	56	2%
Total	1,011	100%	1,029	100%	2,947	100%	3,168	100%

For the three and nine months ended June 30, 2008, the composition of sales by region did not significantly change compared to the three and nine months ended June 30, 2007. The absolute and relative increases in the share of net sales in Asia/Pacific during the three and nine months ended June 30, 2008, compared to the same periods last fiscal year were mainly due to the acquisition of the mobility products business from LSI and higher shipments of mobile phone platform solutions to customers in Asia/Pacific in our Communication Solutions segment.

Cost of Goods Sold and Gross Profit

The following table sets forth our cost of goods sold and gross profit for the periods indicated.

Three months ended**Nine months ended**

	June 30,	June 30,		
	2007	2008	2007	2008
	(in millions, except percentages)			
Cost of goods sold	676	666	1,981	2,048
% of net sales	67%	65%	67%	65%
Gross Profit	335	363	966	1,120

The improvement in cost of goods sold as a percentage of net sales for the three and nine months ended June 30, 2008 is primarily due to productivity increases and changes in product-mix.

Table of Contents**Research and Development (R&D) Expenses**

Our R&D expenses for the periods indicated were as follows:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions, except percentages)			
R&D expenses	196	181	577	568
% of net sales	19%	18%	20%	18%

In the first nine months of the 2008 fiscal year our R&D expenses decreased by 9 million compared to the same period in the prior fiscal year, mainly due to savings resulting from the implementation of cost reduction measures and government grants, partly offset by in-process R&D of 14 million acquired in connection with the mobility products business of LSI, which was expensed during in the first quarter of the 2008 fiscal year.

Selling, General and Administrative (SG&A) Expenses

The following table sets forth our SG&A expenses for the periods indicated.

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions, except percentages)			
SG&A expenses	124	145	365	418
% of net sales	12%	14%	12%	13%

SG&A expenses as a percentage of net sales remained relatively unchanged for the three and nine months ended June 30, 2008, compared to the three and nine months ended June 30, 2007.

Other Items Affecting Earnings

During the 2007 fiscal year, restructuring measures were initiated, mainly as a result of the insolvency of one of our largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, and in order to further streamline certain research and development locations. These restructuring measures resulted in restructuring charges of 20 million and 42 million for the three and nine months ended June 30, 2007. During the three and nine months ended June 30, 2008, restructuring charges of 2 million and 11 million, respectively, were recognized as a result of cost reduction initiatives.

Other operating income, net for the nine months ended June 30, 2008 was 75 million compared to 22 million for the nine months ended June 30, 2007. The increase related primarily to gains of 27 million and 41 million that resulted from the sale of an interest in our high-power bipolar business and the sale of our HDD business to LSI, respectively. Other operating income, net for the nine months ended June 30, 2007 included a gain of 17 million resulting from the sale of our POF business, based in Regensburg, Germany, to Avago Technologies Ltd.

Earnings Before Interest and Taxes (EBIT)

EBIT of our segments was as follows:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions)			
EBIT:				
Automotive, Industrial & Multimarket	77	106	189	268
Communication Solutions	(37)	(30)	(151)	(70)
Other Operating Segments	(2)	1	(10)	(3)
Corporate and Eliminations	(25)	(6)	(51)	(23)
Infineon EBIT	13	71	(23)	172

Table of Contents

Infineon EBIT reflects the combined effects of the following developments of our operating segments:

Automotive, Industrial & Multimarket Segment EBIT for the three months ended June 30, 2008 was 106 million compared to 69 million in the previous quarter and 77 million in the third quarter of the 2007 fiscal year. Included in the EBIT for this segment for the third quarter of the 2008 fiscal year was a net gain of 43 million, primarily resulting from the sale of the HDD business to LSI. Net gains and charges included in the EBIT of this segment for the second quarter were negligible. Segment EBIT for the third quarter of the 2007 fiscal year included a net gain of 17 million from the sale of our POF business. Segment EBIT for the nine months ended June 30, 2008 was 268 million compared to 189 million in the same period in the prior fiscal year. Included in Segment EBIT for the first nine months of the 2008 fiscal year was a gain of 27 million from the sale of part of our interest in the high-power bipolar business and a gain of 41 million from the sale of our HDD business. Segment EBIT for the nine months ended June 30, 2007 included a gain of 17 million from the sale of our POF business. Excluding these gains resulting from sales of businesses, Segment EBIT margin improved from 8 percent to 9 percent for the first nine months of the 2007 and 2008 fiscal years, respectively. This increase mainly resulted from changes in product mix.

Communication Solutions Segment EBIT for the third quarter of the 2008 fiscal year was negative 30 million, compared to negative 29 million in the prior quarter and negative 37 million for the third quarter of fiscal year 2007. Despite the positive effect of the sales increase, EBIT of the segment was negatively affected by customization expenses relating to the ramp of new mobile phone platforms. EBIT of the segment for the second and third quarter of the 2008 fiscal year contained no significant net gains or charges in either quarter. Included in this segment's EBIT for the third quarter was amortization of acquired intangible assets of 7 million relating mainly to the mobility products business acquired from LSI, compared to 5 million in the second quarter of the 2008 fiscal year. Segment EBIT for the nine months ended June 30, 2008 improved to negative 70 million from negative 151 million in the nine months ended June 30, 2007, driven primarily by an increase in net sales and despite the negative impact from currency fluctuations between the U.S. dollar and the Euro. Segment EBIT in the nine months ended June 30, 2008 included a write-off of 14 million of acquired in-process R&D in connection with the acquisition of the mobility products business of LSI, while net gains and net charges for the nine months ended June 30, 2007 were negligible.

Other Operating Segments and Corporate and Eliminations Combined, Segment EBIT in the three and nine months ended June 30, 2008 was negative 5 million and negative 26 million, respectively, compared to negative 27 million and negative 61 million in the three and nine months ended June 30, 2007, respectively. For the three months ended June 30, 2007 and 2008, Corporate and Eliminations included unallocated excess capacity costs of 2 million and 9 million, respectively, restructuring charges of 20 million and 2 million, respectively, and stock-based compensation expense of 3 million and 1 million, respectively. For the nine months ended June 30, 2007 and 2008, Corporate and Eliminations included unallocated excess capacity costs of 5 million and 9 million, respectively, restructuring charges of 42 million and 11 million, respectively, and stock-based compensation expense of 9 million and 4 million, respectively.

Infineon EBIT

Infineon EBIT is determined as follows from the condensed consolidated statements of operations:

Three months ended		Nine months ended	
June 30,		June 30,	
2007	2008	2007	2008
(in millions)			

Net loss	(197)	(592)	(88)	(2,359)
Adjust:				
(Income) loss from discontinued operations, net of tax	187	637	(12)	2,468
Income tax expense	11	14	44	35
Interest expense, net	12	12	33	28
Infineon EBIT	13	71	(23)	172

6

Table of Contents

Infineon EBIT in the three and nine months ended June 30, 2008 included net gains of 41 million and 44 million, respectively, compared to net charges of 3 million and 34 million in the three and nine months ended June 30, 2007, respectively.

Net gains (charges) recognized in operating segments for the periods indicated were as follows:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions)			
Impairments, restructuring and other related closure costs	(20)	(2)	(73)	(13)
In-process research and development write-offs				(14)
Net gains on sales of assets, businesses, or interests in subsidiaries	17	43	18	71
Other ⁽¹⁾			21	
Net (charges) gains	(3)	41	(34)	44

⁽¹⁾ Includes primarily a revision to accrued personnel costs totaling 25 million in the nine months ended June 30, 2007.

Income (loss) from Discontinued Operations, Net of Tax

Following the reclassification of Qimonda as held for disposal, we recorded a write-down of 1,004 million during the three months ended March 31, 2008, and a further write-down of 411 million during the three months ended June 30, 2008 in order to reduce Qimonda to its estimated current fair value less costs to sell. This write-down was recorded in loss from discontinued operations, net of tax. Additionally, income (loss) from discontinued operations, net of tax for the three and nine months ended June 30, 2007 and 2008, included our share in Qimonda's net income (loss).

The results of Qimonda presented in the condensed consolidated statements of operations as discontinued operations, net of tax, consist of the following components:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions)			
Net sales	740	384	2,897	1,309
Costs and expenses	(1,031)	(568)	(2,885)	(2,302)
Loss on measurement to fair value less costs to sell		(411)		(1,415)
	(291)	(595)	12	(2,408)

Income (loss) from discontinued operations,
before tax

Income tax expense	104	(42)		(60)
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Income (loss) from discontinued operations, net of tax	(187)	(637)	12	(2,468)
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Our beneficial ownership interest in Qimonda as of June 30, 2008 was 77.5 percent.

Table of Contents**Financial Condition**

	As of September 30, 2007	June 30, 2008	Change
	(in millions, except percentages)		
Current assets	8,491	5,382	(37)%
thereof: Assets held for disposal	5,653	2,958	(48)%
Non-current assets	2,318	2,361	2 %
 Total assets	 10,809	 7,743	 (28)%
Current liabilities	3,473	3,358	(3)%
thereof: Liabilities held for disposal	1,898	2,049	8 %
Non-current liabilities	1,389	1,277	(8)%
 Total liabilities	 4,862	 4,635	 (5)%
 Minority Interests	 1,033	 649	 (37)%
 Shareholders' equity	 4,914	 2,459	 (50)%

As of June 30, 2008, our total assets decreased in comparison to September 30, 2007 by 3,066 million, due to a decrease in current assets of 37 percent, or 3,109 million. This decrease primarily related to a decrease in assets held for disposal of 2,695, of which 1,415 million was due to the write-down of Qimonda. The remaining decrease in assets held for disposal primarily relates to changes at Qimonda. Additionally, our gross cash position, representing cash and cash equivalents and marketable securities from continuing operations, decreased from 1,283 million as of September 30, 2007 by 423 million to 860 million as of June 30, 2008 compared with September 30, 2007. This decrease is primarily due to cash used for the acquisition of the mobility products business of LSI and Primarion, the repurchase of convertible subordinated notes due 2010 with a notional amount of 100 million and repayments of short-term bank loans, which was partly offset by the proceeds from a part of our interest in the high-power bipolar business and the sale of our HDD business.

The decrease in current assets was partly offset by an increase in non-current assets during the nine months ended June 30, 2008 of 43 million. This increase primarily related to an increase of 278 million in intangible assets, net, mainly from additions to intangible assets and goodwill from the acquisitions of the mobility products business of LSI and Primarion. This increase was substantially offset by decreases in property, plant and equipment, lower deferred tax assets and lower other assets during the nine months ended June 30, 2008.

As of June 30, 2008, current liabilities decreased by 115 million compared to September 30, 2007, mainly due to lower trade accounts payable, lower short-term debt, and a decrease in accrued liabilities. Trade accounts payable decreased by 131 million primarily as a result of lower capital expenditures, while the reduction of 67 million in our short-term debt was due to repayments made during the period. Accrued liabilities decreased by 50 million mainly due to lower accrued personnel costs. These decreases were partly offset by increases in liabilities held for disposal of 151 million, mainly resulting from changes within Qimonda.

Non-current liabilities decreased by 112 million during the nine months ended June 30, 2008, primarily due to a repurchase of convertible subordinated notes due 2010 with a notional amount of 100 million.

Table of Contents**Liquidity**

	Nine months ended June 30,	
	2007	2008
	(in millions)	
Net cash (used in) provided by operating activities from continuing operations	(66)	270
Net cash used in investing activities from continuing operations	(27)	(722)
Net cash used in financing activities from continuing operations	(320)	(211)
Net decrease in cash and cash equivalents from discontinued operations	(298)	(222)
Net decrease in cash and cash equivalents	(711)	(885)
Effect of foreign exchange rate changes on cash and cash equivalents	(22)	(17)
Depreciation and amortization from continuing operations	464	410
Purchases of property, plant and equipment from continuing operations	(331)	(227)

Cash provided by operating activities from continuing operations was 270 million during the nine months ended June 30, 2008, and resulted primarily from net income from continuing operations of 109 million, which is net of non-cash charges for depreciation and amortization of 410 million and a 14 million charge for in-process R&D acquired from LSI. Also included in net income from continuing operations were gains on sales of businesses of 68 million. Cash provided by operating activities from continuing operations was negatively impacted by the changes in operating assets and liabilities of 228 million, primarily resulting from a decrease in trade accounts payable and an increase in inventories.

Net cash used in investing activities from continuing operations increased to 722 million during the nine months ended June 30, 2008, from 27 million in the nine months ended June 30, 2007. This increase was mainly due to higher net purchases of marketable securities of 511 million and cash payments of 353 million for the acquisition of the mobility products business of LSI and Primarion. These cash outflows were partially offset by lower net purchases of property, plant and equipment of 104 million, and higher proceeds from the sale of businesses and interests in subsidiaries of 71 million resulting from the sale of part of our interest in the high-power bipolar business and our HDD business.

Net cash used in financing activities from continuing operations decreased by 109 million to 211 million in the nine months ended June 30, 2008, compared to the nine months ended June 30, 2007. During the nine months ended June 30, 2007, principal repayments of long-term debt amounted to 703 million, and related primarily to the repayment of convertible notes due in 2007. During the nine months ended June 30, 2007, we also received repayments from related parties of 345 million due to Qimonda's repayment of an intercompany loan. During the nine months ended June 30, 2008, we made repayments of short-term and long-term debt of 232 million, of which 98 million related to the repurchase of convertible subordinated notes due 2010 with a notional amount of 100 million. We also made dividend payments to minority interest holders of 80 million, which were partly offset by proceeds from issuance of long-term debt of 109 million.

Free cash flow from continuing operations, representing cash flows from operating and investing activities from continuing operations excluding purchases or sales of marketable securities, was negative 206 million for the nine months ended June 30, 2008, an improvement from negative 358 million for the nine months ended June 30, 2007, primarily due to increased net cash provided by operating activities from continuing operations of 336 million, partly

offset by higher net cash used in investing activities from continuing operations excluding purchases of marketable securities.

Our gross cash position from continuing operations as of June 30, 2008, representing cash and cash equivalents and marketable securities, decreased to 860 million from 1,283 million as of September 30, 2007. Our net cash position from continuing operations as of June 30, 2008, defined as gross cash position less short- and long-term debt, was negative 407 million, compared with negative 126 million as of September 30, 2007.

Table of Contents**Employees**

The following table indicates the composition of our workforce by function and region at the dates shown.

	September 30, 2007	As of June 30, 2008	Change
	(in millions, except percentages)		
Function:			
Production	20,376	19,483	(4)%
Research & Development	5,833	6,311	8 %
Sales & Marketing	1,832	1,957	7 %
Administrative	1,557	1,605	3 %
Infineon	29,598	29,356	(1)%
Qimonda	13,481	12,806	(5)%
Total	43,079	42,162	(2)%
Region:			
Germany	10,151	10,099	(1)%
Europe	5,564	5,217	(6)%
North America	581	861	48 %
Asia-Pacific	13,145	13,016	(1)%
Japan	157	163	4 %
Infineon	29,598	29,356	(1)%
Qimonda	13,481	12,806	(5)%
Total	43,079	42,162	(2)%

Our workforce did not change significantly from September 30, 2007 to June 30, 2008. The increase of 48 percent in North America primarily relates to employees that joined us as a result of the acquisition of the mobility products business of LSI.

Outlook***Industry Environment and Outlook***

In the third quarter of the 2008 fiscal year, the world economy continued to face considerable headwind. The ongoing insecurity on the financial markets, the negative asset effects of declining housing and stock markets, high inflation as well as the recent strong hikes in oil prices increased downward risks and are likely to continue to weaken economic conditions in the coming quarters. Through the spring of 2008, however, the world economic growth remained relatively robust. Thanks to massive monetary and fiscal incentive, even the United States has thus far escaped an

economic recession as a result of the crisis in the housing sector and the associated problems in the financial sector.

There is a similar picture for market growth in the semiconductor industry. On the basis of current semiconductor market developments, Gartner Inc. increased its 2008 growth prognosis by 2 percentage points to an annual growth rate of 5 percent in its May 2008 forecast, up from 3 percent in the previous forecast. According to available World Semiconductor Trade Statistics, the global semiconductor market (in U.S. dollar) increased by 5 percent in the first five months of the 2008 calendar year, compared to the first five months of the 2007 calendar year.

All in all, in the third quarter of the 2008 fiscal year growth prognoses for the semiconductor industry remain positive for the 2008 calendar year as well as for the 2009 calendar year despite increased risks.

Outlook for Infineon's Continuing Operations

For the fourth quarter of the 2008 fiscal year, we expect net sales to increase by a mid single-digit percentage compared to the third quarter. However, we note that market risks in general are likely to rise and that the persistent weakness of the U.S. dollar against the Euro is adding to normal price declines in

Table of Contents

the markets we are in. We anticipate Infineon EBIT, excluding net gains or charges, to remain stable or decline slightly. Infineon EBIT in the fourth quarter will include temporarily increased costs, as shipments of DRAM wafers out of our 200-millimeter wafer facility in Dresden, Germany, to Qimonda came to an end in the third quarter. In connection with our IFX 10+ cost-reduction program, we expect to record significant net charges in the fourth quarter.

In the fourth quarter of the 2008 fiscal year, we expect net sales of our Automotive, Industrial & Multimarket segment to increase by a mid single-digit percentage compared to the third quarter. The increase will be driven mostly by normal seasonality in the industrial & multimarket business. Segment EBIT margin is expected to be in the range of 9 to 10 percent, excluding net gains or charges. Sales in the segment's Automotive business are expected to remain broadly unchanged compared to the third quarter despite continued weakness in the U.S. automotive market. Sales in the Industrial & Multimarket business are anticipated to increase. Results in the Security & ASICs business are anticipated to increase slightly compared to the prior quarter, driven by the chip card IC business. The ASIC business is expected to remain flat sequentially.

In the fourth quarter of the 2008 fiscal year, sales in the Communication Solutions segment are expected to increase to a range of 330 million to 350 million. This increase reflects mainly the continued ramp-up of our HSDPA mobile platform solutions. The broadband business is anticipated to remain broadly unchanged compared to the third quarter. Segment EBIT loss, excluding net gain or charges, is expected to improve, driven by the sales increase.

In the fourth quarter, we expect sales in Other Operating Segments to decline compared to the third quarter as shipments of DRAM wafers out of our 200-millimeter wafer facility in Dresden to Qimonda came to an end in the third quarter. Segment EBIT excluding net gains or charges for Other Operating Segments and Corporate and Eliminations combined is anticipated to be approximately negative 20 million. Included in the combined Segment EBIT will be temporarily increased costs in connection with the 200-millimeter wafer facility in Dresden. In connection with the company's IFX 10+ cost-reduction program, net charges are expected to be significant in the fourth quarter.

Risks and Opportunities

We are exposed to a number of risks as a result of the high volatility of the semiconductor business, its international orientation and its wide product range. Such risks include, but are not limited to, trends in demand and prices for semiconductors generally and for our products in particular, the success of our development efforts, both alone and with our partners, the success of our efforts to introduce new production processes at our facilities and the actions of our competitors, the availability of funds for planned expansion efforts, the outcome of antitrust investigations and litigation matters, the effects of currency fluctuations, primarily between the U.S. dollar and the Euro, the success of our disposal plans and/or future decreases in fair value with respect to our interest in Qimonda, as well as the other factors mentioned herein and those described in our Annual Report for the 2007 fiscal year. To minimize the negative impact of these risks, we continuously optimize our company-wide risk and opportunity management system. For more detailed information on risks and opportunities and their potential effect on our business, financial condition or results of operations, please refer to our Annual Report for the 2007 fiscal year.

Table of Contents

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the three months ended June 30, 2007 and 2008
(in millions, except for per share data)

	June 30, 2007	June 30, 2008	June 30, 2008
	(millions)	(millions)	(\$ millions)
Net sales	1,011	1,029	1,620
Cost of goods sold	676	666	1,048
Gross profit	335	363	572
Research and development expenses	196	181	285
Selling, general and administrative expenses	124	145	228
Restructuring charges	20	2	3
Other operating income, net	(18)	(43)	(67)
Operating income	13	78	123
Interest expense, net	(12)	(12)	(19)
Equity in earnings of associated companies		1	2
Other non-operating income (expense), net	2	(1)	(2)
Minority interests	(2)	(7)	(11)
Income before income taxes and discontinued operations	1	59	93
Income tax expense	(11)	(14)	(22)
Income (loss) from continuing operations	(10)	45	71
Loss from discontinued operations, net of tax	(187)	(637)	(1,003)
Net loss	(197)	(592)	(932)
Basic and diluted (loss) earnings per share from continuing operations	(0.01)	0.06	0.09
Basic and diluted loss per share from discontinued operations	(0.25)	(0.85)	(1.34)
Basic and diluted loss per share	(0.26)	(0.79)	(1.25)

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Operations (Unaudited)
For the nine months ended June 30, 2007 and 2008
(in millions, except for share data)

	June 30, 2007	June 30, 2008	June 30, 2008
	(millions)	(millions)	(\$ millions)
Net sales	2,947	3,168	4,989
Cost of goods sold	1,981	2,048	3,225
Gross profit	966	1,120	1,764
Research and development expenses	577	568	894
Selling, general and administrative expenses	365	418	658
Restructuring charges	42	11	17
Other operating income, net	(22)	(75)	(117)
Operating income	4	198	312
Interest expense, net	(33)	(28)	(44)
Equity in earnings of associated companies		3	5
Other non-operating income (expense), net	14	(5)	(8)
Minority interests	(6)	(24)	(38)
Income (loss) before income taxes, discontinued operations, and extraordinary loss	(21)	144	227
Income tax expense	(44)	(35)	(55)
Income (loss) from continuing operations	(65)	109	172
Income (loss) from discontinued operations, net of tax	12	(2,468)	(3,887)
Loss before extraordinary loss	(53)	(2,359)	(3,715)
Extraordinary loss, net of tax	(35)		
Net loss	(88)	(2,359)	(3,715)
Basic and diluted (loss) earnings per share from continuing operations	(0.09)	0.15	0.24
Basic and diluted earnings (loss) per share from discontinued operations	0.01	(3.30)	(5.20)

Basic and diluted loss per share for extraordinary loss, net of tax	(0.04)		
Basic and diluted loss per share	(0.12)	(3.15)	(4.96)

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
September 30, 2007 and June 30, 2008

	September 30, 2007	June 30, 2008	June 30, 2008
	(millions)	(millions)	(\$ millions)
Assets:			
Current assets:			
Cash and cash equivalents	1,073	408	643
Marketable securities	210	452	712
Trade accounts receivable, net	620	546	860
Inventories	598	670	1,055
Deferred income taxes	34	25	39
Other current assets	303	323	509
Assets held for disposal	5,653	2,958	4,658
Total current assets	8,491	5,382	8,476
Property, plant and equipment, net	1,462	1,305	2,055
Intangible assets, net	89	367	578
Long-term investments	24	30	47
Restricted cash	77	77	121
Deferred income taxes	446	419	660
Pension assets	60	55	87
Other assets	160	108	170
Total assets	10,809	7,743	12,194
Liabilities and shareholders' equity:			
Current liabilities:			
Short-term debt and current maturities	260	193	304
Trade accounts payable	596	465	732
Accrued liabilities	379	329	518
Deferred income taxes	10	9	14
Short-term pension liabilities	5	5	8
Other current liabilities	325	308	485
Liabilities held for disposal	1,898	2,049	3,227
Total current liabilities	3,473	3,358	5,288
Long-term debt	1,149	1,074	1,691
Pension liabilities	88	81	128
Deferred income taxes	23	10	16
Long-term accrued liabilities	22	21	33
Other liabilities	107	91	143

Total liabilities	4,862	4,635	7,299
Minority interests	1,033	649	1,022
Shareholders' equity:			
Ordinary share capital	1,499	1,499	2,361
Additional paid-in capital	5,864	5,870	9,244
Accumulated deficit	(2,148)	(4,511)	(7,104)
Accumulated other comprehensive loss	(301)	(399)	(628)
Total shareholders' equity	4,914	2,459	3,873
Total liabilities and shareholders' equity	10,809	7,743	12,194

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Shareholders' Equity (Unaudited)
For the nine months ended June 30, 2007 and 2008
(in millions of euro, except for share data)

	Issued	Additional	Additional	Additional	Additional	Additional	Unrealized	Unrealized	Total
	Ordinary shares	paid-in	accumulated	translation	defined	minimum	gains	gains	
	Shares	capital	deficit	adjustment	plans	liability/	(loss)	(losses)	
	Amount					benefit	on	on	
							cash	cash	
							flow	flow	
							hedges	hedges	
Balance as of October 1, 2006	747,609,294	1,495	5,828	(1,780)	(127)	(87)	5	(19)	5,315
Net loss				(88)					(88)
Other comprehensive (loss) income					(73)		(11)	2	(82)
Total comprehensive loss									(170)
Issuance of ordinary shares:									
Exercise of stock options	1,772,421	4	12						16
Stock-based compensation			13						13
Deferred compensation, net			4						4
Balance as of June 30, 2007	749,381,715	1,499	5,857	(1,868)	(200)	(87)	(6)	(17)	5,178
Balance as of October 1, 2007	749,728,635	1,499	5,864	(2,148)	(232)	(45)	(7)	(17)	4,914
Net loss				(2,359)					(2,359)
Other comprehensive (loss) income					(85)		(20)	7	(98)
Total comprehensive loss									(2,457)
Issuance of ordinary shares:									
Exercise of stock options	13,450		6						6
Adjustment to initially apply FIN 48				(4)					(4)

Balance as of June 30, 2008	749,742,085	1,499	5,870	(4,511)	(317)	(45)	(27)	(10)	2,459
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See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Infineon Technologies AG and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended June 30, 2007 and 2008

	June 30, 2007	June 30, 2008	June 30, 2008
	(millions)	(millions)	(\$ millions)
Net loss	(88)	(2,359)	(3,715)
Less: Net (income) loss from discontinued operations	(12)	2,468	3,887
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	464	410	646
Acquired in-process research and development		14	22
Recovery of doubtful accounts	(12)		
Loss (gain) on sales of marketable securities	(7)	1	2
Gains on sales of businesses and interests in subsidiaries	(19)	(68)	(107)
Gains on disposals of property, plant and equipment	(5)	(4)	(6)
Equity in earnings of associated companies		(3)	(5)
Minority interests	6	24	38
Impairment charges	35		
Stock-based compensation	9	4	6
Deferred income taxes	18	11	17
Changes in operating assets and liabilities:			
Trade accounts receivable	(5)	70	110
Inventories	(48)	(98)	(154)
Other current assets	(15)	(21)	(33)
Trade accounts payable	(169)	(108)	(170)
Accrued liabilities	(62)	(29)	(46)
Other current liabilities	(101)	(36)	(57)
Other assets and liabilities	(55)	(6)	(9)
Net cash provided by (used in) operating activities from continuing operations	(66)	270	426
Net cash provided by (used in) operating activities from discontinued operations	769	(422)	(665)
Net cash provided by (used in) operating activities	703	(152)	(239)
Cash flows from investing activities:			
Purchases of marketable securities available for sale	(74)	(577)	(909)
Proceeds from sales of marketable securities available for sale	339	331	521
Proceeds from sales of businesses and interests in subsidiaries	30	101	159
Business acquisitions, net of cash acquired		(353)	(556)
Investment in associated and related companies	(1)		

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Purchases of intangible assets	(5)	(5)	(8)
Purchases of property, plant and equipment	(331)	(227)	(357)
Proceeds from sales of property, plant and equipment	15	8	13
Net cash used in investing activities from continuing operations	(27)	(722)	(1,137)
Net cash used in investing activities from discontinued operations	(724)	(41)	(65)
Net cash used in investing activities	(751)	(763)	(1,202)
Cash flows from financing activities:			
Net change in short-term debt		(68)	(107)
Net change in related party financial receivables and payables	345	(8)	(13)
Proceeds from issuance of long-term debt	29	109	172
Principal repayments of long-term debt	(703)	(164)	(258)
Change in restricted cash	1		
Proceeds from issuance of ordinary shares	20		
Dividend payments to minority interests		(80)	(126)
Capital contributions	(12)		
Net cash used in financing activities from continuing operations	(320)	(211)	(332)
Net cash provided by (used in) financing activities from discontinued operations	(343)	241	379
Net cash provided by (used in) financing activities	(663)	30	47
Net decrease in cash and cash equivalents	(711)	(885)	(1,394)
Effect of foreign exchange rate changes on cash and cash equivalents	(22)	(17)	(27)
Cash and cash equivalents at beginning of period	2,040	1,819	2,865
Cash and cash equivalents at end of period	1,307	917	1,444
Less: Cash and cash equivalents at end of period from discontinued operations	629	509	801
Cash and cash equivalents at end of period from continuing operations	678	408	643

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

Infineon Technologies AG and Subsidiaries

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Infineon Technologies AG and its subsidiaries (Infineon or the Company) as of and for the three and nine months ended June 30, 2007 and 2008, have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Accordingly, certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted. In addition, although the condensed consolidated balance sheet as of September 30, 2007 was derived from audited financial statements, it does not include all disclosures required by U.S. GAAP. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. The results of operations for any interim period are not necessarily indicative of results for the full fiscal year. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2007. The accounting policies applied in preparing the accompanying condensed consolidated financial statements are consistent with those for the year ended September 30, 2007 (see note 2).

The preparation of the accompanying condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

All amounts herein are shown in Euro (or) except where otherwise stated. The accompanying condensed consolidated balance sheet as of June 30, 2008, and the condensed consolidated statements of operations for the three and nine months then ended, and the condensed consolidated statement of cash flows for the nine months then ended are also presented in U.S. dollars (\$), solely for the convenience of the reader, at the rate of 1 = \$1.5748, the Federal Reserve noon buying rate on June 30, 2008.

Certain amounts in the prior period condensed consolidated financial statements and notes have been reclassified to conform to the current period presentation. Gains and losses from sales of investments in marketable debt and equity securities, previously reported as part of the operating segment's EBIT, have been reclassified to the Corporate and Eliminations segment. In addition, during the second quarter of the 2008 fiscal year the Company committed to a plan to dispose of Qimonda. As a result, the historical results of Qimonda are reported as discontinued operations for all periods presented, and its assets and liabilities have been classified as held for disposal for all periods presented.

2. Recent Accounting Pronouncements

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48), and related guidance. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law and prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement. As a result of the implementation of FIN 48, the Company recorded a charge to retained

earnings of 4 million as of October 1, 2007 (see note 6).

3. Acquisitions

On October 24, 2007, the Company completed the acquisition of the mobility products business of LSI Corporation (LSI) for cash consideration of 321 million (\$450 million) plus a contingent performance-based payment of up to \$50 million, in order to further strengthen its activities in the field of

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

communications. The contingent performance-based payment is based on the relevant revenues in the measurement period following the completion of the transaction and ending December 31, 2008. The mobility products business designs semiconductors and software for cellular telephone handsets. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill.

On April 28, 2008, the Company acquired Primarion, Inc., Torrance, California (Primarion) for cash consideration of 32 million (\$50 million) plus a contingent performance-based payment of up to \$30 million. Primarion designs, manufactures and markets digital power ICs for computing, graphics and communication applications. The contingent performance-based payment is based on the relevant revenues in the measurement period beginning July 1, 2008 and ending December 31, 2008. The assets acquired and liabilities assumed were recorded at their estimated fair values as of the date of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed was allocated to goodwill.

The following table summarizes the acquisitions described above:

Acquisition Date	October 2007	April 2008
Segment	Communication Solutions	Automotive, Industrial & Multimarket
	(in millions)	
Other current assets	19	1
Property, plant and equipment	8	1
Intangible assets:		
Technology	42	13
Customer relationships	73	
In-process research & development	14	
Other	6	
Goodwill	160	18
Total assets acquired	322	33
Current liabilities	(1)	(1)
Total liabilities assumed	(1)	(1)
Net assets acquired	321	32
Cash paid (Purchase Consideration)	321	32

The above mentioned acquisitions have been accounted for by the purchase method of accounting and, accordingly, the condensed consolidated statements of operations include the results of the acquired businesses from the acquisition

date. The Company engaged an independent third party to assist in the valuation of net assets acquired. Based on discounted estimated future cash flows over the respective estimated useful life, an amount of 14 million was allocated to purchased in-process research and development and expensed as research and development during the three months ended December 31, 2007, because such costs are not capitalized under U.S. GAAP. The acquired intangible assets consist of technology assets of 55 million with a weighted average estimated useful life of six years, customer relationship assets of 73 million with a weighted average estimated useful life of six years, and other intangible assets of 6 million with a weighted average estimated useful life of less than one year. The goodwill amounts are expected to be deductible for tax purposes.

During the quarter ended March 31, 2007, the Company entered into agreements with Molstanda Vermietungsgesellschaft mbH (Molstanda) and a financial institution. Molstanda is the owner of a parcel of land located in the vicinity of the Company's headquarters south of Munich. Pursuant to FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities - an interpretation of ARB No. 51 (FIN 46R)*, the Company determined that Molstanda is a variable interest entity since it does not have sufficient equity to demonstrate that it could finance its activities without additional financial support, and as a result of the agreements the Company became its primary beneficiary. Accordingly, the Company consolidated the assets and liabilities of Molstanda beginning in the second

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

quarter of the 2007 fiscal year. Since Molstanda is not considered a business pursuant to FIN 46R, the 35 million excess in fair value of liabilities assumed and consolidated of 76 million, over the fair value of the newly consolidated identifiable assets of 41 million, was recorded as an extraordinary loss during the second quarter of the 2007 fiscal year. Due to the Company's cumulative loss situation no tax benefit was provided on this loss. The Company subsequently acquired the majority of the outstanding capital of Molstanda during the fourth quarter of the 2007 fiscal year. In August 2007, the Company entered into an agreement to sell part of the acquired parcel of land to a third-party developer-lessor in connection with the construction and lease of Qimonda's new headquarters office in the south of Munich.

Pro forma financial information relating to these acquisitions is not material to the results of operations and financial position of the Company and has been omitted.

4. Divestitures and Discontinued Operations***Polymer Optical Fiber***

On June 29, 2007, the Company sold its Polymer Optical Fiber (POF) business, based in Regensburg, Germany, to Avago Technologies Ltd. The POF business operates in the market for automotive multimedia infotainment networks and transceivers for safety systems. As a result of the sale, the Company realized a gain before tax of 17 million which was recorded in other operating income, net during the three months ended June 30, 2007.

ALTIS

On August 8, 2007, the Company and International Business Machines Corporation (IBM) signed an agreement in principle to divest their respective shares in ALTIS Semiconductor S.N.C., Essonnes, France (ALTIS) via a sale to Advanced Electronic Systems AG (AES). Under the terms of the agreement in principle, AES will purchase the equity, which includes the real estate and technology assets of ALTIS, from the Company and IBM, and AES agreed to maintain the level of industrial activity in ALTIS. Pursuant to the agreement, the Company will enter into a two-year supply contract with ALTIS and IBM and Infineon will license certain manufacturing process technologies to AES for use in ALTIS. As a result of the agreement, the Company classified related assets and liabilities as assets and liabilities held for disposal in the condensed consolidated balance sheets for all periods presented. The Company performed an impairment assessment and concluded that no write-down was necessary. Pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, the recognition of depreciation expense ceased as of August 1, 2007.

High Power Bipolar Business

On September 28, 2007, the Company entered into a joint venture agreement with Siemens AG (Siemens). Effective September 30, 2007, the Company contributed all assets and liabilities of its high power bipolar business (including licenses, patents, and front-end and back-end production assets) into a newly formed legal entity called Infineon Technologies Bipolar GmbH & Co. KG (Bipolar) and Siemens subsequently acquired a 40 percent interest in Bipolar for 37 million. The transaction received regulatory approval and subsequently closed on November 30, 2007. As a result of the sale, the Company realized a gain before tax of 27 million which was recorded in other operating income, net during the nine months ended June 30, 2008. The joint venture agreement grants Siemens certain contractual participating rights which inhibit the Company from exercising control over the newly formed entity. Accordingly, the

Company accounts for the retained interest in Bipolar under the equity method of accounting.

Hard Disk Drive Business

On April 25, 2008, the Company sold its hard disk drive (HDD) business to LSI for cash consideration of 60 million (\$95 million). The HDD business designs, manufactures and markets semiconductors for HDD devices. The Company transferred its complete HDD activities, including customer relationships, as well as know-how to LSI, and granted LSI a license for intellectual property. The transaction did not encompass the sale of significant assets or transfer of employees. As a result of this transaction, the Company realized a gain before tax of 41 million which was recorded in other operating income, net during the three months ended June 30, 2008.

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

Qimonda

During the quarter ended March 31, 2008, the Company committed to a plan to dispose of Qimonda. The Company is actively pursuing its disposal plan and expects to finalize the disposal by the end of the second quarter of the 2009 fiscal year. As a result, the historical results of Qimonda are reported as discontinued operations in the Company's condensed consolidated statements of operations for all periods presented, and the assets and liabilities of Qimonda have been reclassified as held for disposal in the condensed consolidated balance sheets for all periods presented. In addition, the Company recorded after-tax write-downs aggregating 1,415 million, in order to remeasure Qimonda to its estimated current fair value less costs to sell. Pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, the recognition of depreciation expense ceased as of March 31, 2008.

At September 30, 2007 and June 30, 2008, the carrying amounts of the major classes of assets and liabilities classified as held for disposal were as follows:

	September 30, 2007	June 30, 2008
	(in millions)	
Cash and cash equivalents	746	509
Marketable securities	265	120
Trade accounts receivable, net	397	210
Inventories	659	385
Property, plant and equipment, net	2,350	2,206
Long-term investments	628	525
Other assets	608	418
Subtotal	5,653	4,373
Write-down		(1,415)
Total assets classified as held for disposal	5,653	2,958
Short-term debt and current maturities	128	233
Trade accounts payable	780	546
Accrued liabilities	147	141
Long-term debt	227	439
Other liabilities	616	690
Total liabilities associated with assets held for disposal	1,898	2,049

The results of Qimonda presented in the condensed consolidated statements of operations as discontinued operations consist of the following components:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
	(in millions)			
Net sales	740	384	2,897	1,309
Costs and expenses	(1,031)	(568)	(2,885)	(2,302)
Loss on measurement to fair value less costs to sell		(411)		(1,415)
Income (loss) from discontinued operations, before tax	(291)	(595)	12	(2,408)
Income tax (expense) benefit	104	(42)		(60)
Income (loss) from discontinued operations, net of tax	(187)	(637)	12	(2,468)

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

5. Restructuring

During the 2007 fiscal year, restructuring measures were taken by the Company, mainly as a result of the insolvency of one of its largest mobile phone customers, BenQ Mobile GmbH & Co. OHG, and in order to further streamline certain research and development locations. Approximately 280 jobs were affected worldwide, of which approximately 120 were in the German locations Munich, Salzgitter and Nuremberg.

During the nine months ended June 30, 2007 and 2008, charges of 42 million and 11 million, respectively, were recognized as restructuring charges.

The development of the restructuring liability during the nine months ended June 30, 2008 is as follows:

	September 30, 2007 Liabilities	Restructuring Charges Payments (in millions)		June 30, 2008 Liabilities
Employee terminations	38	5	(31)	12
Other exit costs	6	6	(5)	7
Total	44	11	(36)	19

6. Income Taxes

Income (loss) from continuing operations before income taxes and minority interest, and income tax expense are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2007	2008	2007	2008
	(in millions, except percentages)			
Income (loss) from continuing operations before income taxes and minority interest	3	66	(15)	168
Income tax expense	11	14	44	35
Effective tax rate	304%	21%		21%

In the three and nine months ended June 30, 2007 and 2008, the tax expense of the Company is affected by lower foreign tax rates, tax credits and the need for valuation allowances on deferred tax assets in certain jurisdictions.

Effective October 1, 2007, the Company adopted FIN 48 (see note 2). The total amount of gross unrecognized tax benefits from uncertain tax positions, which, if recognized, would favorably affect the Company's effective tax rate, is \$68 million as of October 1, 2007. Additionally, uncertain tax positions which, if recognized, would increase available net operating losses for the respective years for which a valuation allowance is established, aggregate \$70 million on a tax effected basis as of October 1, 2007.

The Company has accrued interest and penalties related to income tax liabilities of \$4 million as of October 1, 2007. Interest and penalties related to income tax liabilities are included in interest expense, net and other non-operating income, net, respectively.

Our German and foreign tax returns are periodically examined by tax authorities, and several entities of the consolidated group are currently subject to such an examination. Although the timing of the resolution of tax authority examinations is uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could change within the next 12 months as a result of such ongoing and future examinations.

7. Earnings (Loss) Per Share

Basic earnings (loss) per share (EPS) is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing net income by the sum of the weighted average number of ordinary shares outstanding plus all additional

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

ordinary shares that would have been outstanding if potentially dilutive instruments or ordinary share equivalents had been issued.

The computation of basic and diluted EPS is as follows:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2007	2008	2007	2008
Numerator (in millions):				
Income (loss) from continuing operations	(10)	45	(65)	109
Income (loss) from discontinued operations, net of tax	(187)	(637)	12	(2,468)
Loss before extraordinary loss	(197)	(592)	(53)	(2,359)
Extraordinary loss, net of tax			(35)	
Net loss	(197)	(592)	(88)	(2,359)
Denominator (shares in millions):				
Weighted-average shares outstanding basic	749.1	749.7	748.3	749.7
Effect of dilutive instruments				
Weighted-average shares outstanding diluted	749.1	749.7	748.3	749.7
Income (loss) per share (in \$ ¹):				
Income (loss) from continuing operations	(0.01)	0.06	(0.09)	0.15
Income (loss) from discontinued operations, net of tax	(0.25)	(0.85)	0.01	(3.30)
Loss before extraordinary loss	(0.26)	(0.79)	(0.08)	(3.15)
Extraordinary loss, net of tax			(0.04)	
Net loss	(0.26)	(0.79)	(0.12)	(3.15)

(1) Quarterly earnings (loss) per share may not add up to year-to-date earnings (loss) per share due to rounding.

The weighted average of potentially dilutive instruments that were excluded from the diluted earnings (loss) per share computations, because the exercise price was greater than the average market price of the ordinary shares during the period or were otherwise not dilutive, includes 38.5 million and 32.1 million shares underlying employee stock options for the three months ended June 30, 2007 and 2008, respectively, and 41.4 million and 34.2 million shares underlying employee stock options for the nine months ended June 30, 2007 and 2008, respectively. Additionally, 68.4 million and 64.5 million ordinary shares issuable upon conversion of outstanding convertible subordinated notes

during the three months ended June 30, 2007 and 2008, respectively, and 76.9 million and 67.1 million ordinary shares issuable upon conversion of outstanding convertible subordinated notes during the nine months ended June 30, 2007 and 2008, respectively, were not included in the computation of diluted earnings (loss) per share as their impact was not dilutive.

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

8. Trade Accounts Receivable, net

Trade accounts receivable, net consist of the following:

	September 30, 2007	June 30, 2008
	(in millions)	
Third party trade	583	540
Associated and Related Companies trade (note 13)	68	31
Trade accounts receivable, gross	651	571
Allowance for doubtful accounts	(31)	(25)
Trade accounts receivable, net	620	546

9. Inventories

Inventories consist of the following:

	September 30, 2007	June 30, 2008
	(in millions)	
Raw materials and supplies	59	55
Work-in-process	354	396
Finished goods	185	219
Total inventories	598	670

10. Debt

Debt consists of the following:

	September 30, 2007	June 30, 2008
	(in millions)	

Short-term debt:

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Loans payable to banks, weighted average rate 5.5%	127	51
Current portion of long-term debt	133	142
Total short-term debt and current maturities	260	193
Long-term debt:		
Exchangeable subordinated notes, 1.375%, due 2010	215	215
Convertible subordinated notes, 5.0%, due 2010	695	597
Loans payable to banks:		
Unsecured term loans, weighted average rate 4.52%, due 2009 2013	214	240
Secured term loans, weighted average rate 2.45%, due 2013	4	2
Notes payable to governmental entity, due 2010	21	20
Total long-term debt	1,149	1,074

During the three months ended June, 30, 2008, the Company repurchased a notional amount of 100 million of its convertible subordinated notes due 2010. The transaction resulted in a net gain of 2 million before tax, which was recognized in interest expense, net during the three months ended June 30, 2008. The repurchase was made out of available cash.

Concurrently with the issuance of \$248 million in convertible notes due 2013 by Qimonda (as guarantor) through its subsidiary Qimonda Finance LLC (as issuer) on February 12, 2008, Infineon loaned Credit Suisse International 20.7 million Qimonda American Depositary Shares ancillary to the placement of the convertible notes, which remained outstanding as of June 30, 2008.

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

The Company has established independent financing arrangements with several financial institutions, in the form of both short- and long-term credit facilities, which are available for anticipated funding purposes, as follows:

Term	Nature of Financial Institution Commitment	Purpose/ intended use	As of June 30, 2008		
			Aggregate facility	Drawn (in millions)	Available
Short-term	firm commitment	working capital, guarantees	348	51	297
Short-term	no firm commitment	working capital, cash management	169		169
Long-term ⁽¹⁾	firm commitment	general corporate purposes	414	114	300
Long-term ⁽¹⁾	firm commitment	project finance	290	290	
Total			1,221	455	766

⁽¹⁾ Including current maturities.

11. Stock-based Compensation***Infineon Stock Option Plans***

A summary of the status of the Infineon stock option plans as of June 30, 2008, and changes during the nine months then ended is presented below (options in millions, exercise prices in Euro, intrinsic value in millions of Euro):

	Number of options	Weighted-average exercise price	Weighted-average remaining life (in years)	Aggregated Intrinsic Value
Outstanding at September 30, 2007	39.4	16.17	2.99	66
Granted				
Exercised				
Forfeited and expired	(5.4)	40.87		
Outstanding at June 30, 2008	34.0	12.32	2.53	
Vested and expected to vest, net of estimated forfeitures at June 30, 2008	34.0	12.30	2.52	
Exercisable at June 30, 2008	27.1	12.90	2.08	

Options with an aggregate fair value of \$32 million and \$26 million vested during the nine months ended June 30, 2007 and 2008, respectively. Options with a total intrinsic value of \$8 million and \$0 were exercised during the nine months ended June 30, 2007 and 2008, respectively.

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

Changes in the Company's unvested options during the nine months ended June 30, 2008, are summarized as follows (options in millions, fair values in Euro, intrinsic value in millions of Euro):

	Number of options	Weighted- average grant date fair value	Weighted- average remaining life (in years)	Aggregated Intrinsic Value
Unvested at September 30, 2007	13.6	3.50	4.77	35
Granted				
Vested	(6.4)	4.04		
Forfeited	(0.3)	3.28		
Unvested at June 30, 2008	6.9	2.96	4.29	
Unvested options expected to vest	6.9	2.99	4.28	

As of June 30, 2008, there was a total of 6 million in unrecognized compensation expense related to unvested stock options of Infineon, which is expected to be recognized over a weighted-average period of 1.04 years.

Stock-Based Compensation Expense

Stock-based compensation expense was allocated as follows:

	Three months ended June 30, 2007		Nine months ended June 30, 2007	
	2008	2008	2008	2008
	(in millions)			
Compensation expense recognized:				
Cost of goods sold	1		2	
Selling, general and administrative expenses	1	1	4	3
Research and development expenses	1		3	1
Total stock-based compensation expense	3	1	9	4
Stock-based compensation effect on basic and diluted loss per share in ⁽¹⁾			(0.01)	(0.01)

⁽¹⁾ Quarterly earnings (loss) per share may not add up to year-to-date earnings (loss) per share due to rounding.

Cash received from stock option exercises was 16 million and 0 during the nine months ended June 30, 2007 and 2008, respectively. The amount of stock-based compensation expense which was capitalized and remained in inventories for the nine months ended June 30, 2007 and 2008 was immaterial. Stock-based compensation expense does not reflect any income tax benefits, since stock options are granted in tax jurisdictions where the expense is not deductible for tax purposes.

Table of Contents**Infineon Technologies AG and Subsidiaries**

Notes to the Unaudited Condensed Consolidated Financial Statements

12. Other Comprehensive Loss

The changes in the components of other comprehensive loss are as follows:

	Nine months ended June 30,	
	2007	2008
	(in millions)	
Unrealized losses on securities:		
Unrealized holding losses	(6)	(15)
Reclassification adjustment for gains included in net income or loss	(5)	(5)
Unrealized losses, net	(11)	(20)
Unrealized gains on cash flow hedges	2	7
Foreign currency translation adjustment	(73)	(85)
Other comprehensive loss	(82)	(98)

13. Related Parties

The Company has transactions in the normal course of business with Associated and Related Companies (Related Parties). The Company purchases certain of its raw materials, especially chipsets, from, and sells certain of its products to, Related Parties. Purchases and sales to Related Parties are generally based on market prices or manufacturing cost plus a mark-up.

Related Party receivables consist of the following:

	September 30, 2007	June 30, 2008
	(in millions)	
Current:		
Associated and Related Companies trade (note 8)	68	31
Associated and Related Companies financial and other receivables	79	65
Employee receivables	5	11
	152	107
Non-current:		
Employee receivables	1	1

Total Related Party receivables	153	108
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