LSI CORP
Form 10-Q
November 09, 2007

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

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

OR

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

For the transition period from __________ to __________

Commission File Number: 1-10317

LSI CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of November 2, 2007, there were 705,922,684 shares of the registrant s Common Stock, $.01 par value, outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LSI CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2007	December 31, 2006
	(In thousands, except per share amounts)	
ASSETS		
Cash and cash equivalents	$ 749,933	$ 327,800
Short-term investments	347,992	681,137
Accounts receivable, less allowances of $10,108 and $13,871	436,021	348,638
Inventories	218,416	209,470
Assets held for sale	581,308	20,120
Prepaid expenses and other current assets	126,834	48,572
Total current assets	2,460,504	1,635,737
Property and equipment, net	236,501	86,045
Other intangible assets, net	1,241,979	59,484
Goodwill	2,459,419	932,323
Other assets	226,013	138,555
Total assets	$ 6,624,416	$ 2,852,144
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 236,036	$ 200,189
Accrued salaries, wages and benefits	135,675	82,292
Other accrued liabilities	350,946	155,986
Income taxes payable	24,274	88,304
Total current liabilities	746,931	526,771
Long-term debt	718,725	350,000
Pension and postretirement benefits	204,316	
Income taxes payable non-current	171,522	
Other non-current liabilities	144,514	79,400
Total long-term obligations and other liabilities	1,239,077	429,400
Commitments and contingencies (Note 12)		
Minority interest in subsidiary	245	235

Stockholders equity:		
Preferred stock, $.01 par value: 2,000 shares authorized; none outstanding		
Common stock, $.01 par value: 1,300,000 shares authorized; 709,770 and 403,680 shares outstanding	7,098	4,037
Additional paid-in capital	6,327,900	3,102,178
Accumulated deficit	(1,716,524)	(1,220,306)
Accumulated other comprehensive income	19,689	9,829
Total stockholders equity	4,638,163	1,895,738
Total liabilities and stockholders equity	$ 6,624,416	$ 2,852,144

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 30, 2007	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
	(In thousands, except per share amounts)			
Revenues	$ 727,415	$ 492,978	$ 1,862,769	$ 1,458,497
Cost of revenues	479,550	284,880	1,268,418	858,720
Gross profit	247,865	208,098	594,351	599,777
Research and development	182,291	102,533	488,071	305,169
Selling, general and administrative	104,518	60,276	280,931	193,790
Restructuring of operations and other items, net	101,231	2,614	119,071	(13,384)
Acquired in-process research and development			182,900	
(Loss)/income from operations	(140,175)	42,675	(476,622)	114,202
Interest expense	(9,033)	(6,556)	(21,972)	(19,314)
Interest income and other, net	11,808	13,066	33,129	32,912
(Loss)/income before income taxes	(137,400)	49,185	(465,465)	127,800
Provision for income taxes	3,200	5,575	23,156	17,175
Net (loss)/income	$ (140,600)	$ 43,610	$ (488,621)	$ 110,625
Net (loss)/income per share:				
Basic	$ (0.20)	$ 0.11	$ (0.78)	$ 0.28
Diluted	$ (0.20)	$ 0.11	$ (0.78)	$ 0.27
Shares used in computing per share amounts:				
Basic	715,733	399,613	623,692	397,408
Diluted	715,733	403,715	623,692	403,779

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 30, 2007	October 1, 2006
	(In thousands)	
Operating activities:		
Net (loss)/income	$ (488,621)	$ 110,625
Adjustments:		
Depreciation and amortization	216,720	65,693
Stock-based compensation expense	55,772	36,154
Non-cash restructuring and other items	88,354	(2,576)
Acquired in-process research and development	182,900	
Gain on sale of intellectual property		(15,000)
Gain on sale of Gresham manufacturing facility and associated intellectual property		(12,553)
Write-off of intangible assets acquired in a purchase business combination		3,325
Non-cash foreign exchange loss/(gain)	3,221	(472)
Loss on write-down/(gain) on sale of equity securities	2,396	(1,998)
Gain on sale of property and equipment	(9,513)	(245)
Changes in deferred tax assets and liabilities	(6,797)	24
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable, net	143,998	3,063
Inventories	95,148	7,158
Prepaid expenses and other assets	35,061	(13,380)
Accounts payable	(134,621)	(1,161)
Accrued and other liabilities	658	17,104
Net cash provided by operating activities	184,676	195,761
Investing activities:		
Purchase of debt securities available-for-sale	(154,087)	(498,408)
Proceeds from maturities and sales of debt securities available-for-sale	493,029	302,407
Purchases of convertible notes/equity securities	(10,500)	(8,150)
Proceeds from sale of equity securities		6,092
Purchases of property, equipment and software	(76,986)	(44,244)
Proceeds from sale of property and equipment	13,790	89
Proceeds from sale of Consumer group	22,555	
Proceeds from sale of intellectual property		22,670
Proceeds from sale of Fort Collins facility		10,998
Proceeds from sale of Colorado Springs facility		7,029
Proceeds from sale of Gresham manufacturing facility		96,426
Proceeds from sale of intellectual property associated with the Gresham manufacturing facility		5,100
Cash acquired from acquisition of Agere, net of acquisition costs	517,712	
Acquisition of SiliconStor, net of cash acquired and transaction costs	(52,079)	

Adjustment to goodwill acquired in a prior year for resolution of a pre-acquisition income tax contingency	2,442	1,373
Net cash provided by/(used in) investing activities	755,876	(98,618)
Financing activities:		
Issuance of common stock	28,994	36,005
Purchase of common stock under repurchase programs	(549,113)	
Net cash (used in)/provided by financing activities	(520,119)	36,005
Effect of exchange rate changes on cash and cash equivalents	1,700	613
Increase in cash and cash equivalents	422,133	133,761
Cash and cash equivalents at beginning of year	327,800	264,649
Cash and cash equivalents at end of period	$ 749,933	$ 398,410
Non-cash information:		
Issuance of common stock in consideration for acquired assets and liabilities of Agere	$ 3,647,021	$

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

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LSI CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

For financial reporting purposes, LSI Corporation (the Company or LSI) reports on a 13 or 14-week quarter with a year ending December 31. The most recent quarter ended September 30, 2007. The results of operations for the quarter ended September 30, 2007, are not necessarily indicative of the results to be expected for the full year. The first nine months of 2007 ended on September 30, 2007 and the first nine months of 2006 ended on October 1, 2006 and consisted of 39 weeks each. The third quarter in each of 2007 and 2006 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. See Note 3 to the unaudited condensed consolidated financial statements (hereafter referred to as the Notes).

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from these estimates.

In management s opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments and restructuring and other items, net, as discussed in Note 4), necessary to state fairly the financial information included herein. While the Company believes that the disclosures are adequate to make the information not misleading, it is suggested that these financial statements 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, 2006.

Amortization of intangibles which was previously reported separately in operating expense has been reclassified to cost of revenues for the three and nine months ended October 1, 2006, to conform to the current period presentation.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FAS 109). FIN 48 prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in (a) an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, (b) a reduction in a deferred tax asset or an increase in a deferred tax liability or (c) both (a) and (b). Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be de-recognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in FAS 109 is not an appropriate substitute for the de-recognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on sufficiency of future taxable income is unchanged by this interpretation.

The Company adopted the provisions of FIN 48 as of January 1, 2007. The Company recognized the cumulative effect of adoption as a $3.4 million increase to the opening balance of accumulated deficit as of January 1, 2007. The amount of unrecognized tax benefit as of the date of adoption after the FIN 48 adjustment was $132.9 million. Of this amount, $103.0 million related to unrecognized tax positions that, if recognized, would affect the annual effective tax rate of the Company. The Company does not expect any uncertain tax benefits to significantly increase or decrease within the next 12 months.

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The Company files income tax returns at the U.S. federal level and in various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2001. The Company s subsidiaries in Hong Kong (1997 to 2001) and Singapore (1999 to 2002) are currently under audit.

The Company recognizes interest and penalties accrued in relation to unrecognized tax benefits in tax expense. As of the date of adoption, the Company had accrued approximately $32.3 million for the payment of interest and penalties. As of September 30, 2007, we have recorded additional interest and penalties of $4.8 million.

The amount of the unrecognized tax benefit acquired from Agere on April 2, 2007 was $64.0 million. None of this amount related to unrecognized tax positions that, if recognized, would affect the annual effective tax rate of the Company. Any adjustments relating to unrecognized tax benefits for the Agere pre-acquisition period, including related interest and penalties, would be recorded to goodwill. The Company does not expect any uncertain tax benefits to significantly increase or decrease within the next 12 months.

Acquired accrued interest and penalties from Agere were approximately $10.7 million. As of September 30, 2007, the Company recorded additional interest and penalties of $2.6 million.

Since the date of adoption, there were no material changes in the liability for uncertain tax positions.

In June 2006, the FASB Emerging Issues Task Force issued EITF Issue No. 06-2 (EITF 06-02), Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43 (FAS 43), Accounting for Compensated Absences. EITF 06-02 addresses the accounting for an employee s right to a compensated absence under a sabbatical or other similar benefit arrangement which is unrestricted (that is, the employee is not required to perform any services for or on behalf of the entity during the absence) and which requires the completion of a minimum service period and in which the benefit does not increase with additional years of service. For sabbatical arrangements meeting these criteria, EITF 06-02 concludes that the accumulated criteria have been met in paragraph 6(b) of FAS 43 and that if the remaining sections of paragraph 6 are met, the sabbatical arrangement should be accrued over the requisite service period, which for the Company would be 10 years. The Company offers a sabbatical of 20 days to full-time employees upon completion of 10 years of service. The Company adopted EITF 06-02 in the first quarter of 2007, with a cumulative effect adjustment to accumulated deficit of $4.2 million.

The impact of the adoption of FIN 48 and EITF 06-02 on the opening balance of accumulated deficit as of January 1, 2007 is as follows (in thousands):

Accumulated deficit as of December 31, 2006	$ (1,220,306)
Impact of adoption of FIN 48	(3,393)
Impact of adoption of EITF 06-02	(4,204)
Accumulated deficit as of January 1, 2007	$ (1,227,903)

In September 2006, the FASB issued Statement 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, and will be applied prospectively. The Company is currently evaluating the impact that the provisions of FAS 157 will have on the Company s consolidated balance sheet and statement of operations.

In September 2006, the FASB issued Statement No. 158 (FAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends FAS No. 87, Employers Accounting for Pensions, FAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, FAS No. 106, Employers Accounting for Postretirement Benefits Other than Pensions, and FAS No. 132(R), Employers Disclosure about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88 and 106. FAS 158 requires an entity to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status through comprehensive income in the year in which the changes occur. This Statement requires entities to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. As a result of the Agere merger, the Company acquired Agere s pension plans and postretirement benefit plans. See Note 5.

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In February 2007, the FASB issued Statement No. 159 (FAS 159), The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. FAS 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. FAS 159 is effective for the Company beginning in the first quarter of 2008, although earlier adoption is permitted. The Company is currently evaluating the impact that FAS 159 will have on the Company s consolidated balance sheet and statement of operations.

NOTE 2 STOCK-BASED COMPENSATION

Stock-based compensation expense for the three and nine months ended September 30, 2007 was $21.8 million and $55.8 million, respectively, and for the three and nine months ended October 1, 2006 was $11.0 million and $36.2 million, respectively, as shown in the table below. Stock-based compensation costs capitalized to inventory and software development for the three and nine months ended September 30, 2007 and October 1, 2006 were not significant.

The estimated fair value of the Company s stock-based awards, less expected forfeitures, is amortized over the awards vesting period (the requisite service period), on a straight-line basis. The table below summarizes stock-based compensation expense, related to employee stock options, the Company s employee stock purchase plans (ESPP) and restricted stock unit awards for the three and nine months ended September 30, 2007 and October 1, 2006.

	Three Months Ended		Nine Months Ended	
Stock-Based Compensation Expense Included In:	**September 30, 2007**	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
	(In thousands)			
Cost of revenues	$ 2,824	$ 1,719	$ 7,916	$ 5,702
Research and development	8,916	3,908	22,611	13,073
Selling, general and administrative	10,035	5,398	25,245	17,379
Total stock-based compensation expense	$ 21,775	$ 11,025	$ 55,772	$ 36,154

Stock Options

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

	Three Months Ended		Nine Months Ended	
	September 30, 2007	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
Weighted average estimated grant date fair value	$ 2.54	$ 2.97	$ 3.31	$ 3.30
Weighted average assumptions in calculation:				
Expected life (years)	4.36	4.36	4.35	4.32
Risk-free interest rate	4%	5%	5%	5%
Volatility	49%	48%	46%	48%

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 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 Company s initial public offering in 1983. The Company used implied volatilities of near-the-money exchange traded call options as stock options are call options that are granted at-the-money. The historical and implied volatilities were 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 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.

The lattice model assumes that employees exercise behavior is a function of the option s remaining 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 option grants made by the Company since its initial public offering in 1983.

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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 under the Company s equity-based compensation plans during the nine months ended September 30, 2007 is presented below:

	Number of Shares (In thousands)	Weighed Average Exercise Price Per Shares	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Options outstanding at December 31, 2006	56,750	$ 11.92		
Options assumed in Agere merger	48,884	22.41		
Options granted	10,766	9.26		
Options exercised	(2,821)	(6.10)		
Options canceled	(9,344)	(15.13)		
Options outstanding at September 30, 2007	104,235	$ 16.43	3.68	$ 41,417
Options exercisable at September 30, 2007	70,336	$ 20.47	2.75	$ 27,722

As of September 30, 2007, total unrecognized compensation expense related to nonvested stock options, net of estimated forfeitures, was approximately $110.8 million and is expected to be recognized over the next 2.7 years calculated on a weighted average basis. The total intrinsic value of options exercised during the three and nine months ended September 30, 2007 was $1.6 million and $6.5 million, respectively. Cash received from stock option exercises was $7.1 million and $17.2 million during the three and nine months ended September 30, 2007, 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.

Employee Stock Purchase Plans

The Company also has two ESPPs, one for U.S. employees and one for employees outside the U.S., under which rights are granted to employees to purchase shares of common stock at 85% of the lesser of the fair market value of such shares at the beginning of a 12-month offering period or the end of each six-month purchase period within such an offering period. Compensation expense is calculated using the fair value of the employees purchase rights under the Black-Scholes model. A total of 1.7 million shares and 1.9 million shares related to the ESPPs were issued during the three months ended July 1, 2007 and July 2, 2006, respectively. No shares related to the ESPPs were issued during the three months ended September 30, 2007 and October 1, 2006. For disclosure purposes, the Company has included the assumptions that went into the calculation of fair value for the May 2007 and May 2006 grants as follows:

	Three Months Ended	
	July 1, 2007	July 2, 2006
Weighted average estimated grant date fair value	$ 2.37	$ 3.05
Weighted average assumptions in calculation:		

Expected life (years)	0.8	0.8
Risk-free interest rate	5%	5%
Volatility	38%	39%

Restricted Stock Awards

Under the 2003 Equity Incentive Plan (2003 Plan), the Company may grant restricted stock or restricted stock units. No participant may be granted more than a total of 0.5 million shares of restricted stock or restricted stock units in any year. The Company typically grants restricted stock units, vesting of which is subject to the employee s continuing service to the Company. The cost of these awards is determined using the fair value of the Company s common stock on the date of grant and compensation expense is recognized over the vesting period on a straight-line basis.

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A summary of the changes in restricted stock unit awards outstanding during the nine months ended September 30, 2007 is presented below.

	Number of Shares (In thousands)
Non-vested shares at December 31, 2006	1,910
Assumed in Agere merger	9,141
Granted	2,282
Vested	(1,473)
Forfeited	(544)
Non-vested shares at September 30, 2007	11,316

As of September 30, 2007, the Company had approximately $64.3 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock unit awards, which will be recognized over the weighted average period of 2.3 years. The fair value of shares vested in the three and nine months ended September 30, 2007 was $3.4 million and $12.2 million, respectively.

NOTE 3 BUSINESS COMBINATIONS

The Company actively evaluates strategic acquisitions that build upon the Company s existing library of intellectual property, human capital and engineering talent, and seeks to increase the Company s leadership position in the areas in which the Company operates.

Merger with Agere

On April 2, 2007, the Company completed the acquisition of Agere. Agere was a provider of integrated circuit solutions for a variety of computing and communications applications. Some of Agere s solutions included related software and reference designs. Agere s solutions were used in products such as hard disk drives, mobile phones, high-speed communications systems and personal computers. Agere also licensed its intellectual property to others. The purpose of the acquisition was to enable the Company to expand its comprehensive set of building block solutions including semiconductors, systems and related software for storage, networking and consumer electronics products that enable businesses and consumers to store, protect and stay connected to their information and digital content and expand its intellectual property portfolio and integrated workforce in the Semiconductor segment.

Upon completion of the merger, each share of Agere common stock outstanding at the effective time of the merger was converted into the right to receive 2.16 shares of LSI common stock. As a result, approximately 368 million shares of LSI common stock were issued to former Agere stockholders. The fair value of the common stock issued was determined using a share price of $9.905 per share, which represented the average closing price of LSI common shares for two trading days before and ending two trading days after December 4, 2006, the date by which the merger was agreed to and announced. LSI assumed stock options and restricted stock units covering a total of approximately 58 million shares of LSI common stock. The fair value of options assumed was estimated using a reduced form calibrated binomial lattice model and a share price of $9.905 per share, which represents the average closing price of LSI common shares for two trading days before and ending two trading days after December 4, 2006. The value of the options and restricted units assumed was reduced by the fair value of unvested options and restricted stock units assumed, based on the price of a share of LSI common stock on April 2, 2007. LSI also guaranteed Agere s 6.5% Convertible Subordinated Notes due December 15, 2009, the fair value of which was $370 million as of April 2, 2007.

The merger was accounted for as a purchase. Accordingly, the results of operations of Agere and estimated fair value of assets acquired and liabilities assumed were included in the Company s consolidated financial statements from April 2, 2007, the acquisition date.

The total purchase price of the acquisition was as follows (in thousands):

Fair value of LSI common shares issued	$ 3,647,021
(a) Fair value of stock awards assumed	218,713