

LSI CORP
Form DEFA14A
January 22, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input checked="" type="checkbox"/> Soliciting Material Pursuant to §240.14a-12 | |

LSI CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(3) Filing Party:

(4) Date Filed:

NEWS RELEASE

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LSI Reports Fourth Quarter and Full Year 2013 Results

SAN JOSE, Calif., January 22, 2014 LSI Corporation (NASDAQ: LSI) today reported results for its fourth quarter ended December 31, 2013.

On December 15, 2013, LSI entered into a definitive agreement with Avago Technologies Limited (NASDAQ: AVGO) under which Avago has agreed to acquire LSI for \$11.15 per share in an all-cash transaction valued at approximately \$6.6 billion. In anticipation of this transaction, which is expected to close in the first half of 2014, LSI will not issue financial guidance for the upcoming quarter or conduct a fourth quarter results conference call. LSI has also discontinued its quarterly dividend and stock repurchases.

Fourth Quarter 2013 Financial Highlights

Fourth quarter 2013 revenues of \$605 million

Fourth quarter 2013 GAAP* net income of \$0.08 per diluted share

Fourth quarter 2013 non-GAAP** net income of \$0.20 per diluted share

Fourth quarter 2013 operating cash flows of \$134 million

Fourth quarter operating expenses of \$271 million on a GAAP basis and \$225 million on a non-GAAP basis
Full Year 2013 Financial Highlights

2013 full year revenue of \$2.37 billion

2013 full year earnings per diluted share of \$0.22 on a GAAP basis and \$0.68 on a non-GAAP basis

2013 full year gross margins of 51.1% on a GAAP basis and 54.9% on a non-GAAP basis

2013 full year operating cash flows of \$338 million

2013 year-end cash and short-term investments of \$810 million

We ended the year on a strong note, with solid quarterly results and the announcement of Avago's proposed acquisition of LSI, said Abhi Talwalkar, LSI's president and CEO. Our employees did a great job in the quarter and in the year, bringing several exciting new products to market and expanding our capabilities to better serve our growing customer base in flash storage, datacenters and mobile networks.

Additional 2013 Business Highlights

Fourth quarter storage revenues were \$482 million, networking revenues were \$93 million and IP revenue was \$30 million.

Established position as the No. 2 provider in the rapidly growing PCIe flash adapter market segment with over 100% growth over 2012 and greater than 100,000 lifetime units shipped.

Began sampling next-generation SF3700 SandForce® controllers, LSI's third generation of flash controllers specifically architected to bring out the full performance of PCIe technology.

Strong penetration of ARM-based Axxia® products into base stations, including small cells, and into enterprise and datacenter networking applications. Revenue from networking growth areas was up 5% over prior year.

Won supplier of the year award at Cisco, with more than 10 unique designs in development.

Began shipments of 28nm enterprise SoCs to three of four hard disk drive OEMs, and volume SoCs into a new client customer.

Extended SAS and RAID leadership and first to ship 12Gb/s SAS RAID-on-Chip and I/O controller solutions, leading the 6Gb to 12Gb market transition.

Fourth quarter 2013 revenues were \$605 million, compared to \$600 million in the fourth quarter of 2012 and \$607 million in the third quarter of 2013.

Fourth quarter 2013 GAAP net income was \$45 million or \$0.08 per diluted share, compared to fourth quarter 2012 GAAP net income of \$23 million or \$0.04 per diluted share. Third quarter 2013 GAAP net income was \$37 million or \$0.06 per diluted share.

Fourth quarter 2013 GAAP net income included a net charge of \$68 million from special items, consisting primarily of approximately \$30 million of amortization of acquisition-related items, \$21 million of stock-based compensation expense, and \$17 million of net restructuring and other items, including merger related costs.

Fourth quarter 2013 non-GAAP net income was \$113 million or \$0.20 per diluted share, compared to fourth quarter 2012 non-GAAP net income of \$101 million or \$0.18 per diluted share. Third quarter 2013 non-GAAP net income was \$93 million or \$0.17 per diluted share.

Our tax provision on both a GAAP and non-GAAP basis can vary significantly quarter to quarter based on our profitability in different geographic tax jurisdictions and certain discrete items. We experienced such events in the fourth quarter with the expiration of certain statutes of limitations that resulted in a non-cash net tax benefit of \$2 million for the period versus the provision of \$7 million we guided to in October.

Server and storage semiconductors represented 80% of total revenues for the fourth quarter.

Cash and short-term investments totaled approximately \$810 million at quarter end. LSI did not repurchase any shares in the fourth quarter.

* Generally Accepted Accounting Principles.

** Excludes stock-based compensation, amortization of acquisition-related intangibles, purchase accounting effect on inventory, restructuring of operations and other items, net, gain on remeasurement of a pre-acquisition equity interest to fair value, and gain/loss on sale/write-down of investments. It also excludes the income tax effect associated with the above-mentioned items.

Forward-Looking Statements: This news release contains forward-looking statements that are based on the current opinions and estimates of management. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that could cause LSI's actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to: the risk that the conditions to the closing of the merger of LSI and a subsidiary of Avago are not satisfied (including a failure of the stockholders of LSI to approve, on a timely basis or otherwise, the merger and the risk that regulatory approvals required for the merger, including clearance from the Committee on Foreign Investment in the United States, are not obtained, on a timely basis or otherwise, or are obtained subject to conditions that are not anticipated); litigation relating to the merger; uncertainties as to the timing of the consummation of the merger and the ability of each of LSI and Avago to consummate the merger; risks that the proposed transaction disrupts the current plans and operations of LSI; the ability of LSI to retain and hire key personnel; competitive responses to the proposed merger; unexpected costs, charges or expenses resulting from the merger; the failure by Avago to obtain the necessary debt financing arrangements set forth in the commitment letters received in connection with the merger; potential adverse reactions or changes to business relationships resulting from the announcement or completion of the merger; legislative, regulatory and economic developments; our ability to achieve anticipated synergies and to develop integrated new products following our acquisition of SandForce; our reliance on major customers and suppliers; our ability to keep up with rapid technological change; our ability to compete successfully in competitive markets; fluctuations in the timing and volumes of customer demand; the unavailability of appropriate

levels of manufacturing capacity; and general industry and macro-economic conditions. For additional information, see the documents filed by LSI with the Securities and Exchange Commission, and specifically the risk factors set forth in the company's most recent reports on Form 10-K and 10-Q. LSI disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

About LSI

LSI Corporation (NASDAQ: LSI) designs semiconductors and software that accelerate storage and networking in datacenters, mobile networks and client computing. Our technology is the intelligence critical to enhanced application performance, and is applied in solutions created in collaboration with our partners. More information is available at www.lsi.com.

LSI, the LSI & Design logo, Storage.Networking.Accelerated., SandForce and Axxia are trademarks or registered trademarks of LSI Corporation in the United States and/or other countries.

All other brand or product names may be trademarks or registered trademarks of their respective companies.

Investor Relations Contact:

Sujal Shah

610-712-5471

sujal.shah@lsi.com

Media Relations Contact:

Dave Miller

408-712-7813

dave.c.miller@lsi.com

Additional Information and Where to Find It; Participants in Solicitation

This communication is being made in respect of the proposed transaction involving LSI Corporation (LSI) and Avago Technologies Limited (Avago). The proposed transaction will be submitted to the stockholders of LSI for their consideration. In connection with the proposed transaction, LSI will prepare a proxy statement to be filed with the SEC. LSI and Avago also plan to file with the SEC other documents regarding the proposed transaction. LSI'S SECURITY HOLDERS ARE URGED TO READ THE PROXY STATEMENT REGARDING THE PROPOSED TRANSACTION AND ANY OTHER RELEVANT DOCUMENTS CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. When completed, a definitive proxy statement and a form of proxy will be mailed to the stockholders of LSI. Investors will be able to obtain, without charge, a copy of the proxy statement and other relevant documents (when available) filed with the SEC from the SEC's website at <http://www.sec.gov>. Investors will also be able to obtain, without charge, a copy of the proxy statement and other relevant documents (when available) by going to www.lsiproxy.com, by writing to LSI Corporation, 1110 American Parkway NE, Allentown, PA 18109, Attn: Response Center, or by calling 1 (800) 372-2447.

LSI and Avago and their respective directors, executive officers may be deemed to be participants in the solicitation of proxies from LSI's stockholders with respect to the meeting of stockholders that will be held to consider the proposed Merger. Information regarding LSI's directors and executive officers is contained in LSI's Annual Report on Form 10-K for the year ended December 31, 2012, the proxy statement for LSI's 2013 Annual Meeting of Stockholders, which was filed with the SEC on March 28, 2013, and subsequent filings which LSI has made with the SEC. Information regarding Avago's directors and executive officers is contained in Avago's Annual Report on Form 10-K for the year ended October 28, 2012, the proxy statement for the Avago's 2013 Annual Meeting of Stockholders, which was filed with the SEC on February 20, 2013, and subsequent filings which Avago has made with the SEC. Investors may obtain additional information regarding the interests of LSI and its directors and executive

officers in the proposed Merger, which may be different than those of LSI's stockholders generally, by reading the proxy statement and other relevant documents regarding the proposed Merger, when it becomes available. You may obtain free copies of this document as described in the preceding paragraph.

LSI CORPORATION
Condensed Consolidated Balance Sheets**(In millions)****(Unaudited)**

| | December 31, 2013 | September 29, 2013 | December 31, 2012 |
|--|------------------------------|-------------------------------|------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and short-term investments | \$ 809.8 | \$ 664.6 | \$ 676.0 |
| Accounts receivable, net | 270.8 | 292.6 | 264.1 |
| Inventories | 156.3 | 170.1 | 206.3 |
| Prepaid expenses and other current assets | 71.7 | 66.7 | 80.4 |
| Total current assets | 1,308.6 | 1,194.0 | 1,226.8 |
| Property and equipment, net | 302.3 | 286.9 | 269.7 |
| Goodwill and identified intangible assets, net | 622.6 | 652.2 | 741.1 |
| Other assets | 128.2 | 118.2 | 118.6 |
| Total assets | \$ 2,361.7 | \$ 2,251.3 | \$ 2,356.2 |
| Liabilities and Stockholders Equity | | | |
| Current liabilities | | | |
| Pension, tax and other liabilities | \$ 483.0 | \$ 460.1 | \$ 516.9 |
| Total liabilities | 443.0 | 638.7 | 679.6 |
| Total liabilities | 926.0 | 1,098.8 | 1,196.5 |
| Stockholders equity: | | | |
| Common stock and additional paid-in capital | 5,576.0 | 5,503.8 | 5,578.8 |
| Accumulated deficit | (3,749.0) | (3,777.5) | (3,840.8) |
| Accumulated other comprehensive loss | (391.3) | (573.8) | (578.3) |
| Total stockholders equity | 1,435.7 | 1,152.5 | 1,159.7 |
| Total liabilities and stockholders equity | \$ 2,361.7 | \$ 2,251.3 | \$ 2,356.2 |

LSI CORPORATION

Consolidated Statements of Operations (GAAP)

(In thousands, except per share amounts)

(Unaudited)

| | Three Months Ended | | | Year Ended | |
|--|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 31, 2013 | September 29, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| Revenues | \$ 605,067 | \$ 606,943 | \$ 600,128 | \$ 2,370,229 | \$ 2,506,087 |
| Cost of revenues | 272,284 | 272,458 | 275,538 | 1,069,594 | 1,162,414 |
| Amortization of acquisition-related intangibles | 19,746 | 19,746 | 21,318 | 78,984 | 85,404 |
| Purchase accounting effect on inventory | | | | | 14,458 |
| Stock-based compensation expense | 2,203 | 2,059 | 2,858 | 9,374 | 11,946 |
| Total cost of revenues | 294,233 | 294,263 | 299,714 | 1,157,952 | 1,274,222 |
| Gross profit | 310,834 | 312,680 | 300,414 | 1,212,277 | 1,231,865 |
| Research and development | 162,691 | 163,486 | 165,758 | 651,902 | 643,230 |
| Stock-based compensation expense | 9,628 | 8,810 | 11,613 | 40,466 | 47,064 |
| Total research and development | 172,319 | 172,296 | 177,371 | 692,368 | 690,294 |
| Selling, general and administrative | 62,437 | 66,199 | 64,919 | 265,526 | 270,965 |
| Amortization of acquisition-related intangibles | 9,883 | 9,883 | 8,667 | 39,532 | 34,668 |
| Stock-based compensation expense | 8,757 | 9,340 | 10,291 | 38,368 | 49,290 |
| Total selling, general and administrative | 81,077 | 85,422 | 83,877 | 343,426 | 354,923 |
| Restructuring of operations and other items, net | 17,405 | 6,739 | 22,917 | 52,403 | 49,091 |
| Income from operations | 40,033 | 48,223 | 16,249 | 124,080 | 137,557 |
| Interest income and other, net | 2,746 | 836 | 7,606 | 13,710 | 37,711 |
| Income before income taxes | 42,779 | 49,059 | 23,855 | 137,790 | 175,268 |
| (Benefit from)/provision for income taxes | (2,264) | 12,500 | 1,202 | 13,136 | (20,960) |
| Net income | \$ 45,043 | \$ 36,559 | \$ 22,653 | \$ 124,654 | \$ 196,228 |

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| | | | | | |
|---|---------|---------|---------|---------|---------|
| Net income per share: | | | | | |
| Basic | \$ 0.08 | \$ 0.07 | \$ 0.04 | \$ 0.23 | \$ 0.35 |
| Diluted | \$ 0.08 | \$ 0.06 | \$ 0.04 | \$ 0.22 | \$ 0.34 |
| Shares used in computing per share amounts: | | | | | |
| Basic | 547,347 | 545,451 | 552,761 | 547,817 | 559,459 |
| Diluted | 570,206 | 563,621 | 568,611 | 567,479 | 580,548 |

Reconciliations of certain GAAP measures to non-GAAP measures are included below.

| | Three Months Ended | | | Year Ended | |
|--|--------------------|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2013 | September 29, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| Reconciliation of GAAP net income to non-GAAP net income: | | | | | |
| GAAP net income | \$ 45,043 | \$ 36,559 | \$ 22,653 | \$ 124,654 | \$ 196,228 |
| Special items: | | | | | |
| a) Stock-based compensation expense - cost of revenues | 2,203 | 2,059 | 2,858 | 9,374 | 11,946 |
| b) Stock-based compensation expense - R&D | 9,628 | 8,810 | 11,613 | 40,466 | 47,064 |
| c) Stock-based compensation expense - SG&A | 8,757 | 9,340 | 10,291 | 38,368 | 49,290 |
| d) Amortization of acquisition-related intangibles - cost of revenues | 19,746 | 19,746 | 21,318 | 78,984 | 85,404 |
| e) Amortization of acquisition-related intangibles - SG&A | 9,883 | 9,883 | 8,667 | 39,532 | 34,668 |
| f) Purchase accounting effect on inventory | | | | | 14,458 |
| g) Restructuring of operations and other items, net | 17,405 | 6,739 | 22,917 | 52,403 | 49,091 |
| h) Gain on sale of investments | | | | | (2,550) |
| i) Gain on re-measurement of a pre-acquisition equity interest to fair value | | | | | (5,765) |
| j) Income tax effect | | | 833 | | (42,365) |
| Total special items | 67,622 | 56,577 | 78,497 | 259,127 | 241,241 |
| Non-GAAP net income | \$ 112,665 | \$ 93,136 | \$ 101,150 | \$ 383,781 | \$ 437,469 |
| Non-GAAP income per share: | | | | | |
| Basic | \$ 0.21 | \$ 0.17 | \$ 0.18 | \$ 0.70 | \$ 0.78 |
| Diluted | \$ 0.20 | \$ 0.17 | \$ 0.18 | \$ 0.68 | \$ 0.75 |

| Shares used in computing non-GAAP per share amounts: | | | | | |
|--|---------|---------|---------|---------|---------|
| Basic | 547,347 | 545,451 | 552,761 | 547,817 | 559,459 |
| Diluted | 570,206 | 563,621 | 568,611 | 567,479 | 580,548 |

LSI CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Three Months Ended | | | Year Ended | |
|--|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 31, 2013 | September 29, 2013 | December 31, 2012 | December 31, 2013 | December 31, 2012 |
| Operating activities: | | | | | |
| Net income | \$ 45,043 | \$ 36,559 | \$ 22,653 | \$ 124,654 | \$ 196,228 |
| Adjustments: | | | | | |
| Depreciation and amortization | 45,111 | 46,335 | 44,166 | 181,278 | 180,484 |
| Stock-based compensation expense | 20,588 | 20,209 | 24,762 | 88,208 | 108,300 |
| Non-cash restructuring of operations and other items, net | 247 | 85 | 221 | 6,662 | 5,960 |
| Gain on sale of investments | | | | | (2,550) |
| Gain on re-measurement of a pre-acquisition equity interest to fair value | | | | | (5,765) |
| (Gain)/loss on sale of property and equipment | | (54) | (46) | (58) | 2,528 |
| Unrealized foreign exchange loss/(gain) | 425 | (1,452) | (518) | (3,281) | (598) |
| Deferred taxes | (23,745) | (416) | (9,972) | (24,212) | (53,218) |
| Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combination: | | | | | |
| Accounts receivable | 21,718 | (50,605) | (7,620) | (7,197) | (6,689) |
| Inventories | 13,837 | 3,436 | 2,748 | 49,843 | (2,116) |
| Prepaid expenses, assets held for sale and other assets | (13,956) | (1,398) | (16,850) | (24,471) | (17,570) |
| Accounts payable | 5,980 | (28,186) | 23,208 | (32,807) | 27,543 |
| Accrued and other liabilities | 18,968 | 38,416 | 12,103 | (20,824) | (58,378) |
| Net cash provided by operating activities | 134,216 | 62,929 | 94,855 | 337,795 | 374,159 |
| Investing activities: | | | | | |
| Purchases of debt securities available-for-sale | (43,300) | (45,941) | (37,206) | (206,419) | (131,662) |
| Proceeds from maturities and sales of debt securities available-for-sale | 40,732 | 42,686 | 28,320 | 134,435 | 57,843 |
| Purchases of other investments | (800) | | (500) | (1,550) | (500) |
| Proceeds from sale of other investments | | | | | 2,550 |
| Purchases of property and equipment | (21,521) | (21,697) | (27,494) | (86,575) | (130,779) |
| Proceeds from sale of property and equipment | 155 | 183 | 67 | 420 | 1,693 |

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| | | | | | |
|--|------------|------------|------------|------------|------------|
| Increase in non-current assets | | (3,821) | | (3,821) | |
| Acquisition of business, net of cash acquired | | | | | (319,231) |
| Net cash used in investing activities | (24,734) | (28,590) | (36,813) | (163,510) | (520,086) |
| Financing activities: | | | | | |
| Issuance of common stock | 52,798 | 9,416 | 20,985 | 94,103 | 111,628 |
| Payment of dividends to stockholders | (16,478) | (16,311) | | (32,789) | |
| Purchases of common stock under repurchase program | | (41,207) | (46,338) | (163,487) | (272,585) |
| Net cash provided by/(used in) financing activities | 36,320 | (48,102) | (25,353) | (102,173) | (160,957) |
| Effect of exchange rate changes on cash and cash equivalents | 715 | 443 | (1,668) | (872) | (1,399) |
| Net change in cash and cash equivalents | 146,517 | (13,320) | 31,021 | 71,240 | (308,283) |
| Cash and cash equivalents at beginning of period | 396,251 | 409,571 | 440,507 | 471,528 | 779,811 |
| Cash and cash equivalents at end of period | \$ 542,768 | \$ 396,251 | \$ 471,528 | \$ 542,768 | \$ 471,528 |