ASTRO MED INC /NEW/
Form 10-Q
June 04, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 4, 2013

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 0-13200

Astro-Med, Inc.

(Exact name of registrant as specified in its charter)

Rhode Island	**05-0318215**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
600 East Greenwich Avenue, West Warwick, Rhode Island	**02893**
(Address of principal executive offices)	**(Zip Code)**

(401) 828-4000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $.05 Par Value 7,449,613 shares

(excluding treasury shares) as of May 24, 2013

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ASTRO-MED, INC.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

ASTRO-MED, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, Except Share Data)

(Unaudited)

	May 4, 2013	January 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 12,191	$ 30,999
Securities Available for Sale	20,100	8,509
Accounts Receivable, net	8,399	9,376
Inventories	11,755	11,179
Deferred Tax Assets	1,866	1,866
Line of Credit Receivable	300	300
Note Receivable	250	250
Restricted Cash	1,800	1,800
Asset Held for Sale	2,016	2,016
Prepaid Expenses and Other Current Assets	1,829	696
Current Assets of Discontinued Operations	4,825	3,131
Total Current Assets	65,331	70,122
PROPERTY, PLANT AND EQUIPMENT		
Land and Improvements	1,233	1,233
Buildings and Improvements	9,795	9,791
Machinery and Equipment	22,910	22,862
	33,938	33,886
Less Accumulated Depreciation	(26,368)	(26,098)
Total Property, Plant and Equipment, net	7,570	7,788
OTHER ASSETS		
Goodwill	795	795
Note Receivable	631	756
Other	98	96
Deferred Tax Assets	356	356
Total Other Assets	1,880	2,003
TOTAL ASSETS	$ 74,781	$ 79,913
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 2,182	$ 1,938

Accrued Compensation	1,937	3,176
Other Accrued Expenses	3,634	3,164
Deferred Revenue	399	271
Income Taxes Payable	36	4,169
Current Liabilities of Discontinued Operations	774	807
Total Current Liabilities	8,962	13,525
Deferred Tax Liabilities	132	111
Other Long Term Liabilities	1,268	1,289
Non-Current Liabilities of Discontinued Operations	1,151	1,151
TOTAL LIABILITIES	11,513	16,076
SHAREHOLDERS EQUITY		
Common Stock, $0.05 Par Value, Authorized 13,000,000 shares; Issued 9,102,927 shares and 9,031,756 shares at May 4, 2013 and January 31, 2013, respectively	455	452
Additional Paid-in Capital	39,338	38,786
Retained Earnings	35,123	36,092
Treasury Stock, at Cost, 1,663,214 shares at May 4, 2013 and January 31, 2013	(11,666)	(11,666)
Accumulated Other Comprehensive Income	18	173
Total Shareholders Equity	63,268	63,837
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 74,781	$ 79,913

See Notes to condensed consolidated financial statements (unaudited).

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ASTRO-MED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended	
	May 4, 2013	April 28, 2012
Net Sales	$ 15,485	$ 14,336
Cost of Sales	9,708	8,837
Product Replacement Related Costs	672	
Gross Profit	5,105	5,499
Costs and Expenses:		
Selling and Marketing	3,572	3,051
Research and Development	1,113	984
General and Administrative	1,142	1,036
Operating Expenses	5,827	5,071
Operating Income (Loss)	(722)	428
Other Expense	(36)	(13)
Income (Loss) from Continuing Operations before Income Taxes	(758)	415
Income Tax Benefit for Continuing Operations	(319)	(144)
Income (Loss) from Continuing Operations	(439)	559
Income (Loss) from Discontinued Operations, net of tax benefit of $7 at May 4, 2013 and tax expense of $180 at April 28, 2012	(10)	278
Net Income (Loss)	$ (449)	$ 837
Net Income (Loss) per Common Share Basic:		
From Continuing Operations	$ (0.06)	$ 0.07
From Discontinued Operations		0.04
Net Income (Loss) Per Common Share Basic	$ (0.06)	$ 0.11
Net Income (Loss) per Common Share Diluted:		
From Continuing Operations	$ (0.06)	$ 0.07
From Discontinued Operations		0.04
Net Income (Loss) Per Common Share Diluted	$ (0.06)	$ 0.11
Weighted Average Number of Common Shares Outstanding:		
Basic	7,401	7,425
Diluted	7,401	7,487

Dividends Declared Per Common Share	$ 0.07	$ 0.07

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ASTRO-MED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)

(Unaudited)

	Three Months Ended	
	May 4, 2013	April 28, 2012
Net Income (Loss)	$ (449)	$ 837
Other Comprehensive Income (Loss) , Net of Taxes and Reclassification Adjustments:		
Foreign Currency Translation Adjustments	(154)	51
Unrealized Holding Loss Arising During the Period	(1)	(5)
Other Comprehensive Income (Loss)	(155)	46
Comprehensive Income (Loss)	$ (604)	$ 883

See Notes to condensed consolidated financial statements (unaudited).

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ASTRO-MED, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended May 4, 2013	Three Months Ended April 28, 2012
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (449)	$ 837
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	310	342
Share-Based Compensation	161	54
Deferred Income Tax Provision	21	121
Changes in Assets and Liabilities:		
Accounts Receivable	(224)	968
Inventories	(1,049)	305
Income Taxes	(5,077)	(211)
Accounts Payable and Accrued Expenses	(431)	(1,128)
Other	(235)	(180)
Net Cash Provided (Used) by Operating Activities	(6,973)	1,108
Cash Flows from Investing Activities:		
Proceeds from Sales/Maturities of Securities Available for Sale	1,935	3,150
Purchases of Securities Available for Sale	(13,527)	(4,108)
Line of Credit Issuance		(300)
Additions to Property, Plant and Equipment	(113)	(191)
Net Cash Used by Investing Activities	(11,705)	(1,449)
Cash Flows from Financing Activities:		
Proceeds from Common Shares Issued Under Employee Benefit Plans and Employee Stock Option Plans, Net of Payment of Minimum Tax Withholdings	391	19
Dividends Paid	(521)	(520)
Net Cash Used in Financing Activities	(130)	(501)
Net Decrease in Cash and Cash Equivalents	(18,808)	(842)
Cash and Cash Equivalents, Beginning of Period	30,999	11,703
Cash and Cash Equivalents, End of Period	$ 12,191	$ 10,861
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period for Income Taxes, Net of Refunds	$ 4,755	$ 142

See Notes to condensed consolidated financial statements (unaudited).

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ASTRO-MED, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(1) Overview

Headquartered in West Warwick, Rhode Island, Astro-Med Inc. designs, develops, manufactures and distributes a broad range of specialty printers and data acquisition and analysis systems. Our products are distributed through our own sales force and authorized dealers in the United States. We also sell to customers outside of the United States primarily through our branch offices in Canada and Europe as well as with independent dealers and representatives. Astro-Med, Inc. products are sold under the brand names Astro-Med ® Test & Measurement and QuickLabel ® Systems and are employed around the world in a wide range of aerospace, automotive, communications, chemical, food and beverage, military, industrial, and packaging applications.

Unless otherwise indicated, references to Astro-Med, the Company, we, our, and us in this Quarterly Report on Form 10-Q refer to Astro-M Inc. and its consolidated subsidiaries.

(2) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Astro-Med pursuant to the rules and regulations of the Securities and Exchange Commission, and reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods included herein. These financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with footnotes contained in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2013.

On January 31, 2013, we completed the sale of substantially all of the assets of our Grass Technologies Product Group. Consequently, we have classified the results of operations of the Grass Technologies Product Group as discontinued operations for all periods presented. Refer to Note 14, Discontinued Operations, for further discussion.

Results of operations for the interim periods presented herein are not necessarily indicative of the results that may be expected for the full year.

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Some of the more significant estimates relate to the allowances for doubtful accounts and credits, inventory valuation, impairment of long-lived assets and goodwill, income taxes, share-based compensation and warranty reserves. Management s estimates are based on the facts and circumstances available at the time estimates are made, past historical experience, risk of loss, general economic conditions and trends, and management s assessments of the probable future outcome of these matters. Consequently, actual results could differ from those estimates.

Certain amounts in prior year s financial statements have been reclassified to conform to the current year s presentation.

(3) Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

(4) Net Income Per Common Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average number of shares and, if dilutive, common equivalent shares for stock options, restricted stock awards and restricted stock units outstanding during the period. A reconciliation of the shares used in calculating basic and diluted net income per share is as follows:

	Three Months Ended

	May 4, 2013	April 28, 2012
Weighted Average Common Shares Outstanding Basic	7,401,465	7,424,852
Effect of Dilutive Options, Restricted Stock Awards and Restricted Stock Units		61,862
Weighted Average Common Shares Outstanding Diluted	7,401,465	7,486,714

For the three months ended May 4, 2013 and April 28, 2012, the diluted per share amounts do not reflect common equivalent shares outstanding of 155,900 and 612,150, respectively, because their effect would have been anti-dilutive. These outstanding options were not included due to their anti-dilutive effect, as the exercise price was greater than the average market price of the underlying stock during the period presented.

For the three months ended May 4, 2013, diluted net loss per common share is the same as basic net loss per common share, as the inclusion of the effect of the common share equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of diluted net loss per common share for the three month period ended May 4, 2013 were in the money options to purchase 175,951 shares of the Company s common stock.

(5) Share-Based Compensation

Astro-Med has one equity incentive plan (the Plan) under which incentive stock options, non-qualified stock options, restricted stock units (RSUs), restricted stock awards (RSAs) and other equity based awards may be granted to officers and certain employees. An aggregate of 1,000,000 shares were authorized for awards under the Plan. At May 4, 2013, 382,394 shares were available for grant under the Plan. Options granted to employees vest over four years. The exercise price of each stock option will be established at the discretion of the Compensation Committee; however, any incentive stock options granted must be at an exercise price of not less than fair market value at the date of grant. In fiscal year 2013, a portion of the Company s long-term incentive compensation was awarded in the form of RSUs. The 2013 RSUs vest fifty percent on the first anniversary of the grant date and fifty percent on the second anniversary of the grant date provided that the grantee is employed on each vesting date by Astro-Med or an affiliate company and provided the Company achieves specific thresholds of net sales and annual operating income as established under the fiscal 2013 Domestic Management Bonus Plan. All such RSUs were earned in fiscal 2013 and fifty percent vested in March 2013; the balance will vest in March 2014, subject to the grantee s continued employment. In April 2013, the Company granted options and RSUs to officers. Each RSU will be earned and vest as follows: twenty-five percent of the RSU vests on the third anniversary of the grant date, fifty percent of the RSU vests upon the Company achieving its cumulative budgeted net sales target for fiscal years 2014 through 2016 (the Measurement Period), and twenty-five percent of the total RSU vests upon the Company s achieving a target average annual ORONA (operating income return on net assets as calculated for the Domestic Management Bonus Plan) for the Measurement Period. The grantee may not sell, transfer or otherwise dispose of more than fifty percent of the common stock issued upon vesting of the RSU until the first anniversary of the vesting date.

The Plan provides for an automatic annual grant of ten-year options to purchase 5,000 shares of stock to each non-employee director upon the adjournment of each annual shareholders meeting. Each such option is exercisable at the fair market value as of the grant date and vests immediately prior to the next succeeding annual shareholders meeting. In addition to the automatic option grant under Plan, the Company has a Non-Employee Director Annual Compensation Program (the Program) which provides that each non-employee director is entitled to an annual cash retainer of $7,000 (the Cash Retainer), plus $500 for each Board and committee meeting attended, provided that if more than one meeting occurs on the same day, no more than $500 shall be paid for such day. The non-employee director may elect for any fiscal year to receive all or a portion of the Cash Retainer in the form of common stock of the Company, which will be issued under the Plan. If a non-employee director elects to receive all or a portion of the Cash Retainer in the form of common stock, such shares shall be issued in four quarterly installments on the first day of each fiscal quarter, and the number of shares of common stock to be issued shall be based on the fair market value of such common stock on the date such installment is payable. The common stock received in lieu of such Cash Retainer will be fully vested. However, a non-employee director who receives common stock in lieu of all or a portion of the Cash Retainer may not sell, transfer, assign, pledge or otherwise encumber the common stock prior to the first anniversary of the date on which such shares were issuable. In the event of the death or disability of a nonemployee director, or a change in control of the Company, any shares of common stock issued in lieu of such Cash Retainer, shall no longer be subject to such restrictions on transfer.

In addition, under the Program, each non-employee director receives RSAs with a value equal to $20,000 (the Equity Retainer). If a non-employee director is first appointed or elected to the Board of Directors effective on a date other than at the annual shareholders meeting, on the date of such appointment or election, the director shall receive a pro rata award of restricted common stock having a value based on the number of days remaining until the next annual meeting. The Equity Retainer will vest on the earlier of 12 months after the grant date or the date immediately prior to the next annual meeting of the shareholders following the meeting at which such RSAs were granted. However, a non-employee director may not sell, transfer, assign, pledge or otherwise encumber the vested common stock prior to the second anniversary of the vesting date. In the event of the death or disability of a non-employee director, or a change in control of the Company, the RSAs shall immediately vest and shall no longer be subject to such restrictions on transfer.

We account for compensation cost related to share-based payments based on fair value of the stock options, RSUs and RSAs when awarded to an employee or director. We have estimated the fair value of each option on the date of grant using the Black-Scholes option-pricing model. Our estimate requires a number of complex and subjective assumptions including our stock price volatility, employee exercise patterns (expected life of the options), the risk-free interest rate and the Company s dividend yield. The stock price volatility assumption is based on the historical weekly price data of our common stock over a period equivalent to the weighted average expected life of our options. Management evaluated whether there were factors during that period which were unusual and would distort the volatility figure if used to estimate future volatility and concluded that there were no such factors. In determining the expected life of the option grants, the Company has observed the actual terms of prior grants with similar characteristics and the actual vesting schedule of the grant and has assessed the expected risk tolerance of different option groups. The risk-free interest rate is based on the actual U.S. Treasury zero coupon rates for bonds matching the expected term of the option as of the option grant date. The dividend assumption is based upon the prior year s average dividend yield. No compensation expense is recognized for options that are forfeited for which the employee does not render the requisite service. Our accounting for share-based compensation for RSUs and RSAs is also based on the fair value method. The fair value of the RSUs and RSAs is based on the closing market price of the Company s common stock on the grant date of the RSU or RSA.

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Share-based compensation expense was recognized as follows:

(In thousands)	Three Months Ended May 4, 2013	Three Months Ended April 28, 2012
Stock Options	$ 46	$ 37
Restricted Stock Awards and Restricted Stock Units	115	14
Total	$ 161	$ 51

Stock Options

The fair value of stock options granted during the three months ended May 4, 2013 and April 28, 2012 was estimated using the following assumptions:

	Three Months Ended May 4, 2013	Three Months Ended April 28, 2012
Risk Free Interest Rate	0.8%	1.1%
Expected Volatility	38.5%	39.4%
Expected Life (in years)	5.0	5.0
Dividend Yield	2.6%	3.5%

The weighted average fair value per share for options granted was $2.79, during the first quarter of fiscal 2014 compared to $2.09 during the first quarter of fiscal 2013.

Aggregated information regarding stock options granted under the Plan for the three months ended May 4, 2013 is summarized below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at January 31, 2013	916,612	$ 8.46	4.4	$ 1,624,000
Granted	36,800	10.50		
Exercised	(56,399)	7.79		
Expired or canceled	(14,298)	9.38		
Outstanding at May 4, 2013	882,715	$ 8.58	4.6	$ 1,677,657
Exercisable at May 4, 2013	694,067	$ 8.60	3.5	$ 1,331,857

As of May 4, 2013, there was $342,000 of unrecognized compensation expense related to unvested options.

Restricted Stock Units (RSUs) and Restricted Stock Awards (RSAs)

Aggregated information regarding RSUs and RSAs granted under the Plan for the three months ended May 4, 2013 is summarized below:

	RSAs & RSUs	Weighted Average Grant Date Fair Value
Unvested at January 31, 2013	96,900	$ 8.10
Granted	50,000	10.07
Vested	(18,498)	8.35
Forfeited		
Unvested at May 4, 2013	128,402	$ 8.83

As of May 4, 2013, there was $891,000 of unrecognized compensation expense related to unvested RSUs and RSAs.

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Employee Stock Purchase Plan

Astro-Med has an Employee Stock Purchase Plan allowing eligible employees to purchase shares of common stock at a 15% discount from fair value on the date of purchase. A total of 247,500 shares were reserved for issuance under this plan. There were 1,212 and 997 shares respectively, purchased under this plan during the quarters ended May 4, 2013 and April 28, 2012. As of May 4, 2013, 63,019 shares remain available.

(6) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and include material, labor and manufacturing overhead. The components of inventories are as follows:

(In thousands)	May 4, 2013	January 31, 2013
Materials and Supplies	$ 5,864	$ 6,654
Work-In-Process	1,525	591
Finished Goods	4,366	3,934
	$ 11,755	$ 11,179

(7) Income Taxes

The Company s effective tax rates for income (loss) from continuing operations based on the projected effective tax rate for the full year, are as follows:

	Three Months Ended
Fiscal 2014	42.1%
Fiscal 2013	(34.7)%

During the first quarter of fiscal 2014, the Company recognized an income tax benefit on the loss from continuing operations of approximately $319,000. During the three months ended April 28, 2012, the Company recognized income tax benefit on income from continuing operations of approximately $144,000 which included an expense of $141,000 on the quarter s pretax income from continuing operations and a benefit of $285,000 related to the favorable resolution of a previously uncertain tax position.

As of May 4, 2013, the Company s cumulative unrecognized tax benefits totaled $921,000 compared to $941,000 as of January 31, 2013. There were no developments affecting unrecognized tax benefits during the quarter ended May 4, 2013.

(8) Line of Credit and Note Receivable

On January 30, 2012, the Company completed the sale of its label manufacturing operations in Asheboro, North Carolina to Label Line Ltd. The net sales price of $1,000,000 was received in the form of a promissory note issued by Label Line Ltd. and is fully secured by a first lien on various collateral, including the Asheboro plant and plant assets. The note bears interest at a rate equal to the lesser of (i) the United States prime rate as of January 30, 2013 plus 50 basis points or (ii) six percent per annum and is payable in sixteen quarterly installments of principal and interest commencing on January 30, 2013. The Note Receivable is disclosed at its present value on the accompanying condensed consolidated balance sheets for the periods ended May 4, 2013 and January 31, 2013.

The terms of the Asheboro sale also included an agreement for Astro-Med to provide Label Line Ltd. with additional financing in the form of a revolving line of credit in the amount of $600,000. This line of credit is fully secured by first lien on various collateral of Label Line Ltd., including the Asheboro plant and plant assets and bears interest at a rate equal to the United States prime rate plus an additional margin of two percent of the outstanding credit balance. The line of credit had an initial term of one-year from the date of the sale which may be extended for consecutive one-year terms on mutual agreement of both parties. On March 27, 2013, Astro-Med signed an agreement to extend this line of credit through January 30, 2014. As of May 4, 2013, $300,000 remains outstanding on this revolving line of credit.

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(9) Segment Information

Astro-Med reports two segments consistent with its sales product groups: Test & Measurement (T&M) and QuickLabel Systems (QuickLabel). On January 31, 2013, the Company completed the sale of substantially all of the assets of its Grass Technologies Product Group (Grass) in order to focus on its existing core businesses. Consequently, the Company has classified the results of operations of Grass as discontinued operations for all periods presented. Refer to Note 14, Discontinued Operations for a further discussion.

The Company evaluates segment performance based on the segment profit before corporate expenses.

Summarized below are the Net Sales and Segment Operating Profit for each reporting segment:

	Three Months Ended			
	Net Sales		Segment Operating Profit	
(In thousands)	May 4, 2013	April 28, 2012	May 4, 2013	April 28, 2012
T&M	$ 4,089	$ 3,972	$ 201	$ 543
QuickLabel	11,396	10,364	891	903
Total	$ 15,485	$ 14,336	1,092	1,446
Product Replacement Related Costs			672	
Corporate Expenses			1,142	1,018
Operating Income (Loss)			(722)	428
Other Expense Net			(36)	(13)
Income (Loss) From Continuing Operations Before Income Taxes			(758)	415
Income Tax Benefit			(319)	(144)
			(439)	559
Income (Loss) From Discontinued Operations, Net of Income Taxes			(10)	278
Net Income (Loss)			$ (449)	$ 837

(10) Recent Accounting Pronouncements

Comprehensive Income

In February 2013, the Financial Standards Accounting Board issued Accounting Standard Update 2013-02, (ASU-2013-02) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures that provide additional detail on these amounts. ASU 2013-02 was effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance in our first quarter ending May 4, 2013 and have provided the disclosure required in Note 13. Since ASU 2013-02 only impacts presentation and disclosure requirements, the adoption of this guidance did not have a material impact on the Company s financial position or results of operations.

No other new accounting pronouncements, issued or effective during the first quarter of the current year, have had or are expected to have a material impact on our consolidated financial statements.

(11) Securities Available for Sale

Pursuant to our investment policy, securities available for sale include state and municipal securities with various contractual or anticipated maturity dates ranging from one to 26 months. Securities available for sale are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) in shareholders equity until realized. Realized gains and losses from the sale of available for sale securities, if any, are determined on a specific identification basis. A decline in the

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fair value of any available for sale security below cost that is determined to be other than temporary will result in a write-down of its carrying amount to fair value. No such impairment charges were recorded for any period presented. All short-term investment securities have original maturities greater than 90 days.

The fair value, amortized cost and gross unrealized gains and losses of the securities are as follows:

(In thousands) May 4, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and Municipal Obligations	$ 20,090	$ 12	$ (2)	$ 20,100

January 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and Municipal Obligations	$ 8,499	$ 10	$	$ 8,509

(12) Fair Value

We measure our financial assets at fair value on a recurring basis in accordance with the guidance provided in ASC 820, Fair Value Measurement and Disclosures which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In addition, ASC 820 establishes a three-tiered hierarchy for inputs used in management s determination of fair value of financial instruments that emphasizes the use of observable inputs over the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that reflect management s belief about the assumptions market participants would use in pricing a financial instrument based on the best information available in the circumstances.

The fair value hierarchy is summarized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities;

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

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

Cash and cash equivalents; accounts receivables; line of credit receivable; notes receivable; accounts payable; accrued compensation and other expenses and income tax payable are reflected in the condensed consolidated balance sheet at carrying value, which approximates fair value due to the short term nature of the these instruments.

Assets measured at fair value on a recurring basis are summarized below:

(In thousands) May 4, 2013	Level 1	Level 2	Level 3	Total
Money Market Funds (included in Cash and Cash Equivalents)	$ 7,043	$	$	$ 7,043
State and Municipal Obligations (included in Securities Available for Sale)	20,100			20,100

Total	$ 27,143	$	$	$ 27,143

January 31, 2013	Level 1	Level 2	Level 3	Total
Money Market Funds (included in Cash and Cash Equivalents)	$ 8,784	$	$	$ 8,784
State and Municipal Obligations (included in Securities Available for Sale)				
Percentage of total revenues	35.3%	39.3%		

Three months ended April 5, 2009 compared to the three months ended March 30, 2008:

The consolidated gross profit margin as a percentage of total revenues decreased to 35.3% for the three months ended April 5, 2009 from 39.3% for the three months ended March 30, 2008.

Semiconductor Segment:

The gross profit margin as a percentage of segment revenues for the Semiconductor segment decreased to 38.3% for the three months ended April 5, 2009 from 40.3% for the three months ended March 30, 2008. The decrease was primarily attributable to a shift in product mix, lower overall absorption of fixed costs as a result of the decline in revenues and an increase in amortization of identified intangible assets as a percentage of revenues. The decrease was offset in part by a decrease in inventory provisions as a result of continued improvements in supply chain management.

Storage Systems Segment:

The gross profit margin as a percentage of segment revenues for the Storage Systems segment decreased to 28.9% for the three months ended April 5, 2009 from 37.0% for the three months ended March 30, 2008. The decrease was primarily driven by a shift in product mix as a greater percentage of our sales consisted of entry-level storage systems, which have lower margins, along with lower overall absorption of fixed costs as a result of the decrease in revenues.

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Research and Development

The following table summarizes our research and development, or R&D, expenses by segment for the three months ended April 5, 2009 and March 30, 2008:

	Three Months Ended	
	April 5, 2009	March 30, 2008
	(Dollars in millions)	
Semiconductor segment	$ 123.0	$ 135.2
Percentage of segment revenues	37.8%	29.5%
Storage Systems segment	$ 32.3	$ 34.5
Percentage of segment revenues	20.5%	17.1%
Consolidated	$ 155.3	$ 169.7
Percentage of total revenues	32.2%	25.7%

Three months ended April 5, 2009 compared to the three months ended March 30, 2008:

Consolidated R&D expenses decreased $14.4 million or 8.5% for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008.

Semiconductor Segment:

R&D expenses for the Semiconductor segment decreased $12.2 million or 9.0% for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008. The decrease was primarily attributable to lower compensation-related expenses as a result of reduced headcount from the restructuring action announced in January 2009 and lower spending on materials associated with existing R&D projects. R&D expenses for the Semiconductor segment increased as a percentage of segment revenues from 29.5% for the three months ended March 30, 2008 to 37.8% for the three months ended April 5, 2009, primarily as a result of the decrease in revenues.

Storage Systems Segment:

R&D expenses for the Storage Systems segment decreased $2.2 million or 6.4% for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008. The decrease was primarily attributable to lower compensation-related expenses as a result of reduced headcount from the restructuring action announced in January 2009 and lower spending on materials associated with existing R&D projects. R&D expenses for the Storage Systems segment increased as a percentage of segment revenues from 17.1% for the three months ended March 30, 2008 to 20.5% for the three months ended April 5, 2009, primarily as a result of the decrease in revenues.

Selling, General and Administrative

The following table summarizes our selling, general and administrative, or SG&A, expenses by segment for the three months ended April 5, 2009 and March 30, 2008:

	Three Months Ended	
	April 5, 2009	March 30, 2008
	(Dollars in millions)	
Semiconductor segment	$ 56.5	$ 69.4
Percentage of segment revenues	17.4%	15.1%
Storage Systems segment	$ 27.3	$ 29.7
Percentage of segment revenues	17.4%	14.7%
Consolidated	$ 83.8	$ 99.1

Percentage of total revenues	17.4%	15.0%

Three months ended April 5, 2009 compared to the three months ended March 30, 2008:

Consolidated SG&A expenses decreased $15.3 million or 15.4% for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008.

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Semiconductor Segment:

SG&A expenses for the Semiconductor segment decreased $12.9 million or 18.6% for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008. The decrease was primarily attributable to a decrease in amortization expenses associated with identified intangible assets, a decrease in compensation-related expenses as a result of reduced headcount from the restructuring action announced in January 2009, and lower sales and marketing expenses attributable to cost reduction measures. SG&A expenses for the Semiconductor segment increased as a percentage of segment revenues from 15.1% for the three months ended March 30, 2008 to 17.4% for the three months ended April 5, 2009, primarily as a result of the decrease in revenues.

Storage Systems Segment:

SG&A expenses for the Storage Systems segment decreased $2.4 million or 8.1% for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008. The decrease was primarily attributable to lower compensation-related expenses as a result of reduced headcount from the restructuring action announced in January 2009 and lower sales commissions as a result of the decrease in revenues. SG&A expenses for the Storage Systems segment increased as a percentage of segment revenues from 14.7% for the three months ended March 30, 2008 to 17.4% for the three months ended April 5, 2009, primarily as a result of the decrease in revenues.

Restructuring of Operations and Other Items, net

We recorded charges of $25.2 million in restructuring of operations and other items, net, for the three months ended April 5, 2009, consisting of $19.3 million in charges for restructuring of operations and $5.9 million in charges for other items. The $25.2 million of charges were all attributable to the Semiconductor segment.

We recorded charges of $4.6 million in restructuring of operations and other items, net, for the three months ended March 30, 2008, consisting of $3.3 million in charges for restructuring of operations and $1.3 million in charges for other items. The $4.6 million of charges were all attributable to the Semiconductor segment. See Note 3 to our consolidated financial statements in Item 1 for more information about the restructuring charges recorded during the first quarter of 2009.

Interest (Expense) or Income and Other, net

The following table summarizes our interest expense and components of interest income and other, net, for the three months ended April 5, 2009 and March 30, 2008:

	Three Months Ended	
	April 5, 2009	March 30, 2008
	(In millions)	
Interest expense	$ (7.2)	$ (9.0)
Interest income	6.4	14.3
Other (expense) /income, net	(0.5)	0.3
Total	$ (1.3)	$ 5.6

Interest Expense:

Interest expense decreased $1.8 million for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008 as a result of the repurchase of $118.6 million of 6.5% convertible subordinated notes in the fourth quarter of 2008.

Interest Income and Other, net:

Interest income decreased $7.9 million for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008 primarily as a result of lower interest rates during the first quarter of 2009 as compared to the first quarter of 2008.

Other expense, net, increased $0.8 million for the three months ended April 5, 2009 as compared to the three months ended March 30, 2008 primarily as a result of $0.6 million in foreign exchange losses during the first quarter of 2009 as compared to $1.9 million in foreign exchange gains during the first quarter of 2008, offset in part by

$1.2 million decrease in charges for points on foreign currency forward contracts and other miscellaneous items.

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Provision for Income Taxes

During the three months ended April 5, 2009 and March 30, 2008, we recorded an income tax provision of $8.0 million and $5.5 million, respectively. Under FIN 18, we have excluded the income or loss from certain jurisdictions from the overall estimation of the annual rate due to the anticipated pretax losses in those jurisdictions for the years for which tax benefits are not realizable or cannot be recognized in the current year.

For the three months ended April 5, 2009, we recorded a reversal of $29.8 million in liabilities, which includes unrecognized tax benefits of $15.7 million and interest and penalties of $14.1 million, determined under FIN 48 due to various statutes of limitations expiring during the period and an increase of $32.9 million, which includes unrecognized tax benefits of $25.0 million and interest and penalties of $7.9 million, as a result of re-measurements of uncertain tax positions taken in prior periods based on new information.

For the three months ended March 30, 2008, we recorded a reversal of an $8.8 million liability determined under FIN 48 because various statutes of limitations expired during the period and an increase of $2.1 million as a result of re-measurement of uncertain tax positions taken in prior periods based on new information.

Excluding certain foreign jurisdictions, management believes that it is more likely than not that the future benefit of deferred tax assets will not be realized.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Cash, cash equivalents and short-term investments decreased to $1,073.8 million at April 5, 2009 from $1,119.1 million at December 31, 2008. The decrease was mainly due to cash outflows from operating activities, offset in part by cash inflows from investing activities as described below.

Working Capital

Working capital decreased by $51.5 million to $950.4 million at April 5, 2009 from $1,001.9 million at December 31, 2008. The decrease was attributable to the following:

- Cash, cash equivalents and short-term investments decreased by $45.3 million;

- Accounts receivable decreased by $30.7 million primarily as a result of lower revenues in the first quarter of 2009 than in the fourth quarter of 2008;

- Other accrued liabilities increased by $25.5 million primarily as a result of increases in accruals for interest on our convertible notes as the interest payment dates approach, increases in liabilities with third party manufacturers and other accruals related to operations of the business, offset in part by the utilization of restructuring reserves;

- Inventories declined by $19.3 million primarily as a result of the usage of inventories during the first quarter of 2009, which reflects our continued focus on supply chain management; and

- Prepaid expenses and other current assets decreased by $19.0 million primarily the result of decreases in other receivables and tax-related receivables.

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

- Accounts payable decreased by $65.0 million primarily as a result of lower purchases following the global economic downturn and the timing of invoice receipts and payments;

- Accrued salaries, wages and benefits decreased by $22.1 million primarily the result of timing differences in the payment of salaries, benefits and performance-based compensation;

- Income taxes payable decreased by $0.7 million because of the timing of income tax payments made and the income tax provision recorded during the first quarter of 2009; and

Current portion of the long-term debt decreased $0.5 million as a result of the amortization of accrued debt premium.

Cash Used in Operating Activities

During the three months ended April 5, 2009, cash used in operating activities was $9.8 million as compared to $96.2 million generated from operating activities during the three months ended March 30, 2008. Cash used in operating activities for the three months ended April 5, 2009 was the result of the following:

A net loss adjusted for non-cash transactions, including depreciation and amortization. The non-cash items and other non-operating adjustments are quantified in the Statements of Cash Flows included in Item 1; offset by

A net increase in assets and liabilities, including changes in working capital components from December 31, 2008 to April 5, 2009, as discussed above.

Cash Provided by Investing Activities

Cash provided by investing activities for the three months ended April 5, 2009 was $5.4 million as compared to $20.8 million used during the three months ended March 30, 2008. The primary investing activities for the three months ended April 5, 2009 were:

Proceeds from maturities and sales of available-for-sale debt securities and equity securities, net of purchases; and

Purchases of property, equipment and software, net of sales.

We expect capital expenditures to be approximately $50.0 million in 2009. 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 and reduce our capital spending requirements.

Cash Provided by Financing Activities

Cash provided by financing activities for the three months ended April 5, 2009 was $1,000 as compared to $228.9 million used in financing activities for the three months ended March 30, 2008.

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, including repayment of our outstanding convertible subordinated notes as they mature, for the next twelve months and beyond. We may find it desirable to obtain additional debt or equity financing or seek to refinance our existing convertible notes. We believe that financing is currently difficult for many companies to obtain on acceptable terms or at all. Accordingly, 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 5, 2009:

	Payments Due by Period					
	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	Other	Total
	(In millions)					
Convertible Subordinated Notes	$ 243.0	$ 350.0	$	$	$	$ 593.0
Estimated interest payments on Convertible Subordinated Notes	29.8	7.0				36.8
Operating lease obligations	82.5	72.0	16.7	2.9		174.1
Purchase commitments	262.6	246.5				509.1

FIN 48 liabilities	35.2				196.2**	231.4
Pension and postretirement contributions	20.0 to 60.0	*	*	*	*	20.0 to 60.0
Total	$ 673.1 to 713.1	$ 675.5	$ 16.7	$ 2.9	$ 196.2	$ 1,564.4 to 1,604.4

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* We have pension plans covering substantially all former Agere Systems 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 impacted 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. If current macroeconomic conditions continue, the additional contributions in future years would likely be higher than those projected for 2009. Effective

April 6, 2009, we froze the U.S. management pension plan, which covers active participants who joined us from Agere.

** Represents the non-current tax payable obligation under FIN 48. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

Convertible Subordinated Notes

As of April 5, 2009, we had outstanding $350.0 million of 4% Convertible Subordinated Notes due May 15, 2010. Interest on these notes is payable semiannually on May 15 and November 15 of each year. These notes are subordinated to all existing and future senior debt and are convertible at the holder s option into shares of our common stock at a conversion price of approximately $13.42 per share at any time prior to maturity. We cannot elect to redeem these notes prior to maturity. Each holder of these notes has the right to cause us to repurchase all of such holder s convertible notes at a price equal to 100% of their principal amount plus accrued interest upon the occurrence of any fundamental change, which includes a transaction or an event such as an exchange offer, liquidation, a tender offer, consolidation, certain mergers or combinations.

As part of our merger with Agere, we guaranteed Agere s 6.5% Convertible Subordinated Notes due December 15, 2009. As of April 5, 2009, we had outstanding $243.0 million of these notes. Interest on these notes is payable semiannually on June 15 and December 15 of each year. These notes are unsecured and subordinated obligations and are subordinated in right of payment to all of Agere s existing and future senior debt. These notes are convertible at the holder s option into shares of our common stock at a current conversion price of $15.3125 per share, subject to adjustment in certain events, at any time prior to maturity, unless previously redeemed or repurchased. We may redeem these notes in whole or in part at any time. We may be required to repurchase these notes at a price equal to 100% of their principal amount plus any accrued and unpaid interest if our stock is no longer approved for public trading, if our stockholders approve liquidation or if a specified change in control occurs.

Fluctuations in our stock price impact the prices of our outstanding convertible securities and the likelihood of the convertible securities being converted into equity. We believe that our current cash position and expected future operating cash flows will be adequate to meet these obligations as they mature.

Operating Lease Obligations

We lease real estate, certain non-manufacturing equipment and software under non-cancelable operating leases.

Purchase Commitments

We maintain certain purchase commitments with 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 among different suppliers.

Uncertain Tax Positions

As of April 5, 2009, the amount of the unrecognized tax benefits determined under FIN 48 was $241.9 million. This is a net increase of $9.9 million in unrecognized tax benefits from December 31, 2008. The net increase for the quarter primarily relates to an increase of $25.0 million as a result of re-measurements of uncertain tax positions taken in prior periods and a reduction of $15.7 million in unrecognized tax benefits due to various statutes of limitations expiring during the quarter. Of the $241.9 million in unrecognized tax benefits, we expect to pay $35.2 million within one year. Accordingly, this amount has been recorded in other current liabilities. For the remaining balance, 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 various 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 in addition to the $35.2 million discussed above, additional unrecognized tax benefits, plus accrued interest and penalties, could decrease by an amount in the range of $0 to $27.7 million.

Standby Letters of Credit

As of April 5, 2009 and December 31, 2008, we had outstanding obligations relating to standby letters of credit of $18.6 million and $19.2 million, respectively. Standby letters of credit are financial guarantees provided by third parties for leases, claims from litigations 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 and they generally have one-year terms.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes in the critical accounting estimates and significant accounting policies during the three months ended April 5, 2009 as compared to the discussion in Part II, Item 7 and in Note 1 to our consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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 5, 2009 as compared to the discussion in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Evaluation of Disclosure Controls and Procedures: The rules of the Securities and Exchange Commission define 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 2009, 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.

The business of Agere Systems, which we acquired in April 2007, has been using a different enterprise resource planning, or ERP, system than the system we have used historically. We are in the process of converting Agere s business to our ERP systems. In the first quarter of 2009, we transitioned Agere s finance operations except sales, accounts payable and manufacturing operations to our ERP system. We believe that this transition did not materially affect our internal control over financial reporting. We expect to complete the conversion in the second quarter of 2009.

PART II OTHER INFORMATION

Item 1. ***Legal Proceedings***

This information is included under the caption Legal Matters in Note 14 to our consolidated 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, 2008, that, if they were to occur, could materially adversely affect our business or that 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:

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.

A limited number of customers accounts for a substantial portion of our revenues. In 2008, Seagate and IBM, our two largest customers, represented approximately 17% and 16%, respectively, of our total revenues, and our 10 largest customers accounted for approximately 60.7% of our revenue. If any of our key customers reduced significantly or canceled its orders, our business and operating results could be significantly harmed. Because many of our semiconductor products are designed for specific customers and have long product design and development cycles, it may be difficult for us to replace key customers that reduce or cancel their existing orders for these products.

In addition, if we fail to win new product designs from our major customers, our business and results of operations may be harmed. Further, if our major customers make significant changes in scheduled deliveries, decide to pursue the internal development of the products we sell to them or are acquired, our business and results of operations may be harmed. For example, business combinations such as Oracle s proposed acquisition of Sun Microsystems, a customer of our Storage Systems business, could result in changes in the competitive environment we face. These combinations could have a positive or negative impact on our business.

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.

A prolonged economic downturn could have a material negative impact on our results of operations and financial condition.

In late 2008, the media reported significant declines in economic activity and reduced availability of credit in the United States and other countries around the world. Prices of equity securities generally also experienced declines. If these declines persist or get worse, they could negatively affect our business in several ways, in addition to resulting in lower demand for our products and causing potential disruptions at customers or suppliers that might encounter financial difficulties.

We have defined benefit pension plans under which we are obligated to make future payments to participants. We have set aside funds to meet our anticipated obligations under these plans. These funds are invested in equity and fixed income securities. Since mid-2008, market prices of these types of securities have declined significantly. At December 31, 2008, our projected benefit obligations under our pension plans exceeded the value of the assets of those plans by approximately $450 million. U.S. law provides that we must make contributions to the pension plans during the reminder of 2009 of at least $19.0 million. We may be required to make additional contributions to the plans in later years if the value of the plan assets does not increase, or continues to decrease, and these amounts could be significantly larger than the required contributions in 2009. We may also choose to make additional, voluntary contributions to the plans.

As of April 5, 2009, we had contractual purchase commitments with suppliers, primarily for raw materials and manufacturing services and for some non-production items, of approximately $509.1 million. If our actual revenues in the future are lower than our current expectations, we may not meet all of our buying commitments. As a result, it is possible that we will have to make penalty-type payments under these contracts, even though we are not obtaining any products that we can sell.

During the year ended December 31, 2008, we recognized goodwill and identified intangible asset impairment charges of $541.6 million. At April 5, 2009, we had $1,022.9 million of goodwill and identified intangible assets. If economic conditions worsen and our revenues decline below our recent forecasts, we may recognize additional impairment of our assets.

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, including repayment of our outstanding convertible subordinated notes as they mature, for the next twelve months and beyond. We may find it desirable to obtain additional debt or equity financing or seek to refinance our existing convertible notes. We believe that financing is currently difficult for many companies to obtain on acceptable terms or at all. Accordingly, 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. Moreover, any future equity or convertible debt financing may decrease the percentage of equity ownership of existing stockholders and may result in dilution, depending on the price at which the equity is sold or the debt is converted.

We depend on outside suppliers to manufacture, assemble, package and test our products; accordingly, any failure to secure and maintain sufficient manufacturing capacity or to maintain the quality of our products could harm our business and results of operations.

Failure to qualify our semiconductor 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.

As part of our integration efforts with Agere, we intend to transition Agere s operation to our enterprise resource planning system. Any issues that may arise with this transition could interfere with our business and harm our operating results or our ability to produce accurate and timely financial statements.

Agere s business utilizes a different enterprise resource planning, or ERP, system than the system we have used historically. To streamline operations, we are in the process of converting Agere s business to our ERP system. Converting Agere s business processes, data and applications is a complex and time-consuming task. During this transition period, we are exposed to the possibility that we may not combine information correctly from the two systems, impacting our financial statements or our planning processes, and to the additional cost of maintaining two ERP systems. In the first quarter of 2009, we transitioned Agere s finance operations except sales, accounts payable and manufacturing operations to our ERP system. We expect to complete the conversion in the second quarter of 2009.

Although we have planned the conversion carefully and have performed extensive testing, it is possible that we may not convert all information or processes correctly or that some other problem could arise. Any problems that arise could impair our ability to process customer orders, ship products, provide services and support to our customers, bill and track orders, fulfill contractual obligations, file reports with the Securities and Exchange Commission in a timely manner and otherwise run our business. Even if we do not encounter these adverse effects, the transition to a single ERP system may be much more costly than we anticipated, which would adversely affect our future operating results.

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.

A decline in the revenue that we derive from the licensing of intellectual property could have a significant impact on our net income.

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.

Our operations and those of our suppliers are subject to natural disasters and other events outside of our control that may disrupt our business and harm our operating results. For example, a widespread outbreak of an illness such as swine flu, avian influenza, or bird flu, or severe acute respiratory syndrome, or SARS, could harm our operations and those of our suppliers as well as decrease demand from customers. One of our contract manufacturers assembles storage systems products for us in Mexico, which has experienced an outbreak of swine flu. In addition, we have operations in Singapore, Thailand and China, countries where outbreaks of bird flu and/or SARS have occurred. We also have substantial operations in parts of California that have experienced major earthquakes and in parts of Asia that have experienced both typhoons and earthquakes. If our operations or those of our suppliers are curtailed because of health issues or natural disasters, our business may be disrupted and we may need to seek alternate sources of supply for manufacturing or other services. Alternate sources may not be available, may be more expensive or may result in delays in shipments to customers, which would affect our results of operations. In addition, a curtailment of design operations could result in delays in the development of new products. If our customers businesses are affected by health issues or natural disasters, they might delay or reduce purchases, which could harm our business and results of operations.

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.

Item 6. ***Exhibits***

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

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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 14, 2009

By /s/ Bryon Look
Bryon Look
Executive Vice President, Chief
Financial Officer and Chief
Administrative Officer

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EXHIBIT INDEX

10.1 Separation Agreement with Ruediger Stroh (Incorporated by reference to Exhibit 10.33 to our Annual Report on Form 10-K, filed March 2, 2009)

10.2 Separation Agreement with Claudine Simson (Incorporated by reference to Exhibit 10.34 to our Annual Report on Form 10-K, filed March 2, 2009)

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

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