LSI CORP
Form 10-Q
November 10, 2011
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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 October 2, 2011

OR

¨ **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 ¨

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 ¨

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 ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company.)	Smaller reporting company ¨

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

As of November 4, 2011, there were 563,488,950 shares of the registrant s Common Stock, $.01 par value, outstanding.

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LSI CORPORATION

FORM 10-Q

For the Quarter Ended October 2, 2011

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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, anticipate, 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.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

LSI CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

(Unaudited)

	October 2, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 725,150	$ 521,786
Short-term investments	153,719	154,880
Accounts receivable, less allowances of $7,208 and $9,701, respectively	248,389	326,604
Inventories	210,434	186,772
Prepaid expenses and other current assets	74,761	73,314
Assets held for sale	16,619	464
Total current assets	1,429,072	1,263,820
Property and equipment, net	176,669	223,181
Identified intangible assets, net	462,463	561,137
Goodwill	72,377	188,698
Other assets	132,499	188,076
Total assets	$ 2,273,080	$ 2,424,912
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 173,753	$ 173,919
Accrued salaries, wages and benefits	108,700	126,307
Other accrued liabilities	181,961	184,402
Total current liabilities	464,414	484,628
Pension and post-retirement benefit obligations	409,692	463,119
Income taxes payable non-current	86,684	85,717
Other non-current liabilities	37,311	73,946
Total liabilities	998,101	1,107,410
Commitments and contingencies (Note 14)		
Stockholders equity:		
Preferred stock, $.01 par value: 2,000 shares authorized; none outstanding		
Common stock, $.01 par value: 1,300,000 shares authorized; 563,347 and 615,191 shares outstanding, respectively	5,633	6,152
Additional paid-in capital	5,623,920	5,998,137
Accumulated deficit	(4,035,245)	(4,368,522)
Accumulated other comprehensive loss	(319,329)	(318,265)
Total stockholders equity	1,274,979	1,317,502

Total liabilities and stockholders equity	$ 2,273,080	$ 2,424,912

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

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LSI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Revenues	$ 546,910	$ 452,878	$ 1,520,818	$ 1,398,997
Cost of revenues	283,065	234,658	795,179	741,215
Gross profit	263,845	218,220	725,639	657,782
Research and development	143,347	140,517	431,567	422,250
Selling, general and administrative	77,874	69,205	218,534	209,720
Restructuring of operations and other items, net	10,784	3,538	2,686	10,244
Income from operations	31,840	4,960	72,852	15,568
Interest expense				(5,601)
Interest income and other, net	7,610	10,315	18,348	6,147
Income from continuing operations before income taxes	39,450	15,275	91,200	16,114
Provision for/(benefit from) income taxes	7,800	2,456	12,596	(13,735)
Income from continuing operations	31,650	12,819	78,604	29,849
(Loss)/income from discontinued operations (including a gain on disposal of $260,066 for the nine months ended October 2, 2011), net of taxes	(2,311)	10,602	254,673	23,524
Net income	$ 29,339	$ 23,421	$ 333,277	$ 53,373
Basic income per share:				
Income from continuing operations	$ 0.05	$ 0.02	$ 0.13	$ 0.04
(Loss)/income from discontinued operations	$ (0.00)	$ 0.02	$ 0.43	$ 0.04
Net income	$ 0.05	$ 0.04	$ 0.56	$ 0.08
Diluted income per share:				
Income from continuing operations	$ 0.05	$ 0.02	$ 0.13	$ 0.04
(Loss)/income from discontinued operations	$ (0.00)	$ 0.02	$ 0.42	$ 0.04
Net income	$ 0.05	$ 0.04	$ 0.55	$ 0.08
Shares used in computing per share amounts:				
Basic	567,790	629,852	592,898	646,167
Diluted	581,483	633,731	608,743	653,685

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

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LSI CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended	
	October 2, 2011	October 3, 2010
Operating activities:		
Net income	$ 333,277	$ 53,373
Adjustments:		
Depreciation and amortization	145,843	200,718
Stock-based compensation expense	38,480	51,884
Non-cash restructuring of operations and other items, net	30,535	(41)
Write-down of investments, net of gain on sale		6,779
Gain on sale of business	(260,066)	
(Gain)/loss on sale of property and equipment	(543)	153
Unrealized foreign exchange loss	200	6,374
Deferred taxes	(18,944)	34
Changes in assets and liabilities:		
Accounts receivable, net	78,215	25,094
Inventories	(60,203)	(50,785)
Prepaid expenses, assets held for sale and other assets	(10,256)	13,898
Accounts payable	(1,700)	(23,541)
Accrued and other liabilities	(83,479)	(28,405)
Net cash provided by operating activities	191,359	255,535
Investing activities:		
Purchases of debt securities available-for-sale	(38,683)	(24,218)
Proceeds from maturities and sales of debt securities available-for-sale	31,988	36,209
Purchases of other investments	(4,000)	(316)
Proceeds from sale of other investments		9,795
Purchases of property and equipment	(46,841)	(67,262)
Proceeds from sale of property and equipment	939	559
Proceeds from sale of business, net of transaction costs	475,150	
Net cash provided by/(used in) investing activities	418,553	(45,233)
Financing activities:		
Redemption of convertible subordinated notes		(349,999)
Issuances of common stock	66,060	22,057
Purchase of common stock under repurchase programs	(471,787)	(217,743)
Net cash used in financing activities	(405,727)	(545,685)
Effect of exchange rate changes on cash and cash equivalents	(821)	(3,927)
Net change in cash and cash equivalents	203,364	(339,310)
Cash and cash equivalents at beginning of period	521,786	778,291

Cash and cash equivalents at end of period	$ 725,150	$ 438,981

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

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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 third quarter of 2011 and 2010 consisted of 13 weeks each and ended on October 2, 2011 and on October 3, 2010, respectively. The first nine months of 2011 and 2010 consisted of approximately 39 weeks each. The results of operations for the three and nine months ended October 2, 2011 are not necessarily indicative of the results to be expected for the full year.

On May 6, 2011, the Company completed the sale of substantially all of its external storage systems business to NetApp, Inc. (NetApp). The results of the external storage systems business are presented as discontinued operations in the Company s statements of operations and, as such, have been excluded from all line items other than income from discontinued operations for all periods presented. Since the first quarter of 2011, the Company operates in one reportable segment. Before it was sold, 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.

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 statement 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 not yet effective:

In May 2011, the Financial Accounting Standards Board (FASB) issued additional guidance on fair value measurements and related disclosures. The new guidance clarifies the application of existing guidance on fair value measurement for non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance is effective on a prospective basis for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company s results of operations or financial position.

In June 2011, the FASB issued amended guidance regarding the presentation of comprehensive income. The amended guidance gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This guidance is effective on a retrospective basis for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company s results of operations or financial position.

In September 2011, the FASB amended the goodwill impairment guidance to provide an option for entities to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events and circumstances, if an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performance of the two-step impairment test is no longer required. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have any impact on the Company s results of operations or financial position.

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Pronouncements adopted during the nine months ended October 2, 2011:

In October 2009, the 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

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:

	Three Months Ended		**Nine Months Ended**	
Stock-Based Compensation Expense Included In:	**October 2, 2011**	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
	(In thousands)			
Cost of revenues	$ 1,460	$ 1,822	$ 5,324	$ 5,223
Research and development	5,410	6,047	18,286	18,817
Selling, general and administrative	4,883	6,135	15,462	18,261
Total stock-based compensation expense	$ 11,753	$ 14,004	$ 39,072	$ 42,301

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 (lattice model). The following table summarizes the weighted-average assumptions that the Company applied in the lattice model:

	Three Months Ended		**Nine Months Ended**	
	October 2, 2011	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
Estimated grant date fair value per share	$ 2.37	$ 1.60	$ 2.14	$ 1.95
Expected life (years)	4.48	4.48	4.51	4.29
Risk-free interest rate	1%	1%	2%	2%
Volatility	50%	49%	47%	51%

The following table summarizes changes in stock options outstanding:

	Number of Shares (In thousands)	Weighted-Average Exercise Price Per Share
Options outstanding at December 31, 2010	71,224	$ 6.98
Options granted	8,954	6.36
Options exercised	(6,736)	5.04
Options canceled	(6,405)	15.32
Options outstanding at October 2, 2011	67,037	$ 6.29
Options exercisable at October 2, 2011	43,449	$ 6.97

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For options outstanding and options exercisable as of October 2, 2011, the weighted-average remaining contractual term was 3.47 years and 2.51 years, respectively, and the aggregate intrinsic value was $30.3 million and $13.5 million, respectively.

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. A total of 2.9 million shares and 3.3 million shares were issued under the ESPP during the three months ended July 3, 2011 and July 4, 2010, respectively. No shares related to the ESPP were issued during the three months ended October 2, 2011 or October 3, 2010. The following table summarizes the weighted-average assumptions that went into the calculation of the fair value for the May 2011 and May 2010 grants:

	Three Months Ended	
	July 3, 2011	**July 4, 2010**
Estimated grant date fair value per share	$ 2.10	$ 1.74
Expected life (years)	0.8	0.8
Risk-free interest rate	0.02%	0.3%
Volatility	37%	48%

Restricted Stock Awards:

The cost of service-based and performance-based restricted stock unit awards is determined using the fair value of the Company s common stock on the date of grant. For performance-based restricted stock unit awards, the Company also considers the probability that those restricted stock units will vest.

Service-based:

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 October 2, 2011, the total unrecognized compensation expense related to these restricted stock units, net of estimated forfeitures, was $55.7 million and is expected to be recognized over the next 3.1 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 and nine months ended October 2, 2011 was $1.0 million and $12.0 million, respectively.

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

	Service-Based Restricted Stock Units (In thousands)
Unvested service-based restricted stock units at December 31, 2010	7,027
Granted	7,493
Vested	(1,907)
Forfeited	(680)
Unvested service-based restricted stock units at October 2, 2011	11,933

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 October 2, 2011, the total unrecognized compensation expense related to performance-based restricted stock units was $15.9 million and, if the contingencies are fully met, is expected to be recognized over the next 3 years.

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

	Performance-Based Restricted Stock Units (In thousands)
Unvested performance-based restricted stock units at December 31, 2010	2,313
Granted	3,516
Vested	(815)
Forfeited	(224)
Unvested performance-based restricted stock units at October 2, 2011	4,790

Note 3 Common Stock Repurchases

On March 9, 2011, the Company s Board of Directors authorized a stock repurchase program of up to $750.0 million of its common stock. The repurchases under this program are funded from the proceeds of the sale of the external storage systems business, available cash and short-term investments. Under this program, the Company repurchased 11.2 million shares for $75.0 million during the three months ended October 2, 2011 and 67.5 million shares for $471.8 million during the nine months ended October 2, 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. As of October 2, 2011, $278.2 million remained available under this stock repurchase program.

Note 4 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		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
	(In thousands)			
Lease and contract terminations	$ 311(a)	$ 1,867	$ 3,864(a)	$ 2,838
Employee severance and benefits	482(b)	2,071	2,414(b)	7,375
Asset impairment and other exit charges	6,019(c)		6,019(c)	
Total restructuring expenses	6,812	3,938	12,297	10,213
Other items	3,972(d)	(400)	(9,611)(e)	31
Total restructuring of operations and other items, net	$ 10,784	$ 3,538	$ 2,686	$ 10,244

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

(b) Primarily relates to cost saving actions taken during 2011 with the Company s ongoing initiatives to streamline operations.

(c) Primarily relates to the write-off of intellectual property and software which are no longer in use.

(d) Primarily relates to the costs associated with the transition service agreements entered into with NetApp in connection with the sale of the external storage systems business.

(e) Primarily relates to the reversal of a $14.5 million sales and use tax related liability as a result of concluding various audits, partially offset by $5.3 million of costs associated with the transition service agreements entered into with NetApp in connection with the sale of the external storage systems business.

In connection with the sale of the external storage systems business and other exit-related activities, the Company initiated certain restructuring actions. The results of those actions are included in discontinued operations and are summarized below:

	Three Months Ended		Nine Months Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
	(In thousands)			
Lease and contract terminations	$ (133)	$ 95	$ 2,446	$ 76
Employee severance and benefits	1,033(a)	60	15,206(a)	60
Asset impairment and other exit charges	2,140(b)		23,278(b)	
Total	$ 3,040	$ 155	$ 40,930	$ 136

(a) Primarily represents severance accruals for the restructuring actions taken in connection with the sale of the external storage systems business.

(b) Primarily represents the write-down of certain assets related to discontinued operations.

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

	Asset Impairment 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	29,297	6,310	17,620	53,227
Utilized	(29,297)	(11,744)(a)	(19,853)(a)	(60,894)
Ending balance at October 2, 2011	$	$ 15,471(b)	$ 2,718(b)	$ 18,189

(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 2015. The balance remaining for employee severance and benefits is expected to be paid by the first quarter of 2012.

Note 5 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.

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

	Three Months Ended			
	October 2, 2011		October 3, 2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
		(In thousands)		
Service cost	$ 141	$ 19	$ 112	$ 20
Interest cost	16,891	702	17,577	610
Expected return on plan assets	(16,999)	(1,032)	(17,864)	(1,149)
Amortization of transition asset	(5)			

Amortization of prior service cost	10		9	
Amortization of net actuarial loss	1,688	237	540	
Total benefit cost/(credit)	$ 1,726	$ (74)	$ 374	$ (519)

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	Nine Months Ended			
	October 2, 2011		October 3, 2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)			
Service cost	$ 416	$ 57	$ 343	$ 61
Interest cost	50,670	1,948	52,747	1,830
Expected return on plan assets	(50,998)	(3,097)	(53,597)	(3,447)
Amortization of transition asset	(15)			
Amortization of prior service cost	31		29	
Amortization of net actuarial loss	5,064	414	1,614	
Total benefit cost/(credit)	$ 5,168	$ (678)	$ 1,136	$ (1,556)

During the nine months ended October 2, 2011, the Company contributed $53.9 million to its pension plans. The Company expects to contribute an additional $11.5 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 6 Balance Sheet Details

Inventories were comprised of the following:

	October 2, 2011	December 31, 2010
	(In thousands)	
Raw materials	$ 1,213	$ 30,691
Work-in-process	66,095	33,513
Finished goods	143,126	122,568
Total inventories	$ 210,434	$ 186,772

During the nine months ended October 2, 2011, the Company reclassified $16.2 million of land in Gresham, Oregon from held and used to held for sale.

Note 7 Cash Equivalents and Investments

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

	Fair Value Measurements as of October 2, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash equivalents:				
Money-market funds	$ 632,707(a)	$	$	$ 632,707
U.S. government and agency securities		785(b)		785
Total cash equivalents	$ 632,707	$ 785	$	$ 633,492
Available-for-sale debt securities:				
Asset-backed and mortgage-backed securities	$	$ 108,970(b)	$	$ 108,970
U.S. government and agency securities	4,830(a)	26,187(b)		31,017

Corporate debt securities		13,732(b)		13,732
Total short-term investments	$ 4,830	$ 148,889	$	$ 153,719
Long-term investments in equity securities:				
Marketable available-for-sale equity securities	$ 1,382(c)	$	$	$ 1,382

	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

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

(b) 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 and nine months ended October 2, 2011. The following table summarizes the Company s non-marketable securities measured and recorded at fair value on a non-recurring basis during the nine months ended October 3, 2010:

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

* The carrying value was zero as the related investment was sold during the three months ended October 3, 2010.

As of October 2, 2011 and December 31, 2010, the aggregate carrying value of the Company s non-marketable securities was $43.9 million and $39.9 million, respectively. The Company recognized a pre-tax gain of $4.8 million associated with the sale of certain non-marketable securities during the three and nine months ended October 3, 2010. There were no sales of non-marketable securities during the three or nine months ended October 2, 2011.

Investments in Available-for-Sale Securities

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

	October 2, 2011 Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss*	Fair Value
		(In thousands)		
Short-term debt securities:				
Asset-backed and mortgage-backed securities	$ 100,627	$ 8,560	$ (217)	$ 108,970
U.S. government and agency securities	30,181	836		31,017
Corporate debt securities	13,617	161	(46)	13,732
Total short-term debt securities	$ 144,425	$ 9,557	$ (263)	$ 153,719

Long-term marketable equity securities	$ 852	$ 687	$ (157)	$ 1,382

* As of October 2, 2011, there were 51 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

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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:

	October 2, 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	$ 7,654	$ (170)	$ 575	$ (47)
U.S. government and agency securities	1,037			
Corporate debt securities	4,614	(46)		
Total	$ 13,305	$ (216)	$ 575	$ (47)

	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				