

LSI CORP
Form 10-Q
November 07, 2008

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

(Mark One)

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

For the Quarterly Period Ended September 28, 2008

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

(State of Incorporation)

94-2712976

(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 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 Accelerated filer Non-accelerated filer Smaller Reporting Company

(Do not check if a 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

As of November 3, 2008, there were 645,085,812 shares of the registrant's Common Stock, \$.01 par value, outstanding.

LSI CORPORATION
Form 10-Q
For the Quarter Ended September 28, 2008
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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.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

LSI CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | September 28, 2008 | December 31, 2007 |
|--|---|------------------------------|
| | (In thousands, except per share amounts) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 784,910 | \$ 1,021,569 |
| Short-term investments | 389,017 | 376,028 |
| Accounts receivable, less allowances of \$11,191 and \$10,192 | 401,101 | 406,368 |
| Inventories | 209,958 | 240,842 |
| Prepaid expenses and other current assets | 174,587 | 147,751 |
| | | |
| Total current assets | 1,959,573 | 2,192,558 |
| Property and equipment, net | 234,028 | 229,732 |
| Other intangible assets, net | 1,128,590 | 1,225,196 |
| Goodwill | 537,517 | 499,551 |
| Other assets | 265,741 | 249,353 |
| | | |
| Total assets | \$ 4,125,449 | \$ 4,396,390 |
| | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Accounts payable | \$ 237,397 | \$ 329,444 |
| Accrued salaries, wages and benefits | 141,328 | 118,990 |
| Other accrued liabilities | 229,866 | 298,343 |
| Income taxes payable | 24,706 | 15,679 |
| | | |
| Total current liabilities | 633,297 | 762,456 |
| | | |
| Long-term debt | 715,595 | 717,967 |
| Pension, post-retirement and other benefits | 124,051 | 137,543 |
| Income taxes payable non-current | 206,307 | 185,036 |
| Other non-current liabilities | 90,372 | 108,143 |
| | | |
| Total long-term obligations and other liabilities | 1,136,325 | 1,148,689 |
| | | |
| Commitments and contingencies (Note 13) | | |
| Minority interest in subsidiary | 265 | 249 |
| | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value: 2,000 shares authorized; none outstanding | | |
| Common stock, \$.01 par value: 1,300,000 shares authorized; 644,432 and 680,595 shares outstanding | 6,444 | 6,806 |

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| | | |
|--|--------------|--------------|
| Additional paid-in capital | 6,035,946 | 6,152,421 |
| Accumulated deficit | (3,754,426) | (3,738,522) |
| Accumulated other comprehensive income | 67,598 | 64,291 |
| Total stockholders' equity | 2,355,562 | 2,484,996 |
| Total liabilities and stockholders' equity | \$ 4,125,449 | \$ 4,396,390 |

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

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LSI CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended | | Nine Months Ended | |
|--|--|-----------------------|-----------------------|-----------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (In thousands, except per share amounts) | | | |
| Revenues | \$ 714,308 | \$ 727,415 | \$ 2,067,118 | \$ 1,862,769 |
| Cost of revenues | 416,891 | 479,550 | 1,225,252 | 1,268,418 |
| Gross profit | 297,417 | 247,865 | 841,866 | 594,351 |
| Research and development | 169,551 | 182,291 | 509,383 | 488,071 |
| Selling, general and administrative | 103,744 | 104,518 | 307,267 | 280,931 |
| Restructuring of operations and other items, net | 1,586 | 101,231 | 26,869 | 119,071 |
| Acquired in-process research and development | | | | 182,900 |
| Income/(loss) from operations | 22,536 | (140,175) | (1,653) | (476,622) |
| Interest expense | (8,993) | (9,033) | (26,930) | (21,972) |
| Interest income and other, net | 8,028 | 11,808 | 30,879 | 33,129 |
| Income/(loss) before income taxes | 21,571 | (137,400) | 2,296 | (465,465) |
| Provision for income taxes | 10,200 | 3,200 | 18,200 | 23,156 |
| Net income/(loss) | \$ 11,371 | \$ (140,600) | \$ (15,904) | \$ (488,621) |
| Net income/(loss) per share: | | | | |
| Basic | \$ 0.02 | \$ (0.20) | \$ (0.02) | \$ (0.78) |
| Diluted | \$ 0.02 | \$ (0.20) | \$ (0.02) | \$ (0.78) |
| Shares used in computing per share amounts: | | | | |
| Basic | 643,849 | 715,733 | 648,519 | 623,692 |
| Diluted | 647,418 | 715,733 | 648,519 | 623,692 |

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
(UNAUDITED)

| | Nine Months Ended | |
|---|--------------------------|----------------------|
| | September | September 30, |
| | 28, 2008 | 2007 |
| | (In thousands) | |
| Operating activities: | | |
| Net loss | \$ (15,904) | \$ (488,621) |
| Adjustments: | | |
| Depreciation and amortization | 239,945 | 216,720 |
| Stock-based compensation expense | 54,292 | 55,772 |
| Non-cash restructuring and other items | (3,163) | 88,354 |
| Acquired in-process research and development | | 182,900 |
| Write-down of debt and equity securities | 4,500 | 2,396 |
| Loss/(gain) on sale of property and equipment, including assets held-for-sale | 14 | (9,513) |
| Non-cash foreign exchange loss | 6,988 | 3,221 |
| Changes in deferred tax assets and liabilities | 4,397 | (6,797) |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations: | | |
| Accounts receivable, net | 5,237 | 143,998 |
| Inventories | 30,884 | 95,148 |
| Prepaid expenses and other assets | 9,192 | 35,061 |
| Accounts payable | (92,323) | (134,621) |
| Accrued and other liabilities | (64,194) | 658 |
| Net cash provided by operating activities | 179,865 | 184,676 |
| Investing activities: | | |
| Purchases of debt securities available-for-sale | (158,601) | (154,087) |
| Proceeds from maturities and sales of debt securities available-for-sale | 131,719 | 493,029 |
| Purchases of equity securities | (8,500) | (10,500) |
| Purchases of property, equipment and software | (95,005) | (76,986) |
| Proceeds from sale of property and equipment | 11,400 | 13,790 |
| Cash acquired from acquisition of Agere, net of acquisition costs | | 517,712 |
| Acquisition of other companies, net of cash acquired | (95,137) | (52,079) |
| Proceeds from sale of Consumer Products Group | | 22,555 |
| Increase in non-current assets and deposits | (13,300) | |
| Proceeds received from the resolution of a pre-acquisition income tax contingency | 4,821 | 2,442 |
| Net cash (used in)/provided by investing activities | (222,603) | 755,876 |
| Financing activities: | | |
| Issuance of common stock | 36,370 | 28,994 |
| Purchases of common stock under repurchase programs | (229,231) | (549,113) |

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| | | |
|--|------------|------------|
| Net cash used in financing activities | (192,861) | (520,119) |
| Effect of exchange rate changes on cash and cash equivalents | (1,060) | 1,700 |
| (Decrease)/increase in cash and cash equivalents | (236,659) | 422,133 |
| Cash and cash equivalents at beginning of year | 1,021,569 | 327,800 |
| Cash and cash equivalents at end of period | \$ 784,910 | \$ 749,933 |

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

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For financial reporting purposes, LSI Corporation (the Company or LSI) reports on a 13- or 14-week quarter with a year ending December 31. The current quarter ended September 28, 2008. The third quarter of 2007 ended September 30, 2007. The results of operations for the quarter ended September 28, 2008, are not necessarily indicative of the results to be expected for the full year. The first nine months of 2008 and 2007 consisted of approximately 39 weeks each. The third quarter in each of 2008 and 2007 consisted of 13 weeks.

On April 2, 2007, the Company acquired Agere Systems Inc. (Agere) through the merger of Agere and a subsidiary of the Company.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 adjustments (consisting only of normal recurring adjustments and restructuring and other items, net, as discussed in Note 3), necessary to state fairly the financial information included herein. 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, 2007.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (FAS 157), Fair Value Measurements. FAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and expands on required disclosures about fair value measurement. FAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of FAS 157 for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. In October 2008, the FASB issued FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active, which amends FAS 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. FSP 157-3 is effective upon issuance and should be applied to prior periods for which financial statements have not been issued. The adoption of FAS 157 for financial assets and financial liabilities, effective January 1, 2008, had no material impact on the Company's results of operations or financial position. The Company is currently assessing the impact of FAS 157 for nonfinancial assets and nonfinancial liabilities on its results of operations and financial position.

FAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company's financial assets and financial liabilities recorded at fair value have been categorized based upon the following three levels of inputs in accordance with FAS 157:

Level 1 Unadjusted, quoted prices in active, accessible markets for identical assets or liabilities. The Company's investments in marketable equity securities and money market funds that are traded in active exchange markets, as well as United States Treasury securities that are highly liquid and are actively traded in over-the-counter markets are classified under level 1.

Level 2 Observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities in active markets; 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. The Company's investments in U.S.

government agency securities, commercial paper, corporate and municipal debt securities and asset and mortgage backed securities are traded less frequently than exchange traded 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 and yield curves that are observable at commonly quoted

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intervals. Forward foreign currency contracts traded in the over-the-counter markets are valued using market transactions, or broker quotations. As such, these derivative instruments are classified within level 2.

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.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The following table summarizes assets measured at fair value on a recurring basis as of September 28, 2008:

| | Fair Value Measurements as of September 28, 2008 | | | Total |
|--|---|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | |
| | (In thousands) | | | |
| Short-term investments in debt securities and certain cash equivalents | \$704,354 | \$345,769 | | \$1,050,123 |
| Long-term investments in marketable equity securities | \$ 1,276 | | | \$ 1,276 |
| Rabbi Trust all invested in money market funds | \$ 10,107 | | | \$ 10,107 |

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007) (FAS 141(R)), Business Combinations. FAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in an acquiree and the goodwill acquired in an acquisition. FAS 141(R) also establishes disclosure requirements to evaluate the nature and financial effects of a business combination. FAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of FAS 141(R) on its results of operations and financial position.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (FAS 161), Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. FAS 161 expands quarterly disclosure requirements in FAS 133 about an entity's derivative instruments and hedging activities. FAS 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact, if any, of the adoption of FAS 161 on its results of operations and financial position.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142 (FAS 142), Goodwill and Other Intangible Assets. FSP 142-3 is intended to improve the consistency among the useful life of a recognized intangible asset under FAS 142, the period of expected cash flows used to measure the fair value of an asset under FAS 141(R), and other guidance under generally accepted accounting principles in the United States. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact, if any, of the adoption of FSP 142-3 on its results of operations and financial position.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (FAS 162), The Hierarchy of Generally Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This statement will be effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company is currently evaluating the impact, if any, of the adoption of FAS 162 on its results of operations and financial position.

NOTE 2 STOCK-BASED COMPENSATION

At the Company's annual meeting in May 2008, the stockholders approved amendments to the 2003 Equity Incentive Plan (the 2003 Plan) and the Employee Stock Purchase Plan (the US ESPP). The principal changes to the

2003 Plan were:

Making a total of 45 million shares available for use under the 2003 Plan. Of that amount, 15 million shares were available for grants of restricted stock and restricted stock units;

Allowing non-employee directors to be eligible to participate in the 2003 Plan;

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Including stock appreciation rights as a permitted type of award under the 2003 Plan;

Increasing the limits on the size of awards that can be granted under the 2003 Plan to any person in one year from two million to four million shares for stock options and from 0.5 million to one million shares for restricted stock and restricted stock units; and

Allowing incentive stock options to be granted under the 2003 Plan until May 14, 2018.

The Company will no longer award stock options, stock appreciation rights, restricted stock or restricted stock units under any other existing plans.

The principal changes to the US ESPP were:

Making a total of 25 million shares available for purchase under the US ESPP after May 14, 2008;

Consolidating the Company's International Employee Stock Purchase Plan (IESPP) into the US ESPP, which is expected to occur in November 2008; and

Extending the term of the US ESPP through May 14, 2018.

The following table summarizes stock-based compensation expense related to the Company's stock options, employee stock purchase plans (ESPPs, which include the US ESPP and the IESPP) and restricted stock unit awards in the consolidated statements of operations for the three and nine months ended September 28, 2008 and September 30, 2007. Stock-based compensation costs capitalized to inventory and software development for the three and nine months ended September 28, 2008 and September 30, 2007 were not significant.

| Stock-Based Compensation Expense Included in: | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| | (In thousands) | | | |
| Cost of revenues | \$ 2,252 | \$ 2,824 | \$ 6,885 | \$ 7,916 |
| Research and development | 6,593 | 8,916 | 21,985 | 22,611 |
| Selling, general and administrative | 8,005 | 10,035 | 25,422 | 25,245 |
| Total stock-based compensation expense | \$ 16,850 | \$ 21,775 | \$ 54,292 | \$ 55,772 |

The estimated fair value of the stock-based awards, less expected forfeitures, is amortized over each award's vesting period on a straight-line basis.

Stock Options

The fair value of each option grant is estimated on the date of grant using a reduced form calibrated binomial lattice model (the lattice model). This model requires the use of historical data for employee exercise behavior and the use of the assumptions outlined in the following table:

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
| | September 28, 2008 | September 30, 2007 | September 28, 2008 | September 30, 2007 |
| Weighted average estimated grant date fair value per share | \$ 2.63 | \$ 2.54 | \$ 2.06 | \$ 3.31 |
| Weighted average assumptions in calculation: | | | | |
| Expected life (years) | 4.38 | 4.36 | 4.37 | 4.35 |
| Risk-free interest rate | 3% | 4% | 3% | 5% |

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Volatility 53% 49% 52% 46%

The expected life of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is a derived output of the lattice model. The expected life of employee stock options is affected by all of the underlying assumptions and calibration of the Company's model.

The risk-free interest rate assumption is based upon observed interest rates of constant maturity U. S. Treasury securities appropriate for the term of the Company's employee stock options.

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The Company used an equally weighted combination of historical and implied volatilities as of the grant date. The historical volatility is the standard deviation of the daily stock returns for LSI from the date of the initial public offering of its common stock in 1983. For the implied volatilities, the Company uses near-the-money exchange-traded call options, as stock options are call options that are granted at-the-money. The historical and implied volatilities are annualized and equally weighted to determine the volatilities as of the grant date. Management believes that the equally weighted combination of historical and implied volatilities is more representative of future stock price trends than sole use of historical or implied volatilities.

The lattice model assumes that employees' exercise behavior is a function of the options' remaining vested life and the extent to which the option is in-the-money. The lattice model estimates the probability of exercise as a function of these two variables based on the entire history of exercises and cancellations for all past option grants made by the Company since its initial public offering.

Because stock-based compensation expense recognized is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

A summary of the changes in stock options outstanding during the nine months ended September 28, 2008 is presented below:

| | Number of Shares (In thousands) | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (In years) | Aggregate Intrinsic Value (In thousands) |
|---|--|---|---|--|
| Options outstanding at December 31, 2007 | 100,242 | \$ 16.12 | | |
| Options granted | 17,993 | 5.75 | | |
| Options exercised | (4,679) | (5.41) | | |
| Options canceled | (26,035) | (21.78) | | |
| Options outstanding at September 28, 2008 | 87,521 | \$ 12.88 | 4.22 | \$ 12,251 |
| Options exercisable at September 28, 2008 | 49,203 | \$ 17.45 | 3.02 | \$ 3,993 |

As of September 28, 2008, total unrecognized compensation expense related to nonvested stock options, net of estimated forfeitures, was approximately \$93.7 million and is expected to be recognized over the next 2.7 years on a weighted average basis. The total intrinsic value of options exercised during the three and nine months ended September 28, 2008 was \$1.9 million and \$7.2 million, respectively. Cash received from stock option exercises was \$6.8 million and \$25.3 million for the three and nine months ended September 28, 2008, respectively.

The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as a number of highly complex and subjective assumptions. The Company uses third-party consultants to assist in developing the assumptions used in, as well as calibrating, the lattice model. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards.

Employee Stock Purchase Plans

A total of 2.2 million shares and 1.7 million shares related to the ESPPs were issued during the three months ended June 29, 2008 and July 1, 2007, respectively. No shares related to the ESPPs were issued during the three months ended September 28, 2008 and September 30, 2007. For disclosure purposes, the assumptions that went into the calculation of fair value for the May 2008 and May 2007 grants were as follows:

| | Three Months Ended | |
|--|---------------------------|---------------------|
| | June 29, | July 1, 2007 |
| | 2008 | 2007 |
| Weighted average estimated grant date fair value per share | \$2.13 | \$ 2.37 |
| Weighted average assumptions in calculation: | | |
| Expected life (years) | 0.8 | 0.8 |
| Risk-free interest rate | 2% | 5% |
| Volatility | 44% | 38% |

Restricted Stock Awards

A summary of the changes in restricted stock units outstanding during the nine months ended September 28, 2008 is presented below.

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| | Number of Shares (In thousands) |
|---|--|
| Non-vested shares at December 31, 2007 | 9,177 |
| Granted | 1,736 |
| Vested | (2,337) |
| Forfeited | (512) |
| Non-vested shares at September 28, 2008 | 8,064 |

As of September 28, 2008, the total unrecognized compensation expense related to restricted stock units, net of estimated forfeitures, was \$46.3 million and is expected to be recognized over the next 1.9 years on a weighted average basis. The fair value of shares vested during the three and nine months ended September 28, 2008 was \$2.1 million and \$12.8 million, respectively.

NOTE 3 RESTRUCTURING AND OTHER ITEMS

The Company recorded charges of \$1.6 million and \$26.9 million in restructuring of operations and other items, net, for the three and nine months ended September 28, 2008, respectively. The Company recorded charges of \$101.2 million and \$119.1 million in restructuring of operations and other items, net, for the three and nine months ended September 30, 2007, respectively. For a complete discussion of the 2007 restructuring actions, see Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Restructuring and Impairment of Long-Lived Assets

The Company recorded a charge of \$1.7 million related to restructuring of operations for the three months ended September 28, 2008, which was recorded in the Semiconductor segment. The Company recorded a charge of \$15.0 million related to restructuring of operations for the nine months ended September 28, 2008. Of this charge, \$14.7 million and \$0.3 million were recorded in the Semiconductor segment and the Storage Systems segment, respectively.

The restructuring of operations charges included \$0.9 million and \$5.3 million related to the Agere merger for the three and nine months ended September 28, 2008, respectively. See further discussion under Restructuring Actions Associated with the Agere Merger below.

First Quarter of 2008:

A net charge of \$1.8 million in restructuring of operations resulted from the following items:

A gain of \$2.0 million from the sale of land in Gresham, Oregon, which had a net book value of \$0.9 million. Total proceeds from the sale were \$2.9 million;

A charge of \$5.0 million for lease termination costs, which included \$3.1 million for additional lease termination costs in the United States and \$1.9 million for changes in previously accrued facility lease exit costs including changes in the time-value of accruals; and

A credit of \$1.2 million primarily for severance and termination benefits for employees due to a change in estimates primarily for restructuring actions taken in January 2008.

Second Quarter of 2008:

A charge of \$7.1 million in restructuring of operations resulted from the following items:

A charge of \$3.4 million for lease termination costs, which included \$2.7 million for additional United States lease termination costs including the related write-off of leasehold improvements and \$0.7 million in charges for changes in assumptions and changes in the time value of accruals for previously accrued facility lease exit costs; and

A charge of \$3.7 million for severance and termination benefits for employees, which included \$1.8 million for integrating operations in Asia and \$1.9 million for changes in estimates related to various restructuring actions taken since June 2007.

Third Quarter of 2008:

A charge of \$0.8 million in restructuring of operations resulted from the following items:

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A credit of \$0.6 million for the reversal of a prior accrual offset by changes in previously accrued facility lease exit costs including changes in the time-value of accruals; and