LSI CORP
Form 10-Q
May 12, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended April 3, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to__________

Commission File Number: 1-10317

LSI CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-2712976**
(State of Incorporation)	***(I.R.S. Employer Identification Number)***

1621 Barber Lane
Milpitas, California 95035
(Address of principal executive offices)
(Zip code)
(408) 433-8000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company.)	Smaller reporting company o

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

As of May 6, 2011, there were 605,650,469 shares of the registrant s Common Stock, $.01 par value, outstanding.

LSI CORPORATION
FORM 10-Q
For the Quarter Ended April 3, 2011
INDEX

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words estimate, plan, intend, expect, anticipat believe and similar words are intended to identify forward-looking statements. Although we believe our expectations are based on reasonable assumptions, our actual results could differ materially from those projected in the forward-looking statements. We have described in Part II, Item 1A. Risk Factors a number of factors that could cause our actual results to differ from our projections or estimates. Except where otherwise indicated, the statements made in this report are made as of the date we filed this report with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. We expressly disclaim any obligation to update the information in this report, except as may otherwise be required by law.

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

LSI CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(Unaudited)

	April 3, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 526,528	$ 521,786
Short-term investments	155,786	154,880
Accounts receivable, less allowances of $7,418 and $9,701, respectively	286,133	326,604
Inventories	155,023	186,772
Prepaid expenses and other current assets	68,369	73,314
Assets held for sale	236,296	464
Total current assets	1,428,135	1,263,820
Property and equipment, net	188,002	223,181
Identified intangible assets, net	519,588	561,137
Goodwill	72,377	188,698
Other assets	146,772	188,076
Total assets	$ 2,354,874	$ 2,424,912
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 198,836	$ 173,919
Accrued salaries, wages and benefits	104,198	126,307
Other accrued liabilities	181,217	184,402
Total current liabilities	484,251	484,628
Pension and post-retirement benefit obligations	454,750	463,119
Income taxes payable non-current	81,478	85,717
Other non-current liabilities	74,746	73,946
Total liabilities	1,095,225	1,107,410
Commitments and contingencies (Note 13)		
Stockholders equity:		
Preferred stock, $.01 par value: 2,000 shares authorized; none outstanding		
Common stock, $.01 par value: 1,300,000 shares authorized; 606,150 and 615,191 shares outstanding, respectively	6,062	6,152
Additional paid-in capital	5,926,306	5,998,137
Accumulated deficit	(4,358,368)	(4,368,522)
Accumulated other comprehensive loss	(314,351)	(318,265)
Total stockholders equity	1,259,649	1,317,502
Total liabilities and stockholders equity	$ 2,354,874	$ 2,424,912

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

LSI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended April 3, 2011	April 4, 2010
Revenues	$ 473,264	$ 472,672
Cost of revenues	249,090	257,878
Gross profit	224,174	214,794
Research and development	142,347	138,862
Selling, general and administrative	68,867	70,365
Restructuring of operations and other items, net	2,806	1,620
Income from operations	10,154	3,947
Interest expense		(3,894)
Interest income and other, net	4,288	(8,807)
Income/(loss) from continuing operation before income taxes	14,442	(8,754)
Benefit from income taxes	(4,104)	(23,102)
Income from continuing operations	18,546	14,348
(Loss)/income from discontinued operations, net of tax	(8,392)	8,172
Net income	$ 10,154	$ 22,520
Basic income/(loss) per share:		
Income from continuing operations	$ 0.03	$ 0.02
(Loss)/income from discontinued operations	$ (0.01)	$ 0.01
Net income	$ 0.02	$ 0.03
Diluted income/(loss) per share:		
Income from continuing operations	$ 0.03	$ 0.02
(Loss)/income from discontinued operations	$ (0.01)	$ 0.01
Net income	$ 0.02	$ 0.03
Shares used in computing per share amounts:		
Basic	615,450	656,528
Diluted	629,733	664,315

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

LSI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	April 3, 2011	April 4, 2010
Operating activities:		
Net income	$ 10,154	$ 22,520
Adjustments:		
Depreciation and amortization	56,007	67,017
Stock-based compensation expense	13,986	16,431
Non-cash restructuring of operations and other items, net	10,824	(10)
Write-down of investments		11,600
(Gain)/loss on sale of property and equipment	(239)	3
Unrealized foreign exchange loss/(gain)	1,379	(2,215)
Deferred taxes	(43)	98
Changes in assets and liabilities:		
Accounts receivable, net	40,471	40,396
Inventories	(12,651)	(16,441)
Prepaid expenses, assets held for sale and other assets	(1,066)	(8,095)
Accounts payable	24,273	(8,547)
Accrued and other liabilities	(35,066)	(16,979)
Net cash provided by operating activities	108,029	105,778
Investing activities:		
Purchases of debt securities available-for-sale	(15,530)	
Proceeds from maturities and sales of debt securities available-for-sale	12,958	11,254
Purchases of property, equipment and software	(21,542)	(27,276)
Proceeds from sale of property and equipment	310	22
Net cash used in investing activities	(23,804)	(16,000)
Financing activities:		
Issuances of common stock	17,319	3,635
Purchase of common stock under repurchase programs	(96,791)	(26,208)
Net cash used in financing activities	(79,472)	(22,573)
Effect of exchange rate changes on cash and cash equivalents	(11)	(2,117)
Net change in cash and cash equivalents	4,742	65,088
Cash and cash equivalents at beginning of period	521,786	778,291
Cash and cash equivalents at end of period	$ 526,528	$ 843,379

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

LSI CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

For financial reporting purposes, LSI Corporation (LSI or the Company) reports on a 13- or 14-week quarter with the year ending December 31. The first quarter of 2011 and 2010 consisted of approximately 13 weeks each and ended on April 3, 2011 and on April 4, 2010, respectively. The results of operations for the quarter ended April 3, 2011 are not necessarily indicative of the results to be expected for the full year.

On March 9, 2011, the Company entered into a definitive agreement to sell its external storage systems business to NetApp, Inc. (NetApp) for $480.0 million in cash. The strategic decision to divest the external storage systems business was based on the Company s expectation that long-term shareholder value can be maximized by becoming a pure-play semiconductor company. Under the terms of the agreement, NetApp will purchase substantially all the assets of the Company s external storage systems business, which develops and delivers external storage systems products and technology to a wide range of partners that provide storage solutions to end customers. Most of LSI external storage systems employees are expected to join NetApp. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of the external storage systems business are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. In the first quarter of 2011, the Company operates in one reportable segment. The external storage systems business was part of the Storage Systems segment. The results of the redundant array of independent disks (RAID) adapter business, which were formerly included in the Storage Systems segment, are now included in the Company s remaining reportable segment. Additionally, the assets of the external storage systems business as of April 3, 2011 are presented as held for sale in the condensed consolidated balance sheets.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from these estimates.

In management s opinion, the accompanying unaudited condensed consolidated financial statements contain all normal recurring adjustments necessary for a fair presentation of the Company s financial position, results of operations, and cash flows for the interim periods presented. While the Company believes that the disclosures are adequate to make the information not misleading, these financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Recent Accounting Pronouncements

Pronouncements adopted during the three months ended April 3, 2011:

In October 2009, the Financial Accounting Standards Board (FASB) amended revenue recognition guidance on multiple-deliverable arrangements to address how to separate deliverables and how to measure and allocate arrangement consideration. The new guidance requires the use of management s best estimate of selling price for the deliverables in an arrangement when a vendor does not have specific objective evidence of selling price or third party evidence of selling price. In addition, excluding specific software revenue guidance, the residual method of allocating arrangement consideration is no longer permitted, and an entity is required to allocate arrangement consideration using the relative selling price method. This guidance also expands the disclosure requirements to include both quantitative and qualitative information. The Company adopted this guidance in the first quarter of 2011. The adoption did not impact the Company s results of operations or financial position.

In October 2009, the FASB issued guidance to clarify that tangible products containing software components and non-software components that function together to deliver a product s essential functionality will be considered non-software deliverables and will be scoped out of the software revenue recognition guidance. The Company adopted this guidance in the first quarter of 2011. The adoption did not impact the Company s results of operations or financial position.

In December 2010, the FASB issued guidance to clarify that, when presenting comparative financial statements for business combinations that occurred during the current year, a public entity should disclose revenue and earnings of the combined entity as though the business combinations had occurred as of the beginning of the comparable prior annual reporting period. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company adopted this guidance in the first quarter of 2011. The adoption did not impact the Company s results of operations or financial position.

Note 2 Stock-Based Compensation and Common Stock

Stock-Based Compensation Expense

The following table summarizes stock-based compensation expense, net of estimated forfeitures, related to the Company s stock options, Employee Stock Purchase Plan (ESPP) and restricted stock unit awards.

Stock-Based Compensation Expense Included In:	Three Months Ended April 3, 2011	Three Months Ended April 4, 2010
	(In thousands)	
Cost of revenues	$ 1,813	$ 1,416
Research and development	6,223	6,020
Selling, general and administrative	5,631	5,687
Total stock-based compensation expense	$ 13,667	$ 13,123

Stock Options:

The fair value of each option grant is estimated as of the date of grant using a reduced-form calibrated binomial lattice model (the lattice model). The following table summarizes the weighted-average assumptions that the Company applied in the lattice model:

	Three Months Ended April 3, 2011	Three Months Ended April 4, 2010
Estimated grant date fair value per share	$ 2.08	$ 1.97
Expected life (years)	4.45	4.28
Risk-free interest rate	2%	2%
Volatility	47%	51%

The following table summarizes changes in stock options outstanding:

	Number of Shares (In thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at December 31, 2010	69,997	$ 6.99		
Options granted	7,433	6.18		
Options exercised	(2,587)	4.79		
Options canceled	(3,725)	18.01		
Options outstanding at April 3, 2011	71,118	$ 6.41	3.74	$ 82,958
Options exercisable at April 3, 2011	45,093	$ 7.10	2.88	$ 42,216

Employee Stock Purchase Plan:

Compensation expense for the Company s ESPP is calculated using the fair value of the employees purchase rights under the Black-Scholes model. Under the ESPP, rights to purchase shares are granted during the second and fourth quarters of each year. No shares related to the ESPP were issued during the three months ended April 3, 2011 or April 4, 2010.

Restricted Stock Awards:

The cost of restricted stock unit awards is determined using the fair value of the Company s common stock on the date of grant.

Service-based:

7

Table of Contents

The vesting requirements for service-based restricted stock units are determined at the time of grant and require that the employee remain employed by the Company for a specified period of time. As of April 3, 2011, the total unrecognized compensation expense related to these restricted stock units, net of estimated forfeitures, was $57.6 million and is expected to be recognized over the next 3.5 years on a weighted-average basis. The fair value of the shares that were issued upon the vesting of service-based restricted stock units during the three months ended April 3, 2011 was $10.3 million.

The following table summarizes changes in service-based restricted stock units outstanding:

	Number of Units (In thousands)
Unvested service-based restricted stock units at December 31, 2010	6,713
Granted	6,297
Vested	(1,640)
Forfeited	(212)
Unvested service-based restricted stock units at April 3, 2011	11,158

Performance-based:

The vesting of performance-based restricted stock units is contingent upon the Company meeting specified performance criteria and requires that the employee remain employed by the Company for a specified period of time. As of April 3, 2011, the total unrecognized compensation expense related to performance-based restricted stock units was $18.9 million and, if the contingencies are fully met, is expected to be recognized over the next 1 to 3 years.

The following table summarizes changes in performance-based restricted stock units outstanding:

	Number of Units (In thousands)
Unvested performance-based restricted stock units at December 31, 2010	2,277
Granted	3,476
Vested	(796)
Forfeited	(54)
Unvested performance-based restricted stock units at April 3, 2011	4,903

Common Stock

Stock Repurchase Program:

On March 9, 2011, the Company announced that its Board of Directors had authorized a new stock repurchase program of up to $750.0 million of its common stock. Purchases under this program are expected to be funded from the proceeds of the sale of the external storage systems business, available cash and short-term investments. The Company repurchased 14.7 million shares for $96.8 million under this program during the three months ended April 3, 2011. The repurchased shares were retired immediately after the repurchases were completed. Retirement of the repurchased shares is recorded as a reduction of common stock and additional paid-in capital.

Note 3 Restructuring, Asset Impairment Charges and Other Items

The following table summarizes items included in restructuring of operations and other items, net from continuing operations:

	Three Months Ended

	April 3, 2011	April 4, 2010
	(In thousands)	
Lease and contract terminations	$ 1,688(a)	$ 846
Employee severance and benefits	1,643(b)	525
Total restructuring expenses	3,331	1,371
Other items	(525)	249
Total	$ 2,806	$ 1,620

Table of Contents

(a) The amount primarily relates to changes in estimates and changes in time value of accruals for previously accrued facility lease exit costs.

(b) The amount primarily relates to restructuring actions taken during the first quarter of 2011 as the Company continues to streamline operations.

In connection with the strategic decision to divest the external storage systems business, the Company initiated certain restructuring actions. The results of those actions are included in discontinued operations and are summarized below:

	Three Months Ended April 3, 2011	April 4, 2010
	(In thousands)	
Lease and contract terminations	$ 1,711	$
Employee severance and benefits	11,020(a)	
Asset impairment and other exit charges	11,080(b)	
Total	$ 23,811	$

(a) The amount includes severance accruals for the restructuring actions taken related to the decision to sell the external storage systems business.

(b) The amount includes $9.0 million and $1.9 million for the write-down of certain identified intangible assets and certain software and hardware assets, respectively, related to the decision to sell the external storage systems business.

The following table summarizes the significant activity within, and components of, the Company s restructuring obligations:

	Asset Write-downs and Other Exit Costs	Lease and Contract Terminations	Employee Severance and Benefits	Total
		(In thousands)		
Beginning balance at December 31, 2010	$	$ 20,905	$ 4,951	$ 25,856
Expense	11,080	3,399	12,663	27,142
Utilized	(11,080)	(4,467)(a)	(7,473)(a)	(23,020)
Ending balance at April 3, 2011	$	$ 19,837(b)	$ 10,141(b)	$ 29,978

(a) The amounts utilized represent cash payments.

(b) The balance remaining for lease and contract terminations is expected to be paid during the remaining terms of the leases, which extend through 2013. The majority of the balance remaining for severance is expected to be paid by the third quarter of 2011.

Note 4 Benefit Obligations

The Company has pension plans covering substantially all former Agere Systems Inc. (Agere) U.S. employees, excluding management employees hired after June 30, 2003. Retirement benefits are offered under defined benefit pension plans, which include a management plan and a represented plan. The payments under the management plan are based on an adjusted career-average-pay formula or a cash-balance program. The cash-balance program provides for annual company contributions based on a participant s age, compensation and interest on existing balances. It covers employees of certain companies acquired by Agere since 1996 and management employees hired after January 1, 1999 and before July 1, 2003. The payments under the represented plan are based on a dollar-per-month formula. Since February 2009, there have been no active participants under the represented plan. The Company also has a non-qualified supplemental pension plan in the U.S. that principally provides benefits based on compensation in excess of amounts that can be considered under a tax qualified plan. The Company also provides post-retirement life insurance coverage under a group life insurance plan for former Agere employees excluding participants in the cash-balance program and management employees hired after June 30, 2003. The Company also has pension plans covering certain international employees.

Effective April 6, 2009, the Company froze the U.S. management defined benefit pension plan. Participants in the adjusted career-average-pay program will not earn any future service accruals after that date. Participants in the cash-balance program will not earn any future service accruals, but will continue to earn 4% interest per year on their cash-balance accounts.

Table of Contents

The following table summarizes the components of the net periodic benefit cost/(credit):

	Three Months Ended			
	April 3, 2011		April 4, 2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)			
Service cost	$ 134	$ 17	$ 118	$ 20
Interest cost	16,850	625	17,617	608
Expected return on plan assets	(16,998)	(1,032)	(17,823)	(1,148)
Amortization of transition asset	(5)			
Amortization of prior service cost	10		10	
Amortization of net actuarial loss	1,681	92	547	
Total benefit cost/(credit)	$ 1,672	$ (298)	$ 469	$ (520)

During the three months ended April 3, 2011, the Company contributed $9.0 million to its pension plans. The Company expects to contribute an additional $56.2 million to its pension plans for the remainder of 2011. The Company does not expect to contribute to its post-retirement benefit plan in 2011.

Note 5 Inventories

Inventories were comprised of the following:

	April 3, 2011	December 31, 2010
	(In thousands)	
Raw materials	$ 31,706	$ 30,691
Work-in-process	45,930	33,513
Finished goods	77,387	122,568
Total inventories	$ 155,023	$ 186,772

Note 6 Cash Equivalents and Investments

The following tables summarize the Company s cash equivalents and investments measured at fair value:

	Fair Value Measurements as of April 3, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash equivalents:				
Money-market funds	$ 402,953(a)	$	$	$ 402,953
Available-for-sale debt securities:				
Asset-backed and mortgage-backed securities	$	$ 114,312(b)	$	$ 114,312
U.S. government and agency securities	1,497(a)	25,346(b)		26,843
Corporate debt securities		14,631(b)		14,631
Total short-term investments	$ 1,497	$ 154,289	$	$ 155,786

Long-term investments in equity securities:				
Marketable available-for-sale equity securities	$ 1,802(c)	$	$	$ 1,802

	Fair Value Measurements as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash equivalents:				
Money-market funds	$ 378,382(a)	$	$	$ 378,382
U.S. government and agency securities	2,000(a)			2,000
Total cash equivalents	$ 380,382	$	$	$ 380,382
Available-for-sale debt securities:				
Asset-backed and mortgage-backed securities	$	$ 116,552(b)	$	$ 116,552
U.S. government and agency securities	1,496(a)	24,502(b)		25,998
Corporate debt securities		12,330(b)		12,330
Total short-term investments	$ 1,496	$ 153,384	$	$ 154,880
Long-term investments in equity securities:				
Marketable available-for-sale equity securities	$ 1,681(c)	$	$	$ 1,681

10

Table of Contents

(a) The fair value of money-market funds is determined using unadjusted prices in active markets. The fair value of U.S. Treasury securities is determined using quoted prices in active markets.

(b) The fair value of the short-term investments in debt securities is determined using the market approach and the income approach. These investments are traded less frequently than Level 1 securities and are valued using inputs that include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as interest rates, yield curves, prepayment speeds, collateral performance, broker/dealer quotes and indices that are observable at commonly quoted intervals.

(c) The fair value of marketable equity securities is determined using quoted market prices in active markets. These amounts are included within other assets in the condensed consolidated balance sheets.

Investments in Non-Marketable Securities

The Company does not estimate the fair value of non-marketable securities unless there are identified events or changes in circumstances that may have a significant adverse effect on the investment. There were no non-marketable securities fair-valued during the three months ended April 3, 2011. The following table summarizes certain non-marketable securities measured and recorded at fair value on a non-recurring basis during the three months ended April 4, 2010:

	Carrying Value as of April 4, 2010	Fair Value Measurements During the Three Months Ended April 4, 2010			Losses for the Three Months Ended April 4, 2010
		Level 1	Level 2	Level 3	
			(In thousands)		
Non-marketable securities	$ 1,900	$	$	$ 1,900	$ 11,600

As of April 3, 2011 and December 31, 2010, the aggregate carrying value of the Company s non-marketable securities was $39.9 million. There were no sales of non-marketable securities for the three months ended April 3, 2011 and April 4, 2010.

Investments in Available-for-Sale Securities

The following tables summarize the Company s available-for-sale securities:

	April 3, 2011			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss*	Fair Value
	(In thousands)			
Short-term debt securities:				
Asset-backed and mortgage-backed securities	$ 105,348	$ 9,164	$ (200)	$ 114,312
U.S. government and agency securities	26,414	548	(119)	26,843
Corporate debt securities	14,530	171	(70)	14,631
Total short-term debt securities	$ 146,292	$ 9,883	$ (389)	$ 155,786
Long-term marketable equity securities	$ 852	$ 989	$ (39)	$ 1,802

* As of April 3, 2011, there were 57 investments in an unrealized loss position.

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(In thousands)			
Short-term debt securities:				
Asset-backed and mortgage-backed securities	$ 107,891	$ 9,012	$ (351)	$ 116,552
U.S. government and agency securities	25,313	812	(127)	25,998
Corporate debt securities	12,226	176	(72)	12,330
Total short-term debt securities	$ 145,430	$ 10,000	$ (550)	$ 154,880
Long-term marketable equity securities	$ 852	$ 868	$ (39)	$ 1,681

11

Table of Contents

The following tables summarize the gross unrealized losses and fair values of the Company s short-term investments that have been in a continuous unrealized loss position for less than and greater than 12 months, aggregated by investment category:

	April 3, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)			
Asset-backed and mortgage-backed securities	$ 4,781	$ (77)	$ 1,274	$ (123)
U.S. government and agency securities	13,535	(119)		
Corporate debt securities	7,279	(70)		
Total	$ 25,595	$ (266)	$ 1,274	$ (123)

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)			
Asset-backed and mortgage-backed securities	$ 11,807	$ (179)	$ 2,469	$ (172)
U.S. government and agency securities	13,969	(127)		
Corporate debt securities	6,527	(72)		
Total	$ 32,303	$ (378)	$ 2,469	$ (172)

There were no impairment charges for available-for-sale debt or equity securities for the three months ended April 3, 2011 or April 4, 2010. There were no material other than temporary impairment losses recorded in other comprehensive income for the three months ended April 3, 2011 or April 4, 2010. Net realized gain or loss on sales of available-for-sale debt and equity securities for the three months ended April 3, 2011 and April 4, 2010 was not significant.

Contractual maturities of available-for-sale debt securities as of April 3, 2011 were as follows:

	Amount (In thousands)
Due within one year	$ 9,394
Due in 1-5 years	37,957
Due in 5-10 years	9,230
Due after 10 years	99,205
Total	$ 155,786

The maturities of asset-backed and mortgage-backed securities were allocated based on contractual principal maturities assuming no prepayments.

Note 7 Derivative Instruments

The Company has foreign subsidiaries that operate and sell the Company s products in various markets around the world. As a result, the Company is exposed to changes in foreign-currency exchange rates. The Company utilizes forward contracts to manage its exposure associated with net asset and liability positions denominated in non-functional currencies and to reduce the volatility of earnings and cash flows related to forecasted foreign-currency transactions. The Company does not hold derivative financial instruments for speculative or trading purposes.

Cash-Flow Hedges

The Company enters into forward contracts that are designated as foreign-currency cash-flow hedges of selected forecasted payments denominated in currencies other than U.S. dollars. These forward contracts generally mature within 12 months. The Company evaluates and calculates the effectiveness of each hedge at least quarterly. Changes in fair value attributable to changes in time value are excluded from the assessment of effectiveness and are recognized in interest income and other, net. The effective portion of the forward contracts gain or loss is recorded in other comprehensive income and is subsequently reclassified into earnings when the hedged expense is recognized within the same line item in the statements of operations as the impact of the hedged transaction. The ineffective portion of the gain or loss is reported in earnings immediately. As of April 3, 2011 and December 31,

Table of Contents

2010, the total notional value of the Company s outstanding forward contracts, designated as foreign-currency cash-flow hedges, was $38.2 million and $41.7 million, respectively. For the three months ended April 3, 2011 and April 4, 2010, the after-tax effect of foreign-exchange forward contract derivatives on other comprehensive income was not material.

Other Foreign-Currency Hedges

The Company enters into foreign-exchange forward contracts that are used to hedge certain foreign-currency-denominated assets or liabilities that do not qualify for hedge accounting. These forward contracts generally mature within three months. Changes in the fair value of these hedges are recorded immediately in earnings to offset the changes in fair value of the assets or liabilities being hedged. As of April 3, 2011 and December 31, 2010, the total notional value of the Company s outstanding forward contracts, not designated as hedges under hedge accounting, was $53.1 million and $112.3 million, respectively. For the three months ended April 3, 2011 and April 4, 2010, the gain/(loss) on other foreign-currency hedges of $1.8 million and $(5.8) million, respectively, were recognized in interest income and other, net. This gain and loss was substantially offset by the loss and gain on the underlying foreign-currency-denominated assets or liabilities.

Fair Value of Derivative Instruments

As of April 3, 2011 and December 31, 2010, the fair value of derivative instruments included in the condensed consolidated balance sheets was not material.

Note 8 Reconciliation of Basic and Diluted Income per Share

The following table provides a reconciliation of the numerators and denominators used in the computation of basic and diluted per share amounts:

	Three Months Ended					
	April 3, 2011			April 4, 2010		
	Income*	Shares+	Per Share Amount	Income*	Shares+	Per Share Amount
	(In thousands except per share amounts)					
Basic:						
Net income available to common stockholders	$10,154	615,450	$0.02	$22,520	656,528	$0.03
Dilutive effect of stock options, employee stock purchase rights and restricted stock unit awards		14,283			7,787	
Diluted:						
Net income available to common stockholders	$10,154	629,733	$0.02	$22,520	664,315	$0.03

* Numerator

\+ Denominator

The following table provides information about the weighted-average common share equivalents that were excluded from the computation of diluted shares because their inclusion would have an antidilutive effect on net income per share:

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(Shares in thousands)	
Anti-dilutive securities:		

Stock options	48,331	69,225
Restricted stock unit awards	16,217	399
Convertible notes		26,080

Note 9 Segment and Geographic Information

The Chief Executive Officer has been identified as the Chief Operating Decision Maker (CODM). The CODM allocates resources and assesses the Company s performance using information about its revenue and operating income or loss before interest and taxes.

Historically, the Company operated in two reportable segments the Semiconductor segment and the Storage Systems segment. The Semiconductor segment designs, develops and markets highly complex integrated circuits for storage and networking applications. These solutions include both custom solutions and standard products. The Storage Systems segment offered external storage systems and RAID adapters for computer servers and associated software for attaching storage devices to computer servers. On March 9, 2011, the Company entered into a definitive agreement to sell its external storage systems business to NetApp and started to operate its RAID adapter business as part of its semiconductor business. Accordingly, the Company now has one reportable segment. The change has been reflected in the Company s segment reporting for all periods presented.

Information about Geographic Areas

The following table summarizes the Company s revenues by geography based on the ordering location of the customer. Because the Company sells its products primarily to other sellers of technology products and not to end-users, the information in the table below may not accurately reflect geographic end-demand for its products.

	Three Months Ended			
	April 3, 2011	April 4, 2010	$ Change	% Change
	(Dollars in thousands)			
North America *	$ 120,918	$ 89,766	$ 31,152	34.7%
Asia **	302,658	332,738	(30,080)	(9.0)%
Europe and the Middle East	49,688	50,168	(480)	(1.0)%
Total	$ 473,264	$ 472,672	$ 592	0.1%

* Primarily the United States.

** Primarily Singapore, China and Taiwan.

Note 10 Comprehensive Income

Comprehensive income or loss is defined as a change in equity of a company during a period from transactions and other events and circumstances, excluding transactions resulting from investments by owners and distributions to owners. The following table summarizes the changes in the total comprehensive income, net of taxes:

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(In thousands)	
Net income	$ 10,154	$ 22,520
Net unrealized gain on investments	326	527
Net unrealized gain/(loss) on derivatives	409	(859)
Foreign currency translation adjustments	1,401	(4,002)
Amortization of transition asset, prior-service cost and net actuarial loss	1,778	557
Total comprehensive income	$ 14,068	$ 18,743

Note 11 Income Taxes

The Company recorded income tax benefits from continuing operations of $4.1 million and $23.1 million for the three months ended April 3, 2011 and April 4, 2010, respectively.

The income tax benefit from continuing operations for the three months ended April 3, 2011 included a reversal of $8.2 million in liabilities for uncertain tax positions, which included previously unrecognized tax benefits of $4.8 million and interest and penalties of $3.4 million, as a result of the expiration of statutes of limitations in multiple jurisdictions. The income tax benefit from continuing operations for the three months ended April 4, 2010 was primarily a result of a reversal of $27.9 million in liabilities for uncertain tax positions, which included previously unrecognized tax benefits of $12.2 million and interest and penalties of $15.7 million, as a result of the expiration of statutes of limitations in multiple jurisdictions.

In general, the Company computes the tax provision using an estimated annual tax rate. However, the Company excludes certain loss jurisditions from the computation of estimated annual rate when no benefit can be realized on those losses. Excluding certain foreign jurisdictions, the Company believes that it is more likely than not that the future benefit of deferred tax assets will not be realized.

Table of Contents

Note 12 Related Party Transactions

A member of the Company s board of directors is also a member of the board of directors of Seagate Technology. The Company sells semiconductors used in storage product applications to Seagate Technology for prices comparable to those charged to an unrelated third party. The Company also purchased drives used in its storage systems from Seagate Technology for prices comparable to those paid to other vendors for similar products. Revenues from sales by the Company to Seagate Technology were $98.6 million and $96.1 million for the three months ended April 3, 2011 and April 4, 2010, respectively. Purchases from Seagate Technology were $0.4 million and $11.6 million for the three months ended April 3, 2011 and April 4, 2010, respectively. The Company had accounts receivable from Seagate Technology of $53.1 million and $55.0 million as of April 3, 2011 and December 31, 2010, respectively.

The Company has an equity interest in a joint venture, Silicon Manufacturing Partners Pte Ltd. (SMP), with GLOBALFOUNDRIES, a manufacturing foundry for integrated circuits. SMP operates an integrated circuit manufacturing facility in Singapore. The Company owns a 51% equity interest in this joint venture, and GLOBALFOUNDRIES owns the remaining 49% equity interest. The Company s 51% interest in SMP is accounted for under the equity method because the Company is effectively precluded from unilaterally taking any significant action in the management of SMP due to GLOBALFOUNDRIES significant participatory rights under the joint venture agreement. Because of GLOBALFOUNDRIES approval rights, the Company cannot make any significant decisions regarding SMP without GLOBALFOUNDRIES approval, despite the 51% equity interest. In addition, the General Manager, who is responsible for the day-to-day management of SMP, is appointed by GLOBALFOUNDRIES, and GLOBALFOUNDRIES provides day-to-day operational support to SMP.

The Company purchased $10.8 million and $12.0 million of inventory from SMP for the three months ended April 3, 2011 and April 4, 2010, respectively. As of April 3, 2011 and December 31, 2010, the amounts of inventory on hand that were purchased from SMP were $7.1 million and $5.0 million, respectively, and the amounts payable to SMP were $4.6 million and $1.2 million, respectively.

Note 13 Commitments, Contingencies and Legal Matters

Purchase Commitments

The Company maintains purchase commitments with certain suppliers, primarily for raw materials and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time horizon as mutually agreed upon between the parties. This forecasted time horizon can vary for different suppliers. As of April 3, 2011, the Company had purchase commitments of $371.2 million, which are due through 2015.

The Company has a take-or-pay agreement with SMP under which it has agreed to purchase 51% of the managed wafer capacity from SMP s integrated circuit manufacturing facility, and GLOBALFOUNDRIES has agreed to purchase the remaining 49% of the managed wafer capacity. SMP determines its managed wafer capacity each year based on forecasts provided by the Company and GLOBALFOUNDRIES. If the Company fails to purchase its required commitments, it will be required to pay SMP for the fixed costs associated with the unpurchased wafers. GLOBALFOUNDRIES is similarly obligated with respect to the wafers allotted to it. The agreement may be terminated by either party upon two years written notice. The agreement may also be terminated for material breach, bankruptcy or insolvency.

Guarantees

***Product Warranties*:**

The Company warrants finished goods against defects in material and workmanship under normal use and service for periods of generally one to three years. A liability for estimated future costs under product warranties is recorded when products are shipped.

The following table sets forth a summary of changes in product warranties:

	Three Months Ended April 3, 2011 (In thousands)

Balance as of December 31, 2010	$	17,617
Accruals for warranties issued during the period		2,258
Accruals related to pre-existing warranties (including changes in estimates)		547
Settlements made during the period (in cash or in kind)		(3,169)
Balance as of April 3, 2011	$	17,253

Standby Letters of Credit:

As of April 3, 2011 and December 31, 2010, the Company had outstanding obligations relating to standby letters of credit of $3.5 million and $3.9 million, respectively. Standby letters of credit are financial guarantees provided by third parties for leases, customs and certain self-insured risks. If the guarantees are called, the Company must reimburse the provider of the guarantee. The fair value of the letters of credit approximates the contract amounts. The standby letters of credit generally renew annually.

Uncertain Tax Positions

As of April 3, 2011, the Company had $150.8 million of unrecognized tax benefits, for which the Company is unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur. It is reasonably possible that the total amount of unrecognized tax benefits will increase or decrease in the next 12 months. Such changes could occur based on the normal expiration of statutes of limitations or the possible conclusion of ongoing tax audits in various jurisdictions around the world. If those events occur within the next 12 months, the Company estimates that the unrecognized tax benefits, plus accrued interest and penalties, could decrease by up to $18.5 million.

Indemnifications

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party. Typically, these obligations arise primarily in connection with sales contracts and license agreements or the sale of assets, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of warranties, representations and covenants related to such matters as title to assets sold, validity of certain intellectual property rights, non-infringement of third-party rights, and certain income tax-related matters. In each of these circumstances, payment by the Company is typically subject to the other party making a claim to and cooperating with the Company pursuant to the procedures specified in the particular contract. This usually allows the Company to challenge the other party s claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, the Company s obligations under these agreements may be limited in terms of activity (typically to replace or correct the products or terminate the agreement with a refund to the other party), duration and/or amounts. In some instances, the Company may have recourse against third parties covering certain payments made by the Company.

Legal Matters

On December 6, 2006, Sony Ericsson Mobile Communications USA Inc. (Sony Ericsson) filed a lawsuit against Agere in Wake County Superior Court in North Carolina, alleging unfair and deceptive trade practices, fraud and negligent misrepresentation in connection with Agere s engagement with Sony Ericsson to develop a wireless data card for personal computers. The complaint claims an unspecified amount of damages and seeks compensatory damages, treble damages and attorneys fees. On February 13, 2007, Agere filed a motion to dismiss for improper venue. On August 27, 2007, the court granted Agere s motion to dismiss for improper venue. Sony Ericsson appealed that ruling. On March 3, 2009, the North Carolina Court of Appeals affirmed the lower court s ruling. On October 22, 2007, Sony Ericsson filed a lawsuit in the Supreme Court of the State of New York, New York County against LSI, raising substantially the same allegations and seeking substantially the same relief as the North Carolina proceeding. In January 2010, Sony Ericsson amended its complaint by adding claims for fraudulent concealment and gross negligence. On September 10, 2010, LSI filed a motion for summary judgment. In January 2011, LSI and Sony Ericsson held an unsuccessful mediation in this matter. The Company is unable to estimate the possible loss or range of loss, if any, that may be incurred with respect to this matter.

On March 23, 2007, CIF Licensing, LLC, d/b/a GE Licensing (GE) filed a lawsuit against Agere in the United States District Court for the District of Delaware, asserting that Agere products infringe patents in a portfolio of patents GE acquired from Motorola. GE has asserted that four of the patents cover inventions relating to modems. GE is seeking monetary damages. Agere believes it has a number of defenses to the infringement claims in this action, including laches, exhaustion and its belief that it has a license to the patents. The court postponed hearing motions based on these defenses until after the trial, and did not allow Agere to present evidence on these defenses at trial. On February 17, 2009, the jury in this case returned a verdict finding that three of the four patents were invalid and that Agere products infringed the one patent found to be valid and awarding GE $7.6 million for infringement of that patent. The jury also found Agere s infringement was willful, which means that the judge could increase the amount of damages up to three times its original amount. The court has not scheduled hearings on Agere s post-trial motions related to its defenses. One of these motions seeks to have a mis-trial declared based on Agere s belief that GE withheld evidence in discovery, which affected Agere s ability to present evidence at trial. On October 6, 2010, a special master appointed by the court determined that GE s actions were not

Table of Contents

wrongful and that the evidence withheld by GE was not material to the jury s findings. Agere is challenging this determination. If the jury s verdict is entered by the court, Agere would also expect to be required to pay interest from the date of infringing sales. If the verdict is entered, Agere intends to appeal the matter. On February 17, 2010, the court issued an order granting GE s summary judgment motions seeking to bar Agere s defenses of laches, exhaustion, and license and denying Agere s summary judgment motions concerning the same defenses. On July 30, 2010, the court held that one of the patents found invalid by the jury was valid. The court also held that the February 17, 2010 order was not inconsistent with its previous ruling that Agere would be permitted to renew its laches, licensing, and exhaustion defenses, and that Agere has not been precluded from asserting them post-trial. The Company is unable to estimate the possible loss or range of loss, if any, that may be incurred with respect to this matter.

On December 1, 2010, Rambus Inc. (Rambus) filed a lawsuit against LSI in the United States District Court for the Northern District of California alleging that LSI s products infringe one or more of nineteen Rambus patents. These products contain either DDR-type memory controllers or certain high-speed SerDes peripheral interfaces, such as PCI Express interfaces and certain SATA and SAS interfaces. Rambus is seeking unspecified monetary damages, treble damages and costs, expenses and attorneys fees due to alleged willfulness, interest, and permanent injunctive relief in this action. In addition, on December 1, 2010, Rambus filed an action with the International Trade Commission (ITC) against LSI and five of its customers alleging that LSI products infringe six of the nineteen patents in the California case. Rambus also named five other companies and a number of their customers in the ITC action. Rambus is seeking an exclusionary order against LSI and its customers in the ITC action, which, if granted, would preclude LSI and its customers from selling these products in the U.S. The ITC instituted its investigation on December 29, 2010. LSI has filed an answer in the ITC proceedings and has requested a stay in the California case. The Company is unable to estimate the possible loss or range of loss, if any, that may be incurred with respect to this matter.

In addition to the foregoing, the Company and its subsidiaries are parties to other litigation matters and claims in the normal course of business. The Company does not believe, based on currently available facts and circumstances, that the final outcome of these other matters, taken individually or as a whole, will have a material adverse effect on the Company s consolidated results of operations or financial position. However, the pending unsettled lawsuits may involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to defend. From time to time, the Company may enter into confidential discussions regarding the potential settlement of such lawsuits. However, there can be no assurance that any such discussions will occur or will result in a settlement. Moreover, the settlement of any pending litigation could require the Company to incur substantial costs and, in the case of the settlement of any intellectual property proceeding against the Company, may require the Company to obtain a license to a third-party s intellectual property that could require royalty payments in the future and the Company to grant a license to certain of its intellectual property to a third party under a cross-license agreement. The results of litigation are inherently uncertain, and material adverse outcomes are possible.

The Company has not provided accruals for any legal matters in its financial statements as potential losses for such matters are not considered probable and reasonably estimable. However, because such matters are subject to many uncertainties, the ultimate outcomes are not predictable, and there can be no assurances that the actual amounts required to satisfy alleged liabilities from the matters described above will not have a material adverse effect on its consolidated results of operations, financial position or cash flows.

Note 14 Discontinued Operations

On March 9, 2011, the Company entered into a definitive agreement to sell its external storage systems business to NetApp for $480.0 million in cash. The external storage systems business had historically been part of the Company s Storage Systems segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of the external storage systems business are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented. Additionally, the assets of the external storage systems business at April 3, 2011 are presented as held for sale in the condensed consolidated balance sheets.

Following is selected financial information included in (loss)/income from discontinued operations for the external storage systems business:

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(In thousands)	
Revenues	$ 155,690	$ 164,510
(Loss)/income before income taxes	$ (7,910)	$ 12,474

17

Table of Contents

Assets classified as held for sale as of April 3, 2011 related to the external storage systems business are as follows:

	Amount (In thousands)
Inventories	$ 44,400
Property and equipment, net	25,952
Goodwill and identified intangible assets, net	117,847
Other assets	47,700
Total assets held for sale of discontinued operations	$ 235,899

Note 15 Subsequent Events

On May 6, 2011, the Company completed the sale of its external storage systems business to NetApp pursuant to the terms of the asset purchase agreement and received cash consideration of $480.0 million.

As part of the asset purchase agreement, certain transitional services will be provided to NetApp for a period of up to eighteen months. The purpose of these services is to provide short-term assistance to the buyer in assuming the operations of the external storage systems business.

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

This management s discussion and analysis should be read in conjunction with the other sections of this Form 10-Q, including Part 1, Item 1. Financial Statements.

Where more than one significant factor contributed to changes in results from year to year, we have quantified these factors throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where practicable and material to understanding the discussion.

OVERVIEW

We design, develop and market complex, high-performance storage and networking semiconductors. We provide silicon-to-system solutions that are used at the core of products that create, store, consume and transport digital information. We offer a broad portfolio of capabilities, including custom and standard product integrated circuits used in hard disk drives, solid state drives, high-speed communications systems, computer servers, storage systems and personal computers. We also offer redundant array of independent disks, or RAID, adapters for computer servers and RAID software applications.

We sell our integrated circuits for server and storage applications principally to makers of hard disk drives, solid state drives and computer servers. We sell our integrated circuits for networking applications principally to makers of devices used in computer and telecommunications networks and, to a lesser extent, to makers of personal computers. We also generate revenue by licensing other entities to use our intellectual property.

We derive the majority of our revenue from sales of products for the server, hard disk drive and networking equipment end markets. We believe that these markets offer us attractive opportunities because of the growing demand to create, store, manage and move digital content. We believe that this growth is occurring as a result of a number of trends, including:

- The increasing popularity of mobile devices such as smart phones and media tablets, and the increasing use of the internet for streaming media, such as videos and music, which are driving the need for more network capacity;
- Consumer and business demand for hard disks to store increasing amounts of digital data, including music, video, pictures, and medical and other business records; and
- Enterprises are refreshing their data centers to provide higher levels of business support and analytics, which drives demand for new servers and storage systems and associated equipment.

Our revenues depend on market demand for these types of products and our ability to compete in highly competitive markets. We face competition not only from makers of products similar to ours, but also from competing technologies. For example, we see the development of solid state drives based on flash memory rather than the spinning platters used in hard disk drives as a long-term potential competitor to certain types of hard disk drives, and we are focusing development efforts in that area.

Prior to May 6, 2011, we also sold external storage systems, primarily to original equipment manufacturers, or OEMs, who resell these products to end customers under their own brand name. On May 6, 2011, we completed the sale of our external storage systems business to NetApp for $480.0 million in cash. Because of our decision to exit the external storage systems business, we have reflected that business as a discontinued operation in our financial statements for all periods presented and have reclassified the assets of that business as held for sale in the balance sheet as of April 3, 2011. Until we made the decision to exit the external storage systems business, our storage systems business included our external storage systems and RAID adapter businesses. We have retained the RAID adapter business, which is now managed by and has been incorporated into our semiconductor business. We now operate in one reportable segment.

During the first quarter of 2011, we reported revenue of $473.3 million, compared to $472.7 for the first quarter of 2010, and net income of $10.2 million, or $0.02 per share, compared to $22.5 million, or $0.03 per share, for the first quarter of 2010.

On March 9, 2011, our Board of Directors authorized a new stock repurchase program of up to $750.0 million of our common stock. During the first quarter of 2011, we repurchased 14.7 million shares for $96.8 million under this program and anticipate continuing to repurchase stock under current market conditions. We ended the first quarter of 2011 with cash and cash equivalents,

Table of Contents

together with short-term investments, of $682.3 million, an improvement of $5.6 million from the end of 2010 and received additional cash from the closing of the sale of our external storage systems business after the end of the quarter.

As we look forward into 2011, we are focused on a number of key objectives, including:

- Working with suppliers and customers to maintain our ability to meet customer demand for products in light of the impact of the recent earthquake and ensuing events in Japan. The packaging we use for some of our semiconductor products uses materials from a supplier in Japan whose operations have been affected. While we believe we have access to sufficient materials for the near term, we are working to ensure adequate supplies of materials acceptable to our customers to fully meet demand anticipated in the second half of 2011 and beyond.
- Improving our gross margins and controlling operating expenses to drive improved financial performance;
- Meeting or exceeding our development, product quality and delivery commitments to our customers;
- Identifying attractive opportunities for future products, particularly in areas that are adjacent to technologies where we have strong capabilities;
- Developing leading-edge new technologies; and
- Developing the skills of our workforce.

RESULTS OF OPERATIONS

Revenues

	Three Months Ended			
	April 3, 2011	**April 4, 2010**	**$ Change**	**% Change**
		(Dollars in millions)		
Revenues	$ 473.3	$ 472.7	$ 0.6	0.1%

The increase in revenues was primarily attributable to increases in demand for our server RAID adapters from existing customers, program ramp-ups with new customers, and higher revenues from the licensing of our intellectual property. These increases were offset in part by a decrease in unit sales from semiconductors used in storage product applications, primarily as our customers experienced lower demand for fiber channel and host bus adaptors.

Significant Customers:

The following table provides information about our one customer that accounted for 10% or more of consolidated revenues:

	Three Months Ended	
	April 3, 2011	**April 4, 2010**
% of revenues	21%	20%

Revenues by Geography

The following table summarizes our revenues by geography based on the ordering location of the customer. Because we sell our products primarily to other sellers of technology products and not to end-users, the information in the table below may not accurately reflect geographic end-demand for our products.

	Three Months Ended			
	April 3, 2011	**April 4, 2010**	**$ Change**	**% Change**
		(Dollars in millions)		
North America *	$ 120.9	$ 89.8	$ 31.1	34.7%

Asia **	302.7	332.7	(30.0)	(9.0)%
Europe and the Middle East	49.7	50.2	(0.5)	(1.0)%
Total	$ 473.3	$ 472.7	$ 0.6	0.1%

* Primarily the United States.

** Primarily Singapore, China and Taiwan.

Table of Contents

The increase in revenues in North America was primarily attributable to increased unit sales of server RAID adapters and semiconductors used in networking product applications. The decrease in revenues in Asia was primarily attributable to decreased unit sales of semiconductors used in storage and networking product applications.

Gross Profit Margin

	Three Months Ended			
	April 3, 2011	April 4, 2010	$ Change	% Change
	(Dollars in millions)			
Gross profit	$ 224.2	$ 214.8	$ 9.4	4.4%
% of revenues	47.4%	45.4%		

Gross margins increased primarily due to a favorable shift in product mix as a result of increased revenues from the licensing of our intellectual property, which have higher gross margins than products, and a decrease in amortization of identified intangible assets.

Research and Development

	Three Months Ended			
	April 3, 2011	April 4, 2010	$ Change	% Change
	(Dollars in millions)			
Research and development	$ 142.3	$ 138.9	$ 3.4	2.4%
% of revenues	30.1%	29.4%		

R&D expenses increased primarily due to higher compensation-related expenses and facility costs as a result of headcount additions in China and India.

Selling, General and Administrative

	Three Months Ended			
	April 3, 2011	April 4, 2010	$ Change	% Change
	(Dollars in millions)			
Selling, general and administrative	$ 68.9	$ 70.4	$ (1.5)	(2.1)%
% of revenues	14.6%	14.9%		

SG&A expenses decreased primarily due to decreases in amortization of identified intangible assets and sales commissions.

Restructuring of Operations and Other Items, net

The following table summarizes items included in restructuring of operations and other items, net from continuing operations:

	Three Months Ended	
	April 3, 2011	April 4, 2010
	(In millions)	
Lease and contract terminations	$ 1.7(a)	$ 0.9
Employee severance and benefits	1.6(b)	0.5

Total restructuring expenses	3.3	1.4
Other items	(0.5)	0.2
Total	$ 2.8	$ 1.6

(a) The amount primarily relates to changes in estimates and changes in time value of accruals for previously accrued facility lease exit costs.

(b) The amount primarily relates to restructuring actions taken during the first quarter of 2011 as we continue to streamline our operations.

Interest Expense, Interest Income and Other, net

The following table summarizes interest expense and components of interest income and other, net:

Table of Contents

	Three Months Ended			
	April 3, 2011		April 4, 2010	
	(In millions)			
Interest expense	$		$	(3.9)
Interest income		3.4		3.6
Other income/(expense), net		0.9		(12.4)
Total	$	4.3	$	(12.7)

Interest expense decreased by $3.9 million for the three months ended April 3, 2011 as compared to the three months ended April 4, 2010 as a result of the repayment of our 4% Convertible Subordinated Notes in May 2010.

Interest income decreased by $0.2 million for the three months ended April 3, 2011 as compared to the three months ended April 4, 2010 primarily as a result of lower cash balances throughout the first quarter of 2011, offset in part by higher interest rates during the first quarter of 2011 compared to the first quarter of 2010.

The $12.4 million of other expense, net, for the three months ended April 4, 2010 primarily consisted of $11.6 million of other than temporary impairment charges for certain non-marketable equity securities.

Benefit from Income Taxes

During the three months ended April 3, 2011 and April 4, 2010, we recorded income tax benefits from continuing operations of $4.1 million and $23.1 million, respectively. The income tax benefit from continuing operations for the three months ended April 3, 2011 included a reversal of $8.2 million in liabilities for uncertain tax positions, which included previously unrecognized tax benefits of $4.8 million and interest and penalties of $3.4 million, as a result of the expiration of statutes of limitations in multiple jurisdictions. The income tax benefit from continuing operations for the three months ended April 4, 2010 included a reversal of $27.9 million in liabilities for uncertain tax positions, which included previously unrecognized tax benefits of $12.2 million and interest and penalties of $15.7 million, as a result of the expiration of statutes of limitations in multiple jurisdictions.

In general, we compute our tax provision using an estimated annual tax rate. However, we exclude certain loss jurisdictions from the computation of estimated annual rate when no benefit can be realized on those losses. Excluding certain foreign jurisdictions, we believe that it is more likely than not that the future benefit of deferred tax assets will not be realized.

Discontinued Operations

Net loss from discontinued operations, net of taxes, was $8.4 million for the three months ended April 3, 2011 as compared to net income of $8.2 million for the three months ended April 4, 2010. The $16.6 million decrease primarily represents $23.8 million of restructuring, asset impairment and other exit charges, offset in part by a $7.9 million decrease in R&D expenses due to lower compensation-related expenses and facility costs as a result of the decision to sell the external storage systems business during the three months ended April 3, 2011.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Cash, cash equivalents and short-term investments increased to $682.3 million as of April 3, 2011 from $676.7 million as of December 31, 2010. The increase was mainly due to cash inflows generated from operating activities, which were substantially offset by cash outflows for financing and investing activities, as described below.

Working Capital

Working capital increased by $164.7 million to $943.9 million as of April 3, 2011 from $779.2 million as of December 31, 2010. The increase was primarily attributable to the following:

- Assets held for sale increased by $235.8 million primarily as certain assets of the external storage systems business were classified to assets held for sale;
- Accrued salaries, wages and benefits decreased by $22.1 million primarily as a result of timing differences in the payment of salaries, benefits and performance-based compensation; and

Cash, cash equivalents and short-term investments increased by $5.6 million.

These increases in working capital were offset in part by the following:

Accounts receivable decreased by $40.5 million primarily as a result of an improvement in collections;

Inventories decreased by $31.7 million primarily as a result of the reclassification of the external storage systems business inventory to assets held for sale, offset in part by an increase in inventory purchases primarily due to new product introductions and expected increases in product demand in future quarters;

Accounts payable increased by $24.9 million primarily due to the normal timing of invoice receipts and payments, and increased levels of inventory purchases as a result of expected increases in product demand; and

Prepaid expenses and other current assets decreased by $4.9 million primarily as a result of decreases in prepaid software maintenance and other receivables.

Working capital increased by $33.8 million to $764.9 million as of April 4, 2010 from $731.1 million as of December 31, 2009. The increase was primarily attributable to the following:

Cash, cash equivalents and short-term investments increased by $53.4 million;

Inventories increased by $16.4 million primarily as a result of an increase in inventory purchases to meet expected customer demand in the second quarter of 2010;

Accounts payable decreased by $12.8 million primarily due to the normal timing of invoice receipts and payments;

Prepaid expenses and other current assets increased by $9.4 million primarily due to increases in prepaid software maintenance contracts, other prepaid expenses and receivables; and

Other accrued liabilities decreased by $6.8 million primarily attributable to the utilization of restructuring reserves and payment of liabilities, offset in part by increases in accruals for interest on our convertible notes as the interest payment date approached in May 2010 and other accruals related to our operations.

These increases in working capital were offset in part by the following:

Accounts receivable decreased by $40.4 million primarily as a result of an improvement in collections; and

Accrued salaries, wages and benefits increased by $24.6 million primarily as a result of timing differences in the payment of salaries and benefits and the addition of performance-based compensation accruals, which we reduced in 2009 in response to the global economic downturn.

Cash Provided by Operating Activities

During the three months ended April 3, 2011, we generated $108.0 million of cash from operating activities as a result of the following:

Net income adjusted for non-cash items, including depreciation and amortization of $56.0 million and stock-based compensation expense of $14.0 million. The non-cash items and other non-operating adjustments are quantified in our condensed consolidated statements of cash flows included in Item 1; and

A net increase of $16.0 million in assets and liabilities, including changes in working capital components, from December 31, 2010 to April 3, 2011, as discussed above.

During the three months ended April 4, 2010, we generated $105.8 million of cash from operating activities as a result of the following:

Table of Contents

Net income adjusted for non-cash items, including depreciation and amortization of $67.0 million and stock-based compensation expense of $16.4 million. The non-cash items and other non-operating adjustments are quantified in our condensed consolidated statements of cash flows included in Item 1;

Offset in part by a net decrease of $9.7 million in assets and liabilities, including changes in working capital components, from December 31, 2009 to April 4, 2010, as discussed above.

Cash Used in Investing Activities

Cash used in investing activities for the three months ended April 3, 2011 was $23.8 million. The investing activities during the first quarter of 2011 were the following:

Purchases of property, equipment and software, net of proceeds from sales, totaling $21.2 million; and

Purchases of available-for-sale debt securities, net of proceeds from maturities and sales, of $2.6 million.

Cash used in investing activities for the three months ended April 4, 2010 was $16.0 million. The investing activities during the first quarter of 2010 were the following:

Purchases of property, equipment and software, net of proceeds from sales, totaling $27.3 million; and

Proceeds from maturities and sales of available-for-sale debt securities of $11.3 million.

We expect capital expenditures to be approximately $55 million in 2011. In recent years, we have reduced our level of capital expenditures as a result of our focus on establishing strategic supplier alliances with foundry semiconductor manufacturers and with third-party assembly and test operations, which enables us to have access to advanced manufacturing capacity while reducing our capital spending requirements.

Cash Used in Financing Activities

Cash used in financing activities for the three months ended April 3, 2011 was $79.5 million, as compared to $22.6 million for the three months ended April 4, 2010. The primary financing activities during the three months ended April 3, 2011 were the use of $96.8 million to repurchase our common stock, offset in part by the proceeds of $17.3 million from issuances of common stock under our employee stock plans. On March 9, 2011, our Board of Directors authorized a new stock repurchase program of up to $750.0 million of our common stock. We expect to fund the repurchases under this authorization from the proceeds of the sale of our external storage systems business, available cash and short-term investments.

The primary financing activities during the three months ended April 4, 2010 were the use of $26.2 million to repurchase our common stock, offset in part by the proceeds of $3.6 million from issuances of common stock under our employee stock plans.

We do not currently pay, and do not anticipate paying in the foreseeable future, any cash dividends to our stockholders.

Cash, cash equivalents and short-term investments are our primary source of liquidity. We believe that our existing liquid resources and cash generated from operations will be adequate to meet our operating and capital requirements and other obligations for more than the next 12 months. We may, however, find it desirable to obtain additional debt or equity financing. Such financing may not be available to us at all or on acceptable terms if we determine that it would be desirable to obtain additional financing.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of April 3, 2011:

	Payments Due by Period					
	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	Other	Total
	(In millions)					
Operating lease obligations	$ 48.0	$ 51.4	$ 15.5	$ 3.6	$	$ 118.5
Purchase commitments	367.0	4.1	0.1			371.2
Unrecognized tax positions plus interest and penalties					81.5**	81.5
Pension contributions	56.2	*	*	*	*	56.2

Total	$ 471.2	$ 55.5	$ 15.6	$ 3.6	$ 81.5	$ 627.4

Table of Contents

* We have pension plans covering substantially all former Agere U.S. employees, excluding management employees hired after June 30, 2003. We also have pension plans covering certain international employees. Although additional future contributions will be required, the amount and timing of these contributions will be affected by actuarial assumptions, the actual rate of return on plan assets, the level of market interest rates, and the amount of voluntary contributions to the plans. The amount shown in the table represents our planned contributions to our pension plans for the remainder of 2011. Because any contributions for 2012 and later will depend on the value of the plan assets in the future and thus are uncertain, we have not included any amounts for 2012 and beyond in the above table.

** This amount represents the non-current tax payable obligation. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

Operating Lease Obligations

We lease real estate and certain non-manufacturing equipment under non-cancelable operating leases. We also include non-cancellable obligations under certain software licensing arrangements in this category.

Purchase Commitments

We maintain purchase commitments with certain suppliers, primarily for raw materials and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time horizon as mutually agreed upon between the parties. This forecasted time horizon can vary for different suppliers.

Uncertain Tax Positions

As of April 3, 2011, we had $150.8 million of unrecognized tax benefits, for which we are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur. It is reasonably possible that the total amount of unrecognized tax benefits will increase or decrease in the next 12 months. Such changes could occur based on the normal expiration of statutes of limitations or the possible conclusion of ongoing tax audits in various jurisdictions around the world. If those events occur within the next 12 months, we estimate that the unrecognized tax benefits, plus accrued interest and penalties, could decrease by up to $18.5 million.

Standby Letters of Credit

As of April 3, 2011 and December 31, 2010, we had outstanding obligations relating to standby letters of credit of $3.5 million and $3.9 million, respectively. Standby letters of credit are financial guarantees provided by third parties for leases, customs and certain self-insured risks. If the guarantees are called, we must reimburse the provider of the guarantee. The fair value of the letters of credit approximates the contract amount. The standby letters of credit generally renew annually.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes in our critical accounting estimates or significant accounting policies during the three months ended April 3, 2011 as compared to the discussion in Part II, Item 7 and in Note 1 to our financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2010.

RECENT ACCOUNTING PRONOUNCEMENTS

The information contained in Note 1 to our financial statements in Item 1 under the heading Recent Accounting Pronouncements is incorporated by reference into this Item 2.

Table of Contents

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

There have been no significant changes in the market risk disclosures during the three months ended April 3, 2011 as compared to the discussion in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures: The Securities and Exchange Commission defines the term disclosure controls and procedures to mean a company s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required or necessary disclosures. Our chief executive officer and chief financial officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management with the participation of our chief executive officer and chief financial officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective for this purpose.

Changes in Internal Control: During the first quarter of 2011, we did not make any change in our internal control over financial reporting that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

This information is included under the caption Legal Matters in Note 13 to our financial statements in Item 1 of Part I.

Item 1A. ***Risk Factors***

Set forth below are risks and uncertainties, many of which are discussed in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2010, that, if they were to occur, could materially adversely affect our business or could cause our actual results to differ materially from the results contemplated by the forward-looking statements in this report and other public statements we make:

> **As a result of the earthquake and tsunami that affected Japan in early March 2011, and the events at the Fukushima Dai-ichi nuclear plant, it is possible that supplies of some materials we need to make semiconductors, as well as demand from our customers will be affected, which could have an adverse impact on our business.**

On March 11, 2011, Japan experienced a 9.0 magnitude earthquake, which triggered a tsunami that led to widespread damage and business interruption. Following the earthquake, the cooling system at the Fukushima Daiichi nuclear generating plant failed and the plant has experienced significant emissions of radiation. As a result of the earthquake, a number of factories in Japan have been forced to shut down and the country has been experiencing rolling blackouts, further affecting industrial production.

We do not maintain significant operations in Japan and do not use semiconductor foundries in Japan. We do, however, obtain materials used in the packaging of some of our semiconductors from suppliers in Japan, the operations of one of which have been curtailed. While we have sufficient supplies of these materials to cover our needs for the near term, we are working with some of our customers and suppliers to obtain alternate sources of supply that are acceptable to our customers. While alternate suppliers and alternate materials may be available, our ability to use these alternate suppliers and materials may be delayed if customers require that the suppliers or materials be qualified before they accept products using materials from the alternate suppliers or using alternate materials. To the extent that our existing supplier s operations continue to be curtailed and we are unable to obtain timely, acceptable alternate sources of supply, our revenues could be adversely affected, beginning in the second half of 2011.

We have been working closely with our customers to understand their needs. We have some customers with significant operations in Japan and demand from these customers may be reduced if the customers operations are curtailed. Our revenues may also be adversely affected if any of our customers are unable to obtain sufficient parts from other suppliers or if they experience reduced demand from their customers.

We depend on a small number of customers. The loss of, or a significant reduction in revenue from, any of these customers would harm our results of operations.
If we fail to keep pace with technological advances, or if we pursue technologies that do not become commercially accepted, customers may not buy our products and our results of operations may be harmed.
We operate in intensely competitive markets, and our failure to compete effectively would harm our results of operations.
Customer orders and ordering patterns can change quickly, making it difficult for us to predict our revenues and making it possible that our actual revenues may vary materially from our expectations, which could harm our results of operations and stock price.
We depend on outside suppliers to manufacture, assemble, package and test our products; accordingly, any failure to secure and maintain sufficient manufacturing capacity at attractive prices or to maintain the quality of our products could harm our business and results of operations.
Failure to qualify our products or our suppliers manufacturing lines with key customers could harm our business and results of operations.
Any defects in our products could harm our reputation, customer relationships and results of operations.
Our pension plans are underfunded, and may require significant future contributions, which could have an adverse impact on our business.
We may be subject to intellectual property infringement claims and litigation, which could cause us to incur significant expenses or prevent us from selling our products.
If we are unable to protect or assert our intellectual property rights, our business and results of operations may be harmed.
We are exposed to legal, business, political and economic risks associated with our international operations.
We use indirect channels of product distribution over which we have limited control.
We may engage in acquisitions and strategic alliances, which may not be successful and could harm our business and operating results.
The semiconductor industry is highly cyclical, which may cause our operating results to fluctuate.
Our failure to attract, retain and motivate key employees could harm our business.
Our operations and our suppliers operations are subject to natural disasters and other events outside of our control that may disrupt our business and harm our operating results.
We are subject to various environmental laws and regulations that could impose substantial costs on us and may harm our business.
Our blank check preferred stock and Delaware law contain provisions that may inhibit potential acquisition bids, which may harm our stock price, discourage merger offers or prevent changes in our management.
Class action litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our management s attention and resources.

Table of Contents

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

The following table contains information about our repurchases of our common stock during the quarter ended April 3, 2011.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Programs
January 1 January 31, 2011		$		$
February 1 February 28, 2011				
March 1 April 3, 2011	14,707,638	6.58	14,707,638	653,209,599
Total	14,707,638	$ 6.58	14,707,638	$ 653,209,599

On March 9, 2011, our Board of Directors authorized the repurchase of up to $750 million of our common stock. The repurchases reported in the table above were made pursuant to this authorization.

Item 6. Exhibits

See the Exhibit Index, which follows the signature page to this report.

28

Table of Contents

SIGNATURES

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.

	LSI CORPORATION (Registrant)
Date: May 12, 2011	By /s/ Bryon Look Bryon Look Executive Vice President, Chief Financial Officer and Chief Administrative Officer

29

Table of Contents

EXHIBIT INDEX

2.1	Asset Purchase Agreement, by and between LSI Corporation and NetApp, Inc., dated as of March 9, 2011. (Exhibits and Schedules have been omitted pursuant to Regulation S-K Item 601(b)(2), but will be provided to the Securities and Exchange Commission upon request.)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350
101.INS	XBRL instance document
101.SCH	XBRL taxonomy extension schema document
101.CAL	XBRL taxonomy extension calculation linkbase document
101.LAB	XBRL taxonomy extension label linkbase document
101.PRE	XBRL taxonomy extension presentation linkbase document