

LSI LOGIC CORP
Form 8-K/A
July 20, 2001
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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K/A

Amendment No. 2

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: June 11, 2001
(Date of earliest event reported)

LSI LOGIC CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation)

0-11674
(Commission File No.)

94-2712976
(IRS Employer
Identification No.)

1551 McCarthy Boulevard
Milpitas, California 95035
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (408) 433-8000

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Item 2: Acquisition or Disposition of Assets

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On June 15, 2001, LSI Logic Corporation (LSI Logic) filed a Form 8-K, as amended on June 18, 2001 (Form 8-K), to report the acquisition of shares of C-Cube Microsystems Inc. (C-Cube) common stock in connection with a subsequent offering period to the offer by Clover Acquisition Corp., a wholly owned subsidiary of LSI Logic (Merger Sub), to acquire all of the outstanding shares of C-Cube, and to report the merger of Merger Sub into C-Cube, as a result of which C-Cube became a wholly owned subsidiary of LSI Logic. Pursuant to Item 7 of Form 8-K, LSI Logic indicated that it would file certain financial information as soon as practicable after the filing of Form 8-K. This Amendment No. 2 to Form 8-K is filed to provide the required financial information.

Item 7: Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Business Acquired:

The unaudited condensed consolidated balance sheet of C-Cube as at March 31, 2001, the unaudited condensed consolidated statements of income and cash flows of C-Cube for the three months ended March 31, 2001 and the notes related thereto included at pages 3-10 of the Quarterly Report on Form 10-Q filed by C-Cube with the Securities and Exchange Commission on May 15, 2001, are herein incorporated by reference. Copies of such condensed consolidated financials statements are attached hereto as Exhibit 99.2.

The audited consolidated balance sheet of C-Cube as at December 31, 2000, the audited consolidated statements of operations, stockholders equity and cash flows of C-Cube for the year then ended, the notes related thereto and the related auditor's report included at pages F-2 through F-23 of the Registration Statement on Form S-4 (Registration No. 333- 58862), filed by LSI Logic with the Securities and Exchange Commission on April 13, 2001, as amended, are herein incorporated by reference. Copies of such consolidated financials statements are attached hereto as Exhibit 99.3.

(b) Pro Forma Financial Information:

The following unaudited pro forma combined condensed financial information combines LSI Logic's and C-Cube's historical audited consolidated financial statements for the twelve months ended December 31, 2000 and historical unaudited consolidated financial statements for the three months ended March 31, 2001, giving effect to the merger as if it had occurred as of the beginning of the period for the statement of operations, respectively, and as of March 31, 2001 for the balance sheet. The unaudited pro forma combined condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the consolidated financial position or results of operations for future periods or the results that actually would have been realized had LSI Logic and C-Cube been a consolidated company during the periods presented. The unaudited pro forma combined condensed financial statements, including the notes thereto, are qualified in their entirety by reference to, and should be read in conjunction with, the historical consolidated financial statements and the notes thereto of LSI Logic which were previously reported in LSI Logic's Annual Report on Form 10-K for the year ended December 31, 2000 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, respectively, and also to C-Cube's Annual Report on Form 10-K for the year ended December 31, 2000 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, respectively.

The following unaudited pro forma combined condensed financial statements give effect to the merger of LSI Logic and C-Cube using the purchase method of accounting and the assumptions and adjustments described below. The allocation of the purchase price will be finalized following finalization of independent appraisals to determine the fair value of tangible and identifiable intangible assets, including in-process research and development. Based on an analysis of fair value, the excess of the purchase price over the fair

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value of net tangible assets on C-Cube's balance sheet will then be allocated to identifiable intangible assets and goodwill. LSI Logic is currently in the process of obtaining the data necessary to determine the fair value of tangible and identifiable intangible assets, including in-process research and development. For the purposes of determining the fair value of both in-process and developed technology, LSI Logic is focused on determining C-Cube's forecasted revenues and costs as well as their stage of completion or remaining product life by individual project or product. The types of projects in-process relate to digital set-top box, DVD and CODEC-based applications such as personal video recording, home media servers, recordable DVD, residential gateway and streaming video.

The total estimated amount of goodwill and identified intangible assets is \$562 million with an estimated average useful life of approximately six years. Because the valuation has not been completed, the actual amount of goodwill and identifiable intangible assets and the related average useful life could vary from these estimates.

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LSI Logic Corporation
Unaudited Pro Forma Combined Condensed Balance Sheet
(in thousands)

	<u>Historical</u>		Pro Forma Adjustments (Note 2)	Pro Forma Combined
	<u>LSI Logic</u>	<u>C-Cube</u>		
Assets	<u>March 31, 2001</u>			
Cash, cash equivalents and short-term investments	\$ 1,059,568	\$ 66,662		\$ 1,126,230
Accounts receivable, net	359,571,227	381,768		
Inventories	358,879,218	372,097		
Prepaid expenses and other current assets	133,277,222	155,427		
Total current assets	1,911,295,124	2,035,522		
Property and equipment, net	1,333,934,163	1,350,298		
Goodwill and other intangibles	554,423,256	1,141,565		
Other assets	282,924,579	340,877		

Total assets
 \$4,082,576\$224,164\$561,522\$4,868,262

Liabilities and Stockholders Equity

Current liabilities
 \$558,115\$32,09514,142**(b)**\$604,352
 Current portion of long-term obligations
 57723,566 24,143

Total current liabilities
 558,69255,66114,142628,495
 Total long-term obligations and deferred tax
 liabilities
 1,054,9941,221 1,056,215

Minority interest in subsidiaries
 5,571408 5,979

Stockholders equity:
 Common stock
 1,805,262165,331626,423**(c)**2,597,016

Retained earnings
 640,9043,456**(80,956)(d)**563,404
 Accumulated other comprehensive income
 17,153**(1,913)1,913(e)**17,153

Total stockholders equity
 2,463,319166,874547,3803,177,573

Total liabilities and stockholders equity
 \$4,082,576\$224,164\$561,522\$4,868,262

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

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LSI Logic Corporation
Unaudited Pro Forma Combined Condensed Statement of Operations
(in thousands, except per share amounts)

	Historical		Pro Forma Adjustments (Note 3)	Pro Forma Combined
	LSI Logic	C-Cube		
	Year Ended December 31, 2000			
Revenues	\$2,737,667	\$265,049	-	\$3,002,716
Costs and expenses:				
Cost of revenues	1,568,332	119,581		1,687,913
Research and development	378,936	71,892		450,828
Selling, general and administrative	306,962	52,486		359,448
Acquired in-process research and development		77,438		77,438
Restructuring of operations and other non-recurring items, net		2,781		2,781
Amortization of non-cash deferred stock compensation(*)	41,113	15,146	(a)	75,968
Amortization of intangibles	72,648	1,004	(b)	167,239
Total costs and expenses	2,448,210	260,109		2,962,821
Income/(loss) from operations	289,457	940	(113,296)	181,101
Interest expense		(41,573)	(3,058)	(44,631)
Interest income and other, net		51,766	338	58,104
Gain on sale of equity securities		80,100	4,583	84,683

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Income/(loss) before income taxes and minority interest	379,750	12,803	(113,296)	279,257
Provision for income taxes	142,959	3,407	146,366	

Income before minority interest	236,791	9,396	(113,296)	132,891
Minority interest in net income of subsidiaries	19	172	263	

Income from continuing operations(**)	\$236,600	\$9,324	\$(113,296)	\$132,628
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Basic earnings per share:				
Income from continuing operations	\$0.76	\$0.38		

Diluted earnings per share:				
Income from continuing operations	\$0.70	\$0.35		

Shares used in computing per share amounts:				
Basic	310,813	338,267	(c)349,080	

Diluted	354,337	22,288	(d)376,625	
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(*) Amortization of non-cash deferred stock compensation, if not shown separately, of \$2.3 million, \$45.3 million and \$28.4 million would have been included in cost of revenues, research and development, and selling, general and administrative expenses, respectively, for the year ended December 31, 2000.

(**) For the fiscal year ended December 31, 2000, C-Cube reported discontinued operations associated with

DiviCom. See the Notes to the Consolidated Financial Statements of C-Cube Microsystems Inc. in the Annual Report on Form 10-K for the year ended December 31, 2000.

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

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LSI Logic Corporation
Unaudited Pro Forma Combined Condensed Statement of Operations
(in thousands, except per share amounts)

	Historical		Pro Forma Adjustments (Note 3)	Pro Forma Combined
	LSI Logic	C-Cube		
	Three Months Ended March 31, 2001			
Revenues	\$ 517,199	\$ 50,052	-	\$ 567,251
Costs and expenses:				
Cost of revenues	311,14523,066	334,211		
Research and development	118,76714,722	133,489		
Selling, general and administrative	78,97111,680	90,651		
Amortization of non-cash deferred stock compensation (*)	21,267	4,927(a)26,194		
Amortization of intangibles	27,08911423,397(b)50,600			
Total costs and expenses	557,23949,58228,324635,145			

Income/(loss) from operations
 (40,040)470(28,324)(67,894)

Interest expense
 (9,940)(586) (10,526)

Interest income and other, net
 9,2121,590 10,802

Gain on sale of equity securities
 5,302 5,302

(Loss)/income before income taxes and minority
 interest
 (35,466)1,474(28,324)(62,316)

(Benefit)/provision for income taxes
 (4,451)397 (4,054)

(Loss)/income before minority interest
 (31,015)1,077(28,324)(58,262)

Minority interest in net income/(loss) of
 subsidiaries
 233(135) 98

(Loss)/ income from continuing operations
 \$(31,248)\$1,212\$(28,324)\$(58,360)

Basic earnings per share:
 (Loss) from continuing operations
 \$(0.10) \$(0.16)

Diluted earnings per share:
 (Loss) from continuing operations
 \$(0.10) \$(0.16)

Shares used in computing per share amounts:
 Basic
 320,36938,267(c)358,636

Diluted

(*) Amortization of non-cash deferred stock compensation, if not shown separately, of \$0.5 million, \$19.2 million and \$6.5 million would have been included in cost of revenues, research and development, and selling, general and administrative expenses, respectively, for the three months ended March 31, 2001.

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

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LSI LOGIC CORPORATION
NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED
FINANCIAL STATEMENTS
(in thousands)

Note 1. Basis of Presentation

On March 26, 2001, LSI Logic signed a definitive merger agreement (Merger Agreement) to acquire C-Cube Microsystems Inc. (C-Cube) in a transaction to be accounted for as a purchase. In accordance with the Merger Agreement, LSI Logic agreed to commence an exchange offer whereby it would offer 0.79 of a share of LSI Logic common stock for each outstanding share of C-Cube common stock. Under the terms of the Merger Agreement, the exchange offer would be followed by a merger in which LSI Logic would acquire, at the same exchange ratio, the remaining shares of C-Cube common stock not previously acquired in the exchange offer. Upon completion of the merger, LSI Logic agreed to assume all options and warrants to purchase shares of C-Cube common stock and convert them into options and warrants to purchase shares of the LSI Logic common stock. The merger was subject to customary closing conditions, including the tender for exchange of at least a majority of the outstanding shares of C-Cube common stock (including for purposes of the calculation of the majority of shares, certain outstanding options and warrants to purchase C-Cube shares.) On April 24, 2001, the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. On April 26, 2001, the registration statement on Form S-4 filed on April 13, 2001 in connection with the exchange offer was declared effective by the Securities and Exchange Commission. The initial exchange offer commenced on April 13, 2001 and expired at midnight on May 10, 2001. Approximately 43.6 million shares of C-Cube common stock (including shares tendered through notice of guaranteed delivery) were validly tendered and not properly withdrawn prior to the expiration of the initial exchange offer, which constituted approximately 86 percent of the total number of outstanding shares of C-Cube common stock. LSI Logic elected to provide a subsequent offering period in connection with the exchange offer. The subsequent offering period commenced on May 11, 2001 and expired at midnight on May 24, 2001. Through May 24, 2001, LSI Logic acquired approximately 45.2 million shares of C-Cube common stock which represented approximately 89 percent of the total number of outstanding shares of C-Cube common stock. On May 25, 2001, LSI Logic extended the subsequent offering period in connection with the exchange offer through midnight on June 8, 2001. During the subsequent offering period, LSI Logic exchanged each share of C-Cube common stock at the same exchange ratio offered in the initial exchange offer. Shares of C-Cube common stock tendered during the subsequent offering period could not be withdrawn. Through June 8, 2001, LSI Logic acquired more than 90 percent of the outstanding shares of C-Cube common stock, and completed the acquisition of C-Cube on June 11, 2001. As a result of this acquisition, C-Cube became a wholly owned subsidiary of LSI Logic.

The purchase price of the C-Cube acquisition is estimated to be approximately \$855 million, which has been determined as follows (in thousands):

Value for common shares issued	\$716,732
Fair value of options assumed	116,174
Fair value of warrants assumed	8,121
Estimated direct acquisition costs	14,142

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Total purchase price	\$855,169
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LSI Logic will issue approximately 38.3 million shares of its common stock, 10.6 million options and 0.8 million warrants in exchange for the outstanding ordinary shares, options and warrants of C-Cube, respectively. This data is based upon C-Cube's outstanding shares on the date of consummation of the merger.

Common stock has been valued using an average price of LSI Logic common stock for a few days

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before and after the announcement of the merger. The fair value of the options and warrants assumed was determined using the Black-Scholes method. In accordance with FASB Interpretation No. 44 (FIN 44), Accounting for Transactions Involving Stock Compensation—an Interpretation of APB 25, that portion of the intrinsic value of unvested options of C-Cube relating to the vesting period following consummation of the transaction has been allocated to deferred stock compensation. Deferred stock compensation will be amortized over the estimated vesting of the related options. For purposes of preparing the unaudited pro forma combined condensed financial statements, LSI Logic calculated the intrinsic value of the unvested options using the closing price of its common stock on the date of consummation of the merger.

The purchase price for pro forma purposes has been allocated to tangible assets acquired and liabilities assumed based on the fair value of C-Cube's assets and liabilities. LSI Logic's management has engaged an independent appraiser to value the intangible assets, including amounts allocable to C-Cube's in-process research and development. The in-process research and development will be expensed immediately. For the purposes of these unaudited pro forma combined condensed balance sheets, the acquired in-process research and development has been assigned a value of \$78 million based on management estimates. The in-process research and development charge of \$78 million is not reflected in the unaudited pro forma combined condensed statement of operations. The exact amount of the in-process research and development charge will be determined upon completion of the independent appraisal and may be different from the amount presented in these unaudited pro forma combined condensed financial statements. The in-process research and development charge relates to C-Cube's products in development for which technological feasibility has not been established.

The allocation of purchase price is estimated as follows (in thousands):

Tangible net assets acquired	\$ 166,874
Intangible assets, including goodwill	561,522
Acquired in-process research and development	77,500
Deferred stock compensation	49,273
<hr/>	
Total purchase price	\$855,169

The unaudited pro forma combined condensed balance sheet reflects the acquisition of C-Cube as of March 31, 2001. The unaudited pro forma combined condensed statements of operations reflect the acquisition of C-Cube as if such acquisition had occurred at the beginning of the periods presented.

Note 2. Unaudited Pro Forma Combined Condensed Balance Sheet

The following adjustments were applied to the historical balance sheets of LSI Logic and C-Cube at March 31, 2001 to arrive at the unaudited pro forma combined condensed balance sheet:

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- a) To record estimated value of intangible assets, including goodwill.
- b) To record the estimated transaction costs of \$14 million. Estimated transaction costs include all costs directly attributable to the transaction including, but not limited to, fees for the financial advisors, accountants and attorneys and other related costs.
- c) To record the increase in stockholders' equity of LSI Logic of \$841 million as a result of the issuance of common stock and fair value of the LSI Logic options and warrants issued in exchange for outstanding options and warrants of C-Cube, to record deferred stock compensation of \$49 million and to eliminate C-Cube's historical common stock as a result of the purchase transaction.
- d) To reflect the estimated one-time charge for acquired in-process research and development of approximately \$78 million and to eliminate the historical retained earnings of C-Cube as a result of the purchase transaction.

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- e) To eliminate C-Cube's historical accumulated other comprehensive income.

Note 3. Unaudited Pro Forma Combined Condensed Statements of Operations

The following adjustments were applied to the historical audited statements of operations for LSI Logic and C-Cube for the year ended December 31, 2000 and to the historical unaudited statements of operations for the three months ended March 31, 2001, respectively, to arrive at the unaudited pro forma combined condensed statement of operations as though the acquisition took place on January 1, 2000 and January 1, 2001, respectively.

- a) Adjustment to recognize amortization of deferred stock compensation over the remaining vesting period of the options assumed for each period presented.
- b) Adjustment to recognize amortization of identified intangibles arising from the merger over their estimated useful lives of six years for each period presented.

Note 4. Unaudited Pro Forma Combined Income Per Share from Continuing Operations

The following adjustments were applied to the historical audited statements of operations for LSI Logic and C-Cube for the year ended December 31, 2000 and to the historical unaudited statements of operations for the three months ended March 31, 2001 to arrive at the unaudited pro forma combined condensed statement of operations as though the acquisition took place on January 1, 2000 and January 1, 2001, respectively.

- a) Adjustment to reflect the estimated number of LSI Logic common shares to be issued in exchange for C-Cube common shares.
- b) Adjustment to reflect the estimated number of shares to be issued in exchange for C-Cube common shares of 38.3 million plus common equivalents from C-Cube options assumed of 5.3 million and warrants assumed of 0.8 million less common equivalent shares of 22.0 million and interest expense of \$11 million, net of taxes associated with the 1999 LSI Logic Convertible Notes excluded from the calculation because of their antidilutive effect only on the unaudited pro forma combined condensed diluted earnings per share.
- c) In computing diluted earnings per share for the three month period ended March 31, 2001, options and warrants to purchase approximately 42.2 million shares were excluded from the computation of diluted shares because of their antidilutive effect on earnings per share.

Note 5. Recent Accounting Pronouncements

On June 29, 2001, the Financial Accounting Standards Board (FASB) voted in favor of FASB Statement No. 142 (FAS 142), Goodwill and Other Intangible Assets. FASB expects to release FAS 142 in last half of July 2001. FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of FAS 142, goodwill will be tested at the reporting unit annually and whenever events or circumstances occur indicating that goodwill might be impaired. Amortization of goodwill, including goodwill recorded in past business combinations, will cease. The adoption date for the Company will be January 1, 2002. The Company has not yet determined what the impact of FAS 142 will be on the Company's results of operations and financial position.

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(c) Exhibits:

2.1
Agreement and
Plan of
Reorganization,
dated as of
March 26, 2001,
by and among
LSI Logic
Corporation,
Clover
Acquisition
Corp. and
C-Cube
Microsystems
Inc.
(incorporated by
reference to
Annex A of LSI
Logic
Corporation's
Registration
Statement on
Form S-4
(Registration
No. 333-58862),
filed on April 13,
2001, as
amended).

23.1
Consent of
Deloitte &
Touche LLP.

99.1
Text of press
release issued by
LSI Logic
Corporation,
dated June 11,
2001
(incorporated by
reference to the
filing pursuant to
Rule 425 under
the Securities
Act of 1933 by
LSI Logic
Corporation on
June 11, 2001).

99.2
Condensed
consolidated
financial
statements of
C-Cube
Microsystems
Inc. included at

pages 3-10 of
C-Cube
Microsystems
Inc. s Quarterly
Report on Form
10-Q for the
quarter ended
March 31, 2001
filed on May 15,
2001.
99.3
Consolidated
financial
statements of
C-Cube
Microsystems
Inc. previously
filed at pages F-2
through F-23 of
LSI Logic
Corporation s
Registration
Statement on
Form S-4
(Registration No.
333-58862), filed
on April 13,
2001, as
amended.

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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 hereunto duly authorized.

Dated: July 19, 2001

LSI LOGIC CORPORATION

A Delaware Corporation

By: /s/ David G. Pursel

David G. Pursel
Vice President, General Counsel and Secretary

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Exhibit Number	Description of Document
2.1	Agreement and Plan of Reorganization, dated as of March 26, 2001, by and among LSI Logic Corporation, Clover Acquisition Corp. and C-Cube Microsystems Inc. (incorporated by reference to Annex A of LSI Logic Corporation's Registration Statement on Form S-4 (Registration No. 333-58862), filed on April 13, 2001, as amended).
23.1	Consent of Deloitte & Touche LLP.
99.1	Text of press release issued by LSI Logic Corporation, dated June 11, 2001 (incorporated by reference to the filing pursuant to Rule 425 under the Securities Act of 1933 by LSI Logic Corporation on June 11, 2001).
99.2	Condensed consolidated financial

statements of
C-Cube
Microsystems
Inc. included at
pages 3-10 of
C-Cube
Microsystems
Inc. s Quarterly
Report on Form
10-Q for the
quarter ended
March 31, 2001
filed on May 15,
2001.

99.3

Consolidated
financial
statements of
C-Cube
Microsystems
Inc. previously
filed at pages F-2
through F-23 of
LSI Logic
Corporation s
Registration
Statement on
Form S-4
(Registration No.
333-58862), filed
on April 13,
2001, as
amended.