

# LSI CORP (LSI)

## 10-K

Annual report pursuant to section 13 and 15(d)

Filed on 02/29/2012

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-K**

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(Mark One)

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

December 31, 2011 For the Fiscal Year Ended December 31, 2011

**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 No. 1-10317

**LSI CORPORATION**

*(Exact name of registrant as specified in its charter)*

**DELAWARE**  
*(State or other jurisdiction of  
incorporation or organization)*

**94-2712976**  
*(IRS Employer  
Identification No.)*

**1621 Barber Lane**  
**Milpitas, California 95035**  
*(Address of principal executive offices) (Zip Code)*

**Registrant's telephone number, including area code:**

**(408) 433-8000**

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**

Common Stock, \$0.01 par value

**Name of Each Exchange on Which Registered**

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act). Yes  No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of July 3, 2011 was approximately \$4.1 billion, based on the reported last sale price on the New York Stock Exchange of such equity on the last business day of the fiscal quarter ending on such date.

As of February 22, 2012, 566,775,845 shares of common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required by Part III of this report is incorporated by reference from the registrant's proxy statement to be filed pursuant to Regulation 14A with respect to the registrant's 2012 annual meeting of stockholders.

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**Form 10-K**  
**For the Year Ended December 31, 2011**  
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**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K 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 I, Item 1A-"Risk Factors" a number of factors that could cause our actual results to differ materially 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.

LSI, LSI & Design logo, MegaRAID, Tarari, WarpDrive, Fusion-MPT, 3ware and Axxia are trademarks or registered trademarks of LSI Corporation. All other brand or product names may be trademarks or registered trademarks of their respective companies.

## PART I

### Item 1. *Business*

#### General

We design, develop and market complex, high-performance storage and networking semiconductors. We offer a broad portfolio of capabilities including custom and standard product integrated circuits that are used in hard disk drives, solid state drives, high-speed communications systems, computer servers, storage systems and personal computers. We deliver our products to our customers as stand-alone integrated circuits as well as incorporated onto circuit boards that offer additional functionality. We also license other entities to use our intellectual property.

Integrated circuits, also called semiconductors or chips, are made using semiconductor wafers imprinted with a network of electronic components. They are designed to perform various functions such as processing electronic signals, controlling electronic system functions and processing and storing data. We provide products for leading original equipment manufacturer, or OEM, companies, in the server, storage and networking industries. We also sell some of our products through a network of resellers and distributors.

You can find segment financial information and geographic financial information in Note 11 to our financial statements in Item 8 of Part II, which information is incorporated herein by reference. See Item 1A — "Risk Factors" for information about risks we face as a result of our operations outside the United States, which information is also incorporated herein by reference.

#### Recent Developments

In May 2011, we sold our external storage systems business, which designed and sold entry-level and mid-range storage systems to OEMs and channel customers. By selling that business, we are able to focus our development and sales efforts on our semiconductor business and believe that storage OEMs with which we may have competed may now be more willing to buy our semiconductor products.

On January 3, 2012, we acquired SandForce, Inc., a provider of flash storage processors, or FSPs, for enterprise and client flash solutions and solid state drives, or SSDs.

#### Company Information

We were incorporated in California on November 6, 1980 and reincorporated in Delaware on June 11, 1987.

We maintain an Internet website at [www.lsi.com](http://www.lsi.com). We make available free of charge on our website our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission. You can read any materials that we file with the Commission at the Commission's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the Commission at (800) 732-0330. Information on our website is not incorporated by reference into this report.

#### Products

##### **STORAGE PRODUCTS**

Our storage products enable secure movement of digital data to and from host machines such as servers, personal computers and storage systems to the underlying storage devices such as hard disk drives, tape drives and flash solutions. Our storage products can be embedded in storage devices, host computers or adapters and in switches, which move data on a storage area network, or SAN.

Our storage product portfolio includes:

- hard disk, tape drive and flash solutions, which enable the reading and writing of digital data to and from the storage media such as the hard disk drive platter or the flash memory cell:

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- server and storage connectivity solutions, which facilitate secured data transfers between host systems such as servers and storage devices; and
- custom storage solutions, which enable high speed storage data communication between servers and external storage systems over a switched storage network such as a fiber channel SAN.

In 2011, 2010 and 2009, we had \$1,487 million, \$1,302 million and \$1,133 million of revenue from sales of our storage semiconductor products representing approximately 72.7%, 69.6% and 71.9% of our total revenues.

### ***Hard Disk and Tape Drive Electronics***

We sell integrated circuits for hard disk and tape drive solutions that are used to store and retrieve data in personal computers, corporate network servers, archive/back-up devices and consumer electronics products such as digital video recorders, game consoles and external storage devices. A hard disk drive contains physical media, one or more "platters" that store data, a motor that spins the media, drive heads that read data from and write data to the media and electronics that process the data and control the disk drive. Tape drives store data on magnetic tape and provide a high-capacity, cost-effective tiered data storage back-up solution.

Our TrueStore<sup>®</sup> family of storage electronics products includes systems-on-a-chip, or SoCs, read channels, pre-amplifiers, serial physical interfaces and hard disk controllers as well as custom firmware. These are the critical chips required to read, write and protect data. An SoC is an integrated circuit that combines the functionality of a read channel, serial interface, memory and a hard disk controller in a small, high-performance, low-power and cost-effective package. Read channels convert analog signals that are generated by reading the stored data on the physical media into digital signals. We also sell pre-amplifiers, or preamps, which are used to amplify the initial signal to and from the drive disk heads so the signal can be processed by the read channel. We provide similar technology for tape drives. Our hard disk controllers are used to control signal processing and communications functions within the disk drive.

### ***Flash Storage Applications***

Flash, or solid state memory, stores data in non-volatile semiconductors that retain data even when power is switched off. Storage devices using flash memory can typically store and retrieve data faster than hard disk drives, but cost more than hard disk drives with the same capacity. As a result of its speed advantage, flash-based storage has become a fast growing storage medium, especially for applications that can benefit from very fast access to data such as mission critical enterprise applications, as well as consumer products such as laptops. We address this market opportunity with custom and standard FSPs as well as PCIe<sup>®</sup> based SSD adapters.

*Flash Storage Processors.* An SSD stores data in flash memory instead of on a hard disk, providing high speed access to the data. SSDs use FSPs to manage the underlying flash memory, performing critical functions such as reading and writing data to and from the flash chips and performing error correction, wear leveling and bad block management.

In 2011, we began selling our WarpDrive<sup>®</sup> PCIe-based solution. This product, which is an extension of our existing adapter products, incorporates flash memory and our FSPs, SAS controller chips and software on an industry-standard size adapter board. The product allows frequently-used data to be stored in flash memory, allowing for faster access and better performance for that data than if it had been stored on a traditional hard disk, and is aimed at the Web serving, data warehousing, data mining, online transaction processing and high-performance computing fields.

### ***Server Storage Connectivity Products***

We also offer solutions that enable data transmission between a host computer, such as a server, and storage peripheral devices, such as hard disk, solid state and optical disk drives and disk and tape-based storage systems. These products include:

*Server Storage Semiconductor Products.* Our product line includes integrated circuits such as input/output controllers and RAID-on-Chip integrated circuits, or ROCs, that support the SAS, SATA and PCIe protocol

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standards combined with our Fusion-MPT firmware and drivers to form intelligent storage interface solutions primarily for server and storage systems motherboard applications. Additionally, our product line includes SAS and SATA bus expander integrated circuits, SAS switches and disk drive bridging or interposer circuits used primarily in storage systems. The majority of SAS products in production during 2011 supported the 3 and 6 gigabits per second SAS standards. In 2011, we started sampling the next generation of SAS products which will support the 12 gigabits per second standard.

*Server RAID Adapters and Software.* We offer a variety of direct-attach RAID solutions as part of our MegaRAID<sup>®</sup> and 3ware<sup>®</sup> product families, which store data using multiple drives and various data replication strategies to minimize the impact of the failure of any one drive. Our MegaRAID and 3ware products include single-chip RAID-on-motherboard solutions, a broad family of PCIe RAID controller boards featuring SAS and SATA interfaces, and software-only RAID products for entry level RAID data protection. All of these solutions utilize our fully featured RAID software and management utilities for robust storage configuration and deployment. In addition to the OEM channel, we offer MegaRAID and 3ware branded products through a network of distributors and resellers.

### *Custom Storage Solutions*

We also offer custom solutions to customers who develop Fibre Channel and Fibre Channel over Ethernet SAN switches and host bus adapters, storage systems, hard disk drives and tape peripherals. We have developed a full portfolio of high-speed interface intellectual property that we combine with our customers' intellectual property to form custom solutions that provide a connection to the SAN, memory systems and host buses. Using these pre-verified interfaces, we believe our customers can reduce development risk and achieve quicker time to market. Our intellectual property offerings include high performance SerDes cores supporting Fibre Channel, SAS, SATA, 10-Gigabit Ethernet, Gigabit Ethernet, Infiniband<sup>®</sup>, SAS, Serial RapidIO<sup>®</sup> and PCIe industry standards and a family of high-performance Fibre Channel, Ethernet, RapidIO, PCIe, SAS and SATA protocol controllers.

## **NETWORKING PRODUCTS**

We offer networking products principally targeting the wireless infrastructure, enterprise and data center markets. Our solutions allow service providers and enterprises to accelerate and deliver differentiated communications services over mobile broadband and packet-based networks. Our networking solutions are designed to enable wireless and Internet Protocol, or IP, networks to provide reliability similar to that of traditional circuit-based networks by incorporating quality-of-service features which enable data intensive applications such as streaming video.

Our networking portfolio includes solutions for multi-service wired and wireless access systems found in carrier networks, as well as solutions typically used in small office, home office and small-to-medium business applications. We also design and sell enterprise networking devices for applications such as Ethernet switches and routers. Our networking solutions include communication processors, network processors, media processors, content-inspection processors and physical layer devices, as well as software tools and segment specific applications, evaluation systems and reference designs.

We offer both custom and standard networking product solutions to meet the needs of our broad customer base. Our custom networking products are developed for a specific application defined by the customer while our standard networking products are developed for market applications that we define and then sell to multiple customers.

In 2011, 2010 and 2009, we had \$454 million, \$473 million and \$385 million of revenue from sales of our networking semiconductor products representing approximately 22.2%, 25.3% and 24.4% of our total revenues.

### *Custom Networking Products*

These integrated circuits incorporate our intellectual property or combine our intellectual property with the intellectual property of our customers or other third parties to create a customized solution for these customers.

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For some customers, we design and manufacture the integrated circuit while the key intellectual property belongs solely to our customers. Our 28nm silicon platform with an advanced design methodology offers power savings at increased density and higher performance. This platform allows our wireless infrastructure and enterprise networking customers to meet performance demands while simultaneously reducing product and cooling costs.

### ***Communication Processors and Network Processors***

Communication processors handle the setup and operation of a network. Network processors are typically used in switching and routing systems to classify, prioritize and forward packets as they move through a carrier's network. We offer communication processors and network processors with the ability to handle a range of data rates. We believe doing so gives customers the ability to re-use software applications across our product line, thereby reducing cost and time-to-market.

In 2011, we introduced the Axxia<sup>®</sup> Communications Processor, which provides packet processing, traffic management, deep packet inspection and security capabilities, and is aimed at wireless network access systems and enterprise gateways. We offer a family of Axxia products with different price-points and throughput capabilities to meet various carrier requirements. We offer network processors that can be used in a variety of locations in a carrier's network, from low-bandwidth locations, such as between an end-customer and the carrier's central office, to high-bandwidth locations such as the core of the carrier's network.

### ***Media Processors***

Media processors use digital signal processing technology and perform advanced algorithms on analog signals that have been transformed into digitally-encoded bitstreams. Our media processors perform audio, video and speech signal processing, compression, transcoding and transrating and can be used in applications including Voice-over-IP, or VoIP, communications, business and enterprise gateways, access routers, video delivery, media gateways and wired and wireless access network equipment.

### ***Content Inspection Processors***

We offer a family of content inspection processors, which are available as integrated circuits, boards and software acceleration components designed for network equipment, appliance and server vendors. Our Tarari<sup>®</sup> content inspection processors perform deep packet inspection at wire speeds, ranging from 100 megabits per second to over 10 gigabits per second. These products offload and accelerate applications such as anti-virus, anti-spam, intrusion prevention/detection systems, compliance, content-based routing and XML processing.

### ***Multi-Service Processors***

In addition to the networking products described above, we offer integrated circuits and supporting software designed for equipment used in access, metropolitan and wide-area backbone telecommunications and packet networks. Our products can be used in equipment in both wired and wireless networks to aggregate and manage voice and data traffic.

### ***Personal Connectivity Solutions***

We sell high speed input/output products that transfer data within and between computers, peripheral equipment, such as printers, scanners and digital cameras, and data networks. Our products, which support established connectivity and transmission standards known as Gigabit Ethernet, IEEE<sup>®</sup> 1394, and Universal Serial Bus or USB, are sold primarily to manufacturers of computers, peripheral equipment and communications equipment. In addition, we sell integrated circuits and associated software for analog modem and firewire products, primarily to manufacturers of personal computers, notebook computers, point-of-sale terminals, facsimile machines, multi-function printers, cable and satellite set-top boxes and other electronic equipment.

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### **Marketing and Distribution**

The semiconductor industry is highly competitive and is characterized by rapidly changing technology. Our marketing strategy requires that we forecast trends in the evolution of products and technology. We must then act upon this knowledge in a timely manner to develop competitively priced products offering superior features, performance or levels of integration.

Our products are sold primarily to OEM customers through our network of direct sales, marketing and field engineering offices located in North America, Europe, Japan and elsewhere in Asia. We also work with independent industrial and commercial distributors and manufacturers' representatives or other channel partners in North America, Europe, Japan and elsewhere in Asia. Some of our distributors possess engineering capabilities, and design and purchase both custom solutions and standard products from us for resale to their customers. Other distributors focus solely on the sale of standard products.

Our marketing efforts support our OEM customers, as well as our distributors and reseller channels, with programs targeted at developing differentiated go-to-market strategies and increasing sales effectiveness. Depending on the nature of our channel customer engagement, our marketing teams offer various levels of assistance in assessing and analyzing the competitive landscape, defining product strategy and roadmaps, developing product positioning and pricing, creating product launch support materials and closing sales. These marketing teams carefully coordinate joint product development and marketing efforts with our customers to ensure that we address and effectively target enterprise requirements. We maintain sales and marketing organizations in the United States and internationally in China, Germany, Italy, Japan, Singapore, Sweden and the United Kingdom.

### **Customers**

In 2011, Seagate Technology accounted for approximately 25.0% of our total revenue. No other customer accounted for more than 10% of our total revenue in 2011. We currently have a highly concentrated customer base as a result of our strategy to focus our marketing and sales efforts on select, large-volume customers. Our top 10 end customers in 2011, based on revenue, accounted for approximately 61.9% of our revenue. We typically sell products pursuant to purchase orders that customers can generally cancel, change or defer up to a specified point in time without incurring a significant penalty. While we may have contracts with customers that outline general terms and conditions, we do not typically have contracts that commit our customers to buy specified quantities of products from us. The loss of any of our significant customers, any substantial decline in sales to these customers, or any significant change in the timing or volume of purchases by these customers could result in substantially lower revenues and could materially harm our business, financial condition and results of operations.

### **Manufacturing**

The semiconductor manufacturing process begins with wafer fabrication, where a design is transferred to silicon wafers through a series of processes, including photolithography, ion implantation, deposition of numerous films and the etching of these various films and layers. Each circuit on the wafer is tested in the wafer sort operation. The good circuits are identified and the wafer is then separated into individual die. Each good die is then assembled into a package that encapsulates the integrated circuit for protection and allows for electrical connection to a printed circuit board. The final step in the manufacturing process is final test, where the finished devices undergo stringent and comprehensive testing.

Wafer fabrication is very complex and costly, and the industry trend has been towards outsourcing all or a portion of this operation to silicon foundries located throughout the world. Our wafer fabrication is performed by third-party foundries, including Taiwan Semiconductor Manufacturing Corporation, our primary foundry partner, and other foundries such as IBM and Silicon Manufacturing Partners, a joint venture owned by us and GLOBALFOUNDRIES. We also use third-party suppliers, including STATS ChipPAC, Siliconware Precision Industries and Amkor Technology, to perform final assembly and test operations for us.



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We believe that using third-party manufacturing services allows us to focus on product development and increases our operational flexibility by improving our ability to adjust manufacturing capacity in response to customer demand and to introduce new products rapidly. It also reduces our capital requirements as we do not need to spend large amounts to build and upgrade manufacturing facilities, particularly in the area of wafer fabrication, where facilities must be upgraded periodically and each upgrade tends to cost significantly more than the preceding upgrade.

Our board-level products incorporate a variety of standard industry components and LSI-designed components, mounted on printed circuit board assemblies. The manufacturing, assembly and test operations for these products are all fully outsourced to third-party suppliers to take advantage of the scale, quality and cost benefits afforded by third-party manufacturing services. Our RAID server adapter and interposer boards are produced in configurations ranging from bulk packaging of multiple units sold to major server and workstation OEMs, to individual products for indirect channels featuring retail packaging with software media, documentation and interconnect cables. LSI's adapters are shipped from our third-party suppliers to our worldwide inventory hubs, directly to OEM factories, or to distributors who supply them to a variety of indirect channels in the market.

## **Backlog**

We generally do not have long-term volume purchase contracts with our customers. Instead, the majority of our customers place purchase orders that are subject to acceptance by us. With our integrated circuit products, there could be a significant time lag between our commencement of design work and the receipt of a purchase order and resulting revenue. Lead times for delivery of our board-level products are relatively short, meaning we must build products in advance of orders which subjects us to certain risks, most notably the possibility that expected sales will not materialize, thereby leading to excess inventory that we may be unable to sell to our customers. Also, customers may from time to time revise delivery quantities or delivery schedules to reflect their changing needs. For these reasons, we do not believe that our backlog as of any particular date is a meaningful indicator of future annual sales.

## **Competition**

The semiconductor industry is intensely competitive and characterized by continuing technological change, rapid product obsolescence, evolving industry standards and price erosion. Some of our competitors are larger, diversified companies with substantially greater financial resources than us. Some of our competitors are also customers of ours who have internal semiconductor design capacity who must choose whether to develop products internally or obtain them from companies such as LSI. We also compete with smaller and emerging companies whose strategy is to sell products into specialized markets or to provide only a portion of the range of products and services that we offer.

We compete with Marvell Technology Group, Ltd., PMC-Sierra, Inc. and Texas Instruments, Inc. with respect to both storage and networking products. Additional competitors for our storage products include Fusion-io, Inc., Promise Technology Inc., STEC, Inc. and STMicroelectronics N.V. With respect to our networking products, we also compete with companies such as Avago Technologies Limited, Broadcom Corporation, Cavium Networks, Inc., Freescale, Inc. and International Business Machines Corporation.

The principal competitive factors in our business are:

- design capabilities;
- differentiating product features and functionality;
- product performance characteristics;
- product quality;
- time to market;
- price;

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- breadth of product line;
- customer support;
- logistics and planning systems; and
- compatibility with existing and emerging industry and customer standards.

While we believe we are competitive on the basis of all the factors listed above, our competitors may be able to compete more favorably on the basis of price and may have the resources to bring new products to market more quickly. However, we feel we are particularly strong in offering integrated solutions, broad product lines, product performance, customer support and logistics and planning systems. In addition, incumbent suppliers tend to have an advantage when competing for designs, which can make it difficult for us to win designs at new customers, even if we compete favorably on the factors identified above.

The markets into which we sell our products are subject to intense price competition. We expect to continue to experience declines in the selling prices of many of our products over their life cycle. In order to offset or partially offset declines in the selling prices of our products, we continually strive to reduce the costs of products through product design changes, manufacturing process changes, yield improvements and procurement of wafers from outsourced manufacturing partners.

## **Patents, Trademarks and Licenses**

We own or have rights to a number of patents, trademarks, copyrights, trade secrets and other intellectual property directly related to and important to our business. As of December 31, 2011, we had approximately 11,000 U.S. patents and patent applications and a number of related foreign patents and patent applications. These patents include patents related to the following technologies:

- Integrated circuit and optoelectronic manufacturing processes;
- Storage products including controller and expander devices, storage controller cards and storage management software;
- Consumer electronics products such as digital cameras, digital audio players, DVD players, digital televisions and personal computers;
- Modems, digital signal processors, wireless communications, network processors and communication protocols; and
- Optoelectronic products including lasers, optical modulators, optical receivers and optical amplifiers.

We have patents of all ages ranging from pending applications, which, if awarded, will have a duration of 20 years from their earliest filing dates, through patents soon to expire.

We typically indemnify our customers for some of the costs and damages of patent infringement in circumstances where our product is the primary factor creating the customer's infringement exposure. We generally exclude coverage where infringement arises out of the combination of our products with products of others.

We protect our products and processes by asserting our intellectual property rights where appropriate and prudent. We also obtain licenses to patents, copyrights and other intellectual property rights used in connection with our business when practicable and appropriate.

Companies in the technology industry are often subject to claims of intellectual property infringement. You can find information about the impact of these types of claims in Item 1A — "Risk Factors", which information is incorporated herein by reference. You can also find information about legal proceedings against us that involve intellectual property claims in Note 16 to our financial statements in Item 8 of Part II, which information is incorporated herein by reference.

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### **Research and Development**

Our industry experiences rapid change and we must continually develop new products to remain competitive. Our research and development expenditures were \$576 million, \$563 million and \$509 million for the years ended December 31, 2011, 2010 and 2009, respectively. We anticipate that we will continue to make significant research and development expenditures to maintain our competitive position with a continuing flow of innovative products and technology.

### **Working Capital**

Information about our working capital practices is included in Item 7 of Part II — "Management's Discussion and Analysis of Financial Condition and Results of Operation" under the heading "Financial Condition, Capital Resources and Liquidity" and is incorporated herein by reference.

### **Environmental Regulation**

Federal, state and local regulations, in addition to those of other nations, impose various environmental controls on certain chemicals and substances used in the manufacture of semiconductor products. To comply with these regulations, we have implemented environmental, health and safety management system processes. We offer products that comply with the requirements of the European Union Restriction of Hazardous Substances Directive 2002/95/EC (RoHS Directive) that was implemented on July 1, 2006 and other international environmental regulations impacting electronic equipment and components. We also work internally and with our suppliers and customers to develop a pro-active approach to emerging concerns such as those associated with climate change.

While to date we have not experienced any material adverse impact on our business from environmental regulations, regulations of this type might be adopted or amended that impose expensive obligations on us in the future. In addition, responsibility for cleaning up alleged historic chemical releases into the environment or future regulation of substances in products we sell could result in the need for changes in products, additional capital or other material improvements and/or business interruptions.

### **Employees**

As of December 31, 2011, we had 4,588 full-time employees.

Our future success depends upon the continued service of our key technical and management personnel and upon our ability to continue to attract and retain qualified employees, particularly highly skilled design, process and test engineers involved in the development of new products and processes. We currently have favorable employee relations, but the competition for technical personnel is intense, and the loss of key employees or the inability to hire such employees when needed could have a material adverse impact on our business and financial condition.

### **Seasonality**

Our business is largely focused on the information technology industry. Due to seasonality in this industry, we typically expect to see stronger revenues in the second half of the year.

### **Item 1A. *Risk Factors***

Set forth below are risks and uncertainties that, if they were to occur, could materially adversely affect our business or could cause our actual results to differ materially from the results contemplated by the forward-looking statements in this report and other public statements we make.

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### ***We depend on a small number of customers. The loss of, or a significant reduction in revenue from, any of these customers would harm our results of operations.***

A limited number of customers account for a substantial portion of our revenues. In 2011, Seagate, our largest customer, represented approximately 25.0% of our total revenue, and our 10 largest customers accounted for approximately 61.9% of our revenue. We typically do not have contracts with our major customers that obligate them to purchase any minimum amount of products from us. Sales to these customers are made pursuant to purchase orders, which typically can be canceled or modified up to a specified point in time, which may be after we have incurred significant costs related to the sale. If any of our key customers reduced significantly or canceled its orders, our business and operating results could be adversely affected. Because many of our semiconductor products are designed for specific customers and have long product design and development cycles, it would be difficult for us to replace revenues from key customers that reduce or cancel their existing orders for these products which may happen if they experience lower than anticipated demand or cancel a program.

In addition, if we fail to win new product designs from our major customers, our business and results of operations may be harmed. Further, if our major customers make significant changes in scheduled deliveries, experience disruptions in their operations as a result of weather or natural disasters, or for any other reason, decide to pursue the internal development of the products we sell to them, or are acquired, our business and results of operations may be adversely affected. Additionally, business combinations involving our customers or competitors of our customers could have a positive or negative impact on our business.

Recently, the hard disk drive industry has been experiencing consolidation, as Seagate has acquired Samsung's storage operations and Western Digital is seeking to acquire Hitachi's storage operations. Although this consolidation may open new opportunities for us, it may also increase our dependence on Seagate as a customer. In addition, it may result in fewer design opportunities, and a corresponding increase in the significance of winning or losing any one design, as the number of potential customers decreases.

### ***We operate in intensely competitive markets, and our failure to compete effectively would harm our results of operations.***

We derive revenue from the sale of semiconductor products. The semiconductor industry is intensely competitive, and competition continues to increase as existing competitors enhance their product offerings and as new participants enter the market. Our competitors include large domestic and foreign companies that have substantially greater financial, technical and management resources than us. Several major diversified electronics companies offer products that compete with our products. Other competitors are specialized, rapidly growing companies that sell products into the same markets that we target. Some of our customers may also design and manufacture products internally that compete with our products. We cannot provide any assurances that the price and performance of our products will be superior relative to the products of our competitors or will be sufficient to obtain business.

In addition, our products often have a limited life before they are replaced by products utilizing newer technology. Because we do not have multi-generation contracts with most of our customers, we must win the business of our customers for each new generation of a product. If we are unable to do so, whether because we are unable to develop a next generation product rapidly enough, because our product is not priced competitively or for any other reason, our results of operations could be adversely affected.

Increased competition may harm our revenues and margins. For example, competitors with greater financial resources may be able to offer lower prices than ours, or they may offer additional products, services or other incentives that we may not be able to match. Competitors may be better able than us to respond quickly to new technologies and may undertake more extensive marketing campaigns than we do. They may also make strategic acquisitions or establish cooperative relationships among themselves or with third parties to increase their market share. In addition, competitors may sell commercial quantities of new products before we do, establishing a market position that we may not be able to overcome once we introduce similar products in commercial quantities. If we are unable to develop and market competitive products on a timely basis, we will likely fail to maintain or expand our market share and our revenues will likely decline.

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***Customer orders and ordering patterns can change quickly, making it difficult for us to predict our revenues and making it possible that our actual revenues may vary materially from our expectations, which could harm our results of operations and stock price.***

We sell a significant amount of our products pursuant to purchase orders that customers may cancel or defer on short notice without incurring a significant penalty. In addition, the period of time between order and product shipment can be very short. If customers reduce the rate at which they place new orders, whether because of changing market conditions for their products or other reasons, or if they cancel or defer previously placed orders, the impact on our revenue can occur quickly and could cause us to experience revenues that are lower than we may have indicated in any public forecast of our future revenue. For example, as economic conditions deteriorated in the fourth quarter of 2008, our sales declined below the expectations we had publicly announced earlier that quarter because our customers' orders declined to a level below that which we had anticipated. Reductions in new order rates as well as cancellations or deferrals of existing orders could also cause us to hold excess inventory. Further, a significant portion of our costs are fixed and we may be unable to reduce those costs proportionately. Each of these events could adversely affect our results of operations.

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

We depend on third-party foundries to manufacture integrated circuits for us and on outside suppliers to assemble and test our semiconductor products and to assemble our board-level products. As such, we face the following risks:

- a supplier may be unwilling or unable to devote adequate capacity to the production of our products or may be unable to produce our products;
- a supplier may fail to develop, or may discontinue, manufacturing methods or technologies necessary for our products;
- manufacturing costs may be higher than planned;
- product reliability may not be acceptable;
- a manufacturer may not be able to maintain continuing relationships with its suppliers of raw materials; and
- we may have reduced control over delivery schedules, quality, manufacturing yields and costs of products.

The ability of an independent foundry to provide us with integrated circuits is limited by its available capacity and existing obligations. We generally do not enter into contracts to reserve foundry capacity. Availability of foundry capacity has in the past been reduced from time to time due to strong demand and may not be available when needed at reasonable prices. If foundry capacity is limited, it is possible that one of our foundries may allocate capacity to the production of other companies' products, including those of our competitors. This reallocation could impair our ability to obtain sufficient wafers. If we experience demand for our products that we are not able to meet, we would miss opportunities for additional revenue and could experience a negative impact on our relationships with affected customers. We may also use a second foundry for a particular product when capacity at the main foundry is limited or unavailable, but the cost of integrated circuits at the second foundry may be higher, which would reduce our margins. In addition, only a limited number of foundries provide manufacturing services using the advanced technologies that we require to provide leading edge products. Because of the limited competition among large third-party foundries, it is possible that our foundry partners for products requiring these technologies will price their services at levels that have an adverse impact on our gross margins or make it unprofitable for us to offer these products. This limited competition among foundries may also make it more difficult for us to use a second foundry for a product when we believe that doing so would be advantageous.

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By relying on outside suppliers to manufacture, assemble and test our products, we may have a reduced ability to control directly product delivery schedules and quality assurance. This lack of control may result in product shortages or quality assurance problems that could delay shipments of products or increase manufacturing, assembly, testing or other costs. In addition, if these outside suppliers are unable to obtain sufficient raw materials in a timely manner, we may experience product shortages or delays in product shipments, which could harm our customer relationships and results of operations.

If any of our manufacturing suppliers experiences capacity constraints, encounters financial difficulties, or experiences any other major disruption of its operations, we may need to qualify an alternate supplier, which may take an extended period of time and could result in delays in product shipments. These delays could cause our customers to seek alternate semiconductor companies to provide them with products previously purchased from LSI, which could adversely impact our business.

As a result of all of these factors and risks, and although we carefully monitor and plan for capacity and other issues, we cannot provide any assurances that we can obtain sufficient quantities of products from our suppliers on a timely basis or at reasonable prices.

***Failure to qualify our semiconductor products or our suppliers' manufacturing lines with key customers could harm our business and results of operations.***

Some customers will not purchase any products, other than limited numbers of evaluation units, until they qualify the products and/or the manufacturing line for the product. We may not always be able to satisfy the qualification requirements of these customers. Delays in qualification may cause a customer to discontinue use of non-qualified products and result in a significant loss of revenue.

***If we fail to keep pace with technological advances, or if we pursue technologies that do not become commercially accepted, customers may not buy our products and our results of operations may be harmed.***

Many of the industry segments in which we operate are characterized by rapid technological change, changes in customer requirements, frequent new product introductions and enhancements, short product cycles and evolving industry standards. We believe that our future success will depend, in part, on our ability to improve on existing technologies and to develop and implement new technologies. For example, semiconductor products transition over time to increasingly smaller line width geometries. This requires us to adapt our products and manufacturing processes to these new technologies, which requires expertise in new procedures. Our failure to successfully transition to smaller geometry process technologies could impair our competitive position. Our success will also depend on our ability to adopt and implement emerging industry standards in a timely manner and to adapt products and processes to technological changes based on these standards. For example, the SAS standard used to connect computers and servers to storage devices has advanced over the years to support faster speeds. As a result, our products in this area have a limited life span before they are superseded by products supporting faster speeds, which we must develop and market in a timely fashion. If we fail to develop new and enhanced products and technologies, if we focus on technologies that do not become widely adopted, or if new technologies that we do not support and that compete with technologies we do support become widely accepted, demand for our current and planned products may be reduced. For example, if tablet computing, which involves the use of flash memory rather than hard disks to store data, becomes significantly more popular, it could have a negative impact on demand for hard drives.

In addition, the evolution of standards for integrated circuits may be affected by factors beyond our control. For example, we design some products to conform to current specific industry standards. Our customers may not adopt or continue to follow the standards that we have chosen, which would make our products less desirable to customers, and could negatively affect sales. Also, competing standards may emerge that are preferred by our customers, which could reduce sales and require us to make significant expenditures to develop new products. To the extent that we are not able to adapt effectively and expeditiously to new standards, our business may be harmed.

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### ***Any defects in our products could harm our reputation, customer relationships and results of operations.***

Our products may contain undetected defects, errors or failures, which may not become apparent until the products are deployed in commercial applications and other equipment. Consequently, customers may discover errors after the products have been deployed. The occurrence of any defects, errors or failures could result in:

- cancellation of orders;
- product returns, repairs or replacements;
- monetary or other accommodations to our customers;
- diversion of our resources;
- legal actions by customers or customers' end users;
- increased insurance costs; and
- other losses to us or to customers or end users.

Any of these occurrences could also result in the loss of or delay in market acceptance of products and loss of sales, which could negatively affect our business and results of operations. As our products become even more complex in the future, this risk may intensify over time and may result in increased expenses.

### ***Our pension plans are underfunded, and may require significant future contributions, which could have an adverse impact on our business.***

We have defined benefit pension plans under which we are obligated to make future payments to participants. These plans are primarily for the benefit of former Agere employees. Benefit accruals under the Agere plans were frozen in 2009. At December 31, 2011, our projected benefit obligations under our pension plans exceeded the value of the assets of those plans by approximately \$595.8 million. U.S. law provides that we must make contributions to the pension plans in 2012 of at least \$94.4 million. We expect to be required to make additional contributions to the plans in future years. We may also choose to make additional, voluntary contributions to the plans. Depending on our cash position at the time, contributions to our pension plans could impact our operating flexibility.

### ***We may be subject to intellectual property infringement claims and litigation, which could cause us to incur significant expenses or prevent us from selling our products.***

As is typical in the semiconductor industry, we are frequently involved in disputes regarding patent and other intellectual property rights. We have in the past received, and we may in the future receive, communications from third parties asserting that our products, processes or technologies infringe on the patent or other intellectual property rights of third parties, and we may also receive claims of potential infringement if we attempt to license intellectual property to others. Intellectual property litigation, regardless of the outcome, may be costly and time consuming, and may divert the attention of management and key personnel from other business issues. Claims of intellectual property infringement also might require us to enter into costly royalty or license agreements. We may not be able to obtain royalty or license agreements on acceptable terms. Further, our products or our customers' products may be restricted from being sold in the United States or another jurisdiction. For example, as described in Note 16 to our financial statements in Item 8, Rambus has sued us and is seeking an exclusionary order that if granted would preclude us and our customers from selling certain products in the United States. If any of our products or intellectual property infringes on valid rights held by others, our results of operations or financial position may suffer and we may have to make material changes in production processes or products.

### ***If we are unable to protect or assert our intellectual property rights, our business and results of operations may be harmed.***

Our future success will depend, in part, upon our ability to protect and assert our intellectual property rights. We rely primarily on patent and other intellectual property laws, as well as nondisclosure agreements and other

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methods, to protect our proprietary technologies and processes. It is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose proprietary technologies and processes, despite our efforts to protect them.

While we hold a significant number of patents, we can give you no assurance that any additional patents will be issued. Even if new patents are issued, the claims allowed may not be sufficiently broad to protect our technology. In addition, any of our existing patents, and any future patents issued to us, may be challenged, invalidated or circumvented, or changes in law may result in us having less protection than we may have experienced historically. As such, any rights granted under these patents may not provide us with meaningful protection. We may not have foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available.

If our patents do not adequately protect our technology, competitors may be able to offer products similar to our products more easily. Our competitors may also be able to develop similar technology independently or design around our patents. Some or all of our patents have in the past been licensed and likely will in the future be licensed to certain of our competitors through cross-license agreements.

***Increases in the price of commodities used in the production of our products or lack of availability of these materials could negatively impact our operating results.***

The price of some commodities used in the production of semiconductors has been increasing. Increases in the costs of the materials used in the production of semiconductors or lack of availability of these materials may increase our costs or reduce the amount of product we are able to sell, negatively impacting our gross margins. For example, we use gold in the production of semiconductors and the market price of gold increased significantly during 2011, adversely affecting our gross margins. We do not currently enter into hedging transactions to manage our exposure to changes in the prices of gold or other commodities, although we may choose to do so in the future.

***We are exposed to legal, business, political and economic risks associated with our international operations.***

We derive, and we expect to continue to derive, a substantial portion of our revenue from sales of products shipped to locations outside of the United States. These products are typically incorporated into our customers' products, which we believe are ultimately sold to end-users around the world. In addition, we perform a significant amount of our development work outside the United States and most of our products are manufactured outside of the United States. We are subject to a number of risks that could adversely affect our business and results of operations as a result of our operations outside of the United States, our customers' and suppliers' operations outside of the United States and end-demand outside of the United States, including:

- political, social and economic instability;
- fluctuations in foreign currency exchange rates;
- exposure to different legal standards, particularly with respect to intellectual property;
- natural disasters, civil unrest, terrorism and public health emergencies;
- nationalization of businesses and blocking of cash flows;
- trade and travel restrictions;
- imposition of governmental controls and restrictions;
- burdens of complying with a variety of foreign laws;
- import and export license requirements and restrictions;
- unexpected changes in regulatory requirements;
- foreign technical standards;



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- difficulties in staffing and managing international operations;
- international trade disputes;
- difficulties in collecting receivables from foreign entities or delayed revenue recognition; and
- potentially adverse tax consequences, including adverse impacts from changes in United States tax laws.

Any of these factors, most of which are outside of our control, could have a negative impact on our business. For example, import/export laws may increase the restrictions on the flow of technology across country boundaries, making it more difficult and/or costly to develop products as we may not be able to easily develop products in close proximity to our customers or using an optimal labor pool.

### ***We use indirect channels of product distribution over which we have limited control.***

We sell some of our products through distributors and resellers. A deterioration in our relationships with our resellers or distributors, or a decline in their business, could harm our sales. In addition, we are seeking to increase our business through indirect channels of distribution. We may not successfully maintain or expand these indirect channels of distribution, and our failure to do so could result in the loss of sales opportunities. Furthermore, our reliance on indirect channels of distribution may reduce visibility with respect to future business opportunities, thereby making it more difficult to forecast orders.

### ***We may engage in acquisitions and strategic alliances, which may not be successful and could harm our business and operating results.***

We expect to continue to explore strategic acquisitions that build upon or expand our library of intellectual property, human capital and engineering talent, and that could increase our ability to address the needs of our customers. For example, we recently acquired SandForce, a provider of flash storage processors for enterprise and client flash solutions and SSDs. Acquisitions of high-technology companies have inherent risks. No assurance can be given that our previous acquisitions or future acquisitions will be successful and will not harm our business or operating results. For example, if we are unable to retain SandForce personnel or are unsuccessful in growing the SandForce business, we will not achieve the expected benefits of the acquisition and our financial results may be negatively impacted. In addition, we may make investments in companies, products and technologies through strategic alliances and otherwise. If these investments are not successful, our results of operations may suffer.

### ***The semiconductor industry is highly cyclical, which may cause our operating results to fluctuate.***

We operate in the highly cyclical semiconductor industry. This industry is characterized by wide fluctuations in product supply and demand. In the past, the semiconductor industry has experienced significant downturns, often in connection with, or in anticipation of, excess manufacturing capacity worldwide, maturing product cycles and declines in general economic conditions. Even if demand for our products remains constant, a lower level of available foundry capacity could increase our costs, which would likely have an adverse impact on our results of operations.

### ***Our failure to attract, retain and motivate key employees could harm our business.***

In some of our fields of operation, there are only a limited number of people in the job market who possess the requisite skills. In the past, we have experienced difficulty in identifying and hiring sufficient numbers of qualified engineers in parts of our business, as well as in retaining engineers and other qualified employees. The loss of the services of any key personnel or our inability to hire new personnel with the requisite skills could restrict our ability to develop new products or enhance existing products in a timely manner, to sell products to our customers or to manage our business effectively. In recent years, we have discontinued our efforts in some product areas and sought to streamline our operations, which has resulted in employee layoffs. These measures, or others that we may take in the future, may negatively impact our ability to recruit and retain qualified personnel.

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***Our operations and our suppliers' operations are subject to natural disasters and other events outside of our control that may disrupt our business and harm our operating results.***

Our operations and those of our suppliers are subject to natural disasters and other events outside of our control that may disrupt our business and harm our operating results. During 2011, Thailand experienced flooding as a result of significant rains. A supplier in Thailand has performed assembly and test functions for our products and that supplier's facility was affected by flooding. Other technology companies also have facilities in Thailand that were affected by flooding. The flooding reduced our ability to supply products for hard disks and resulted in reduced demand for these products as some customer facilities and facilities of other suppliers to our customers were affected. We also have substantial operations in parts of California that have experienced major earthquakes and in parts of Asia that have experienced typhoons, earthquakes and various health issues. A widespread outbreak of an illness such as H1N1 flu, avian flu, or bird flu, or severe acute respiratory syndrome, or SARS, could harm our operations and those of our suppliers as well as decrease demand from customers.

If our operations or those of our suppliers are curtailed because of natural disasters or health issues, our business may be disrupted and we may need to seek alternate sources of supply for manufacturing or other services. Alternate sources may not be available, may be more expensive or may result in delays in shipments to customers, which would affect our results of operations. In addition, a curtailment of design operations could result in delays in the development of new products. If our customers' or suppliers' and manufacturers' businesses are affected by natural disasters, health issues or other events outside of our control, our business and results of operations may be harmed.

***Laws and regulations to which we are subject, as well as customer requirements in the area of environmental protection and social responsibility, could impose substantial costs on us and may adversely affect our business.***

Our business is subject to or may be impacted by various environmental protection and social responsibility legal and customer requirements. For example, we are subject to the European Union Directive on the Restriction of the use of certain Hazardous Substances in Electrical & Electronic Equipment (RoHS) and the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) Regulation in the European Union. Such regulations could require us to redesign our products in order to comply with their requirements and require the development and/or maintenance of compliance administration systems. Redesigned products could be more costly to manufacture or require more costly or less efficient raw materials. If we cannot develop compliant products on a timely basis or properly administer our compliance programs, our revenues could decline due to lower sales. In addition, under certain environmental laws, we could be held responsible, without regard to fault, for costs relating to any contamination at our current or past facilities and at third-party waste-disposal sites. We could also be held liable for consequences arising out of human exposure to such substances or other environmental damage.

Recently there has been increased focus on environmental protection and social responsibility initiatives. We may choose or be required to implement various standards due to the adoption of rules or regulations that result from these initiatives, such as with respect to the use of conflict minerals, which are certain minerals that originate in the Democratic Republic of the Congo or adjoining countries. Our customers may also require us to implement environmental or social responsibility procedures or standards before they will continue to do business with us or order new products from us. Our adoption of these procedures or standards could be costly, and our failure to adopt these standards or procedures could result in the loss of business or fines or other costs.

***Our blank check preferred stock and Delaware law contain provisions that may inhibit potential acquisition bids, which may harm our stock price, discourage merger offers or prevent changes in our management.***

Our board has the authority to issue preferred stock and to determine its rights, preferences, privileges and restrictions, including voting rights, without any further vote or action by our stockholders. If we issue any of these shares of preferred stock in the future, the rights of holders of our common stock may be negatively affected. Although we have no current plans to issue shares of preferred stock, if we were to issue preferred stock, a change of control of our company could be delayed, deferred or prevented. Furthermore, Section 203 of

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the Delaware General Corporation Law restricts certain business combinations with any "interested stockholder" as defined by that statute. These provisions are designed to encourage potential acquirers to negotiate with our board of directors and give our board an opportunity to consider various alternatives to increase stockholder value. These provisions are also intended to discourage certain tactics that may be used in proxy contests. However, the potential issuance of preferred stock or the restrictions in Section 203 of the Delaware General Corporation Law could discourage potential acquisition proposals and could delay or prevent a change in control, which may adversely affect the market price of our stock. These provisions may also have the effect of preventing changes in our management or board of directors.

***Class action litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our management's attention and resources.***

In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. Companies in the technology industry are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. Our stock has experienced substantial price volatility in the past. This may be a result of quarterly variations in our results of operations, the published expectations of security analysts and announcements by us and our competitors as well as general economic conditions and our stock price may continue to experience substantial volatility. Accordingly, we may in the future be the target of securities litigation. Any securities litigation could result in substantial costs and could divert the attention and resources of our management.

**Item 1B. *Unresolved Staff Comments***

Not applicable.

**Item 2. *Properties***

We lease office space in two buildings in Milpitas, California for our corporate headquarters, administration and engineering offices. We also own a 600,000 square foot office complex in Allentown, Pennsylvania that we use for administration and engineering offices. We have leased out approximately 81,500 square feet of space in that facility to tenants.

We also own approximately 150,000 square feet of sales and engineering office space in Fort Collins, Colorado and approximately 180,000 square feet of sales and engineering office space in Colorado Springs, Colorado.

We own or lease additional space in the United States and in various other countries, and use that space for sales, marketing, engineering, general corporate and test purposes.

We believe that our existing facilities and equipment are well maintained, in good operating condition, suitable for our operations and are adequate to meet our current requirements.

**Item 3. *Legal Proceedings***

This information is included in Note 16 ("Commitments, Contingencies and Legal Matters — Legal Matters") to our financial statements in Item 8 and is incorporated herein by reference.

**Item 4. *Mine Safety Disclosures***

Not applicable.

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**Executive Officers of LSI**

Set forth below is information about our executive officers as of the date of filing of this Form 10-K.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Abhijit Y. Talwalkar	47	President and Chief Executive Officer
Bryon Look	58	Executive Vice President, Chief Financial Officer and Chief Administrative Officer
Jean F. Rankin	53	Executive Vice President, General Counsel and Secretary
D. Jeffrey Richardson	47	Executive Vice President and Chief Operating Officer
Gautam Srivastava	39	Senior Vice President, Corporate Marketing and Human Resources

Mr. Talwalkar has been our President and Chief Executive Officer and a member of our Board of Directors since May 2005. Prior to joining LSI, Mr. Talwalkar was employed by Intel Corporation, a microprocessor manufacturer, from 1993 until 2005. At Intel, he held a number of management positions, including senior positions from 1995 to 2005. Mr. Talwalkar has served as a member of the board of directors of LAM Research Corporation since February 2011.

Mr. Look has been Executive Vice President, Chief Financial Officer and Chief Administrative Officer of LSI since January 2009. From November 2000 through January 2009, he served as our Executive Vice President and Chief Financial Officer. Between March 1997 and November 2000, he was our Vice President, Corporate Development and Strategic Planning. Prior to joining LSI, he was manager of business development in Hewlett-Packard's corporate development department. During a 21-year career at Hewlett-Packard, Mr. Look held a variety of management positions in finance and research and development.

Ms. Rankin has been our Executive Vice President, General Counsel and Secretary since April 2007. Ms. Rankin joined LSI in 2007, following our acquisition of Agere Systems, a semiconductor company. At Agere, she had been Executive Vice President, General Counsel and Secretary since 2000. Ms. Rankin has served as a member of the board of directors of InterDigital, Inc. since June 2010.

Mr. Richardson has been Executive Vice President and Chief Operating Officer of LSI since April 2011. He was previously the leader of our Semiconductor Solutions Group from January 2009 to April 2011. From April 2007 through January 2009, he led our Network and Storage Products Group, which included our Networking, Custom and Storage Interfaces semiconductor businesses. From September 2005 through April 2007, he was the leader of our Custom Solutions Group, and from June 2005 through September 2005, he led our Corporate Strategy function. From 1992 through June 2005, he held a variety of management positions at Intel, including senior positions from 1999 to 2005. Mr. Richardson has served as a member of the board of directors of Volterra Semiconductor Corporation since April 2011.

Mr. Srivastava has served as Senior Vice President, Corporate Marketing and Human Resources of LSI since May 2011. From July 2009 through May 2011, he was our Senior Vice President, Human Resources. Prior to joining LSI, Mr. Srivastava was employed by Advanced Micro Devices, a semiconductor design company, most recently as Vice President, Sales and Marketing and Managing Director, Middle East, Africa and Pakistan from 2006 to 2008. From 2005 to 2006, Mr. Srivastava was Vice President, Sales and Marketing and Chief of Staff to the Chief Sales and Marketing Officer at AMD. Prior to that, he served as AMD's Vice President, Compensation and Benefits. Prior to AMD, Mr. Srivastava held various roles in management consulting and at technology startups.

Officers are not elected for a fixed term of office but serve at the pleasure of the Board of Directors. There are no family relationships among the executive officers and directors of LSI.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our stock trades on the New York Stock Exchange under the symbol "LSI." In June 2011, our Chief Executive Officer submitted to the Exchange an annual certification stating that he was not aware of any violations of the Exchange's corporate governance listing standards.

The table below shows the high and low sales prices for our common stock for each quarter during our last two full fiscal years, as reported in the consolidated transaction reporting system.

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 7.05	\$ 5.71	\$ 6.73	\$ 4.88
Second Quarter	\$ 7.74	\$ 6.28	\$ 6.72	\$ 4.42
Third Quarter	\$ 7.59	\$ 5.17	\$ 5.14	\$ 3.89
Fourth Quarter	\$ 6.41	\$ 4.75	\$ 6.13	\$ 4.41

We did not pay cash dividends on our common stock in 2011 or 2010.

At February 22, 2012, there were 306,824 holders of record of our common stock. We have a greater number of beneficial owners of our stock who own their shares through brokerage firms and other nominees.

**Issuer Purchases of Equity Securities**

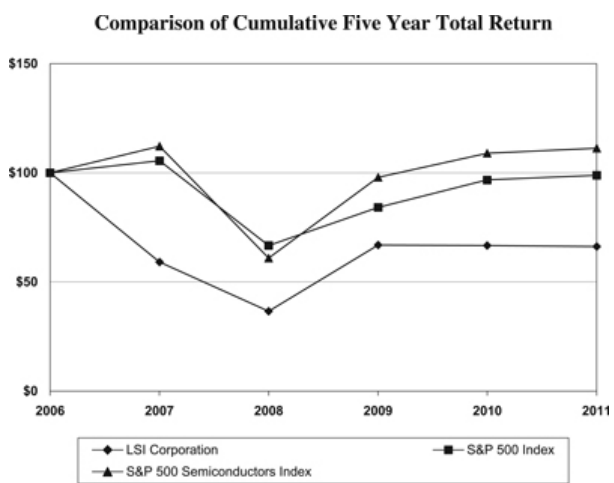
The following table contains information about our repurchases of our common stock during the quarter ended December 31, 2011.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet Be Purchased Under the Programs
October 3 — November 2, 2011	—	\$ —	—	\$ 278,213,291
November 3 — December 2, 2011	2,049,877	\$ 5.37	2,049,877	\$ 267,213,711
December 3 — December 31, 2011	2,834,197	\$ 5.65	2,834,197	\$ 251,213,843
Total	4,884,074	\$ 5.53	4,884,074	

On March 9, 2011, our Board of Directors authorized the repurchase of up to \$750.0 million of our common stock. The repurchases reported in the table above were made pursuant to this authorization.

**PERFORMANCE GRAPH**

The following graph compares the cumulative total stockholder return on our common stock to that of the S&P 500 Index and the S&P 500 Semiconductors Index. The graph assumes that a \$100 investment was made in our common stock and each of the indices at December 31, 2006, and that dividends, if any, were reinvested in all cases. The stock price performance shown on the graph is not necessarily indicative of future price performance.



	<u>Dec 31, 2006</u>	<u>Dec 31, 2007</u>	<u>Dec 31, 2008</u>	<u>Dec 31, 2009</u>	<u>Dec 31, 2010</u>	<u>Dec 31, 2011</u>
LSI Corporation	\$ 100	\$ 59.00	\$ 36.56	\$ 66.78	\$ 66.56	\$ 66.11
S&P 500 Index	\$ 100	\$ 105.49	\$ 66.46	\$ 84.05	\$ 96.71	\$ 98.76
S&P 500 Semiconductors Index	\$ 100	\$ 111.98	\$ 60.76	\$ 97.81	\$ 108.77	\$ 111.21

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**Item 6. Selected Financial Data**

**Five-Year Consolidated Summary**

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except per share amounts)				
Revenues	\$2,043,958	\$1,869,654	\$1,576,381	\$1,908,317	\$ 1,893,537
Cost of revenues	1,081,494	989,009	942,323	1,121,713	1,236,197
Gross profit	962,464	880,645	634,058	786,604	657,340
Research and development	575,988	562,991	508,657	563,292	554,070
Selling, general and administrative	295,439	279,126	256,908	325,035	307,843
Restructuring of operations and other items, net	23,719	9,201	36,458	43,662	147,548
Goodwill and identified intangible asset impairment charges	—	—	—	541,586	2,021,463
Acquired in-process research and development	—	—	—	—	188,872
Income/(loss) from operations	67,318	29,327	(167,965)	(686,971)	(2,562,456)
Interest expense	—	(5,601)	(21,931)	(34,943)	(31,020)
Interest income and other, net	26,472	13,848	20,272	36,110	46,758
Income/(loss) from continuing operations before income taxes	93,790	37,574	(169,624)	(685,804)	(2,546,718)
Provision for/(benefit from) income taxes	3,778	3,170	(109,321)	(14,134)	(25,529)
Income/(loss) from continuing operations	90,012	34,404	(60,303)	(671,670)	(2,521,189)
Income from discontinued operations (including a gain on disposal of \$260,066 in 2011), net of tax	241,479	5,568	12,584	49,417	34,370
Net income/(loss)	<u>\$ 331,491</u>	<u>\$ 39,972</u>	<u>\$ (47,719)</u>	<u>\$ (622,253)</u>	<u>\$ (2,486,819)</u>
Basic income/(loss) per share:					
Income/(loss) from continuing operations	<u>\$ 0.15</u>	<u>\$ 0.05</u>	<u>\$ (0.09)</u>	<u>\$ (1.04)</u>	<u>\$ (3.92)</u>
Income from discontinued operations	<u>\$ 0.42</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.08</u>	<u>\$ 0.05</u>
Net income/(loss)	<u>\$ 0.57</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>	<u>\$ (0.96)</u>	<u>\$ (3.87)</u>
Diluted income/(loss) per share:					
Income/(loss) from continuing operations	<u>\$ 0.15</u>	<u>\$ 0.05</u>	<u>\$ (0.09)</u>	<u>\$ (1.04)</u>	<u>\$ (3.92)</u>
Income from discontinued operations	<u>\$ 0.40</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.08</u>	<u>\$ 0.05</u>
Net income/(loss)	<u>\$ 0.55</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>	<u>\$ (0.96)</u>	<u>\$ (3.87)</u>
Year-end status:					
Total assets	\$2,232,048	\$2,424,912	\$2,967,930	\$3,344,194	\$ 4,396,390
Long-term obligations	\$ 712,237	\$ 622,782	\$ 652,441	\$1,105,739	\$ 1,148,689
Stockholders' equity	\$1,058,940	\$1,317,502	\$1,461,104	\$1,440,922	\$ 2,484,996

On April 2, 2007, we acquired Agere Systems Inc. through the merger of Agere and a subsidiary of ours. The merger was accounted for as a purchase. Accordingly, the results of operations of Agere and the estimated fair value of assets acquired and liabilities assumed were included in our consolidated financial statements from April 2, 2007.

The 2009 benefit from income taxes includes an \$81.0 million tax benefit resulting from settlements of tax audits in foreign jurisdictions.

On May 6, 2011, we completed the sale of our external storage systems business to NetApp, Inc., for \$480.0 million in cash. We have reflected the external storage systems business as discontinued operations in our consolidated statements of operations and, as such, the results of that business have been excluded from all line items other than "income from discontinued operations" for all periods presented.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This management's discussion and analysis should be read in conjunction with the other sections of this Form 10-K, including Part I, "Item 1: Business"; Part I, "Item 1A: Risk Factors"; Part II, "Item 6: Selected Financial Data"; and Part II, "Item 8: Financial Statements and Supplementary Data."*

Where more than one significant factor contributed to changes in results from year to year, we have quantified these factors throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where practicable and material to understanding the discussion.

**OVERVIEW**

We design, develop and market complex, high-performance storage and networking semiconductors. We offer a broad portfolio of capabilities including custom and standard product integrated circuits that are used in hard disk drives, solid state drives, high-speed communications systems, computer servers, storage systems and personal computers. We deliver our products to our customers as stand-alone integrated circuits as well as incorporated onto circuit boards that offer additional functionality. We also license other entities to use our intellectual property.

Our products are sold primarily to original equipment manufacturer, or OEM, companies, in the server, storage and networking industries. We also sell our products through a network of resellers and distributors.

On May 6, 2011, we completed the sale of our external storage systems business to NetApp, Inc., or NetApp, for \$480.0 million in cash. That business sold external storage systems, primarily to OEMs, who resold these products to end customers under their own brand name. We have reflected the external storage systems business as discontinued operations in our consolidated statements of operations and, as such, the results of that business have been excluded from all line items other than "income from discontinued operations" for all periods presented. We believe that, as a result of this sale, we are seeing increasing interest in our products from other external storage systems OEMs who previously were reluctant to buy our products because they viewed us as a competitor.

We derive the majority of our revenue from sales of products for the hard disk drive, server and networking equipment end markets. We believe that these markets offer us attractive opportunities because of the growing demand to create, store, manage and move digital content. We believe that this growth is occurring as a result of a number of trends, including:

- The increasing popularity of mobile devices, such as smart phones and media tablets, and the increasing use of the internet for streaming media, such as videos and music, which together are driving the need for more network capacity;
- Consumer and business demand for hard disks to store increasing amounts of digital data, including music, video, pictures and medical and other business records; and
- Enterprises refreshing their data centers to provide higher levels of business support and analytics, which drives demand for new servers and storage systems and associated equipment.

Our revenues depend on market demand for these types of products and our ability to compete in highly competitive markets. We face competition not only from makers of products similar to ours, but also from competing technologies. For example, we see the development of solid state drives based on flash memory rather than the spinning platters used in hard disk drives as a long-term potential competitor to certain types of hard disk drives, and we are focusing development efforts in that area.

In 2011, we reported net income of \$331.5 million, or \$0.55 per diluted share, compared to net income of \$40.0 million, or \$0.06 per diluted share, in 2010. Net income for 2011 included a \$260.1 million gain on the sale of our external storage systems business.

On March 9, 2011, our Board of Directors authorized a stock repurchase program of up to \$750.0 million of our common stock. Through December 31, 2011, we had repurchased 72.4 million shares for \$498.8 million under this program.



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We ended 2011 with cash and cash equivalents, together with short-term investments, of \$935.5 million, an improvement from \$676.7 million at the end of 2010, primarily attributable to cash we received from the sale of our external storage systems business.

In 2011, Thailand experienced significant flooding, which adversely affected the operations of various technology companies, particularly those involved in the hard disk drive industry. We have a supplier in Thailand that performs assembly and test functions for our semiconductor products and that supplier's facility was affected by flooding. As a result of the flooding, our ability to supply system-on-a-chip and pre-amplifier products to hard disk drive customers, as well as the operations of some hard disk drive customers and their other suppliers, were constrained in the fourth quarter of 2011. We currently believe that we can meet anticipated demand for our products. However, the hard disk drive industry may take several quarters to fully recover from the impact of the flooding.

On January 3, 2012, we completed the acquisition of SandForce, Inc., or SandForce, for total consideration of approximately \$346.1 million, net of cash acquired. SandForce is a provider of flash storage processors for enterprise and client flash solutions and solid state drives. This acquisition is expected to enhance LSI's position in storage technology solutions.

The price of some commodities used in the production of semiconductors increased in 2011, adversely affecting our gross margins. For example, we use gold in the production of semiconductors and the market price of gold increased significantly during 2011. We do not currently enter into hedging transactions to manage our exposure to changes in the prices of gold or other commodities, although we may choose to do so in the future. Further increases in commodity costs may also have an adverse impact on our gross margins.

As we look forward into 2012, we are focused on a number of key objectives, including:

- Successfully completing the integration of SandForce into our business;
- Carefully managing our production and inventory of semiconductors for hard disk drives as that industry recovers from the flooding in Thailand;
- Successfully delivering products to customers to support share gains and new product ramps we anticipate;
- Improving our gross margins and controlling operating expenses to drive improved financial performance;
- Meeting or exceeding our development, product quality and delivery commitments to our customers;
- Identifying attractive opportunities for future products, particularly in areas that are adjacent to technologies where we have strong capabilities;
- Developing leading-edge new technologies; and
- Developing the skills of our workforce.

## RESULTS OF OPERATIONS

### Revenues

	Year Ended December 31,		
	2011	2010	2009
Revenues	\$ 2,044.0	\$ 1,869.7	\$ 1,576.4

Revenues increased by \$174.3 million, or 9.3%, in 2011 as compared to 2010. The increase was primarily attributable to increased unit sales of semiconductors used in storage product applications to existing customers and higher revenues from the licensing of our intellectual property. These increases were offset in part by a decrease in unit sales of semiconductors used in networking product applications.

Revenues increased by \$293.3 million, or 18.6%, in 2010 as compared to 2009. The increase was primarily attributable to an increase in unit sales of semiconductors used in networking and storage product applications. To a lesser extent, the increase in revenues also reflected higher revenues from the licensing of our intellectual property.

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### Revenues by Geography

The following table summarizes our revenues by geography based on the ordering location of our customer. Because we sell our products primarily to other sellers of technology products and not to end users, the information in the table below may not accurately reflect geographic end-user demand for our products.

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
North America*	\$ 520.2	\$ 431.2	\$ 305.6
Asia	1,323.5	1,223.1	1,125.8
Europe and the Middle East	200.3	215.4	145.0
Total	<u>\$ 2,044.0</u>	<u>\$ 1,869.7</u>	<u>\$ 1,576.4</u>

\* Primarily the United States.

Revenues in North America increased by \$89.0 million, or 20.6%, in 2011 as compared to 2010. The increase was primarily attributable to increased unit sales of semiconductors used in storage product applications, and higher revenues from the licensing of our intellectual property. Revenues in Asia increased by \$100.4 million, or 8.2%, in 2011 as compared to 2010. The increase was primarily attributable to increased unit sales of semiconductors used in storage product applications, partially offset by a decrease in unit sales of semiconductors used in networking product applications. Revenues in Europe and the Middle East decreased by \$15.1 million, or 7.0%, in 2011 as compared to 2010. The decrease was primarily attributable to decreased unit sales of semiconductors used in storage product applications.

Revenues in North America increased by \$125.6 million, or 41.1%, in 2010 as compared to 2009. The increase was primarily attributable to increased unit sales of semiconductors used in storage product applications and higher revenues from the licensing of our intellectual property. Revenues in Asia increased by \$97.3 million, or 8.6%, in 2010 as compared to 2009. The increase in Asia was primarily attributable to increased unit sales of semiconductors used in storage and networking product applications. Revenues in Europe and the Middle East increased by \$70.4 million, or 48.6%, in 2010 as compared to 2009. The increase was primarily attributable to increased unit sales of semiconductors used in storage and networking product applications.

### Significant Customers:

The following table provides information about sales to Seagate Technology, which was our only customer that accounted for 10% or more of our consolidated revenues:

	Year Ended December 31,		
	2011	2010	2009
Percentage of consolidated revenues	25%	19%	22%

### Revenues by Product Groups

The following table presents our revenues by product groups:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Storage products	\$ 1,487.1	\$ 1,302.1	\$ 1,133.2
Networking products	453.7	473.3	384.8
Other	103.2	94.3	58.4
Total	<u>\$ 2,044.0</u>	<u>\$ 1,869.7</u>	<u>\$ 1,576.4</u>

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Revenues from storage products increased by \$185.0 million, or 14.2%, in 2011 as compared to 2010, and by \$168.9 million, or 14.9%, in 2010 as compared to 2009. The increases in both periods were primarily attributable to increased unit demand for semiconductors used in hard disk drives, server RAID adapters and storage area network applications.

Revenues from networking products decreased by \$19.6 million, or 4.1%, in 2011 as compared to 2010. The decrease was primarily due to a decrease in unit sales of semiconductors used in networking product applications. Revenues from networking products increased by \$88.5 million, or 23.0%, in 2010 as compared to 2009. The increase was primarily attributable to an increase in unit sales of semiconductors used in networking product applications.

Other revenues consist primarily of the licensing of our intellectual property. The increase of \$8.9 million, or 9.4%, in 2011 as compared to 2010 and the increase of \$35.9 million, or 61.5%, in 2010 as compared to 2009 were primarily due to increased licensing activity and intellectual property rights settlements.

### Gross Profit Margin

	Year Ended December 31,		
	2011	2010	2009
	(Dollars in millions)		
Gross profit	\$ 962.5	\$ 880.6	\$ 634.1
Percentage of revenues	47.1%	47.1%	40.2%

Gross profit as a percentage of revenues remained flat in 2011 as compared to 2010. Decreased amortization of intangible assets benefited our gross margin in 2011, which was offset by higher costs of commodities used in our products, a one-time inventory charge of \$7.5 million as a result of the flooding in Thailand, an unfavorable shift in product mix, and the absence of a gross margin benefit recognized in 2010 upon termination of a contract associated with our former Mobility Products Group.

Gross profit as a percentage of revenues increased to 47.1% in 2010 from 40.2% in 2009. The increase was primarily due to a favorable shift in product mix as a result of increased revenues from our higher margin intellectual property licensing, a decrease in intangible asset amortization and more favorable unit costs driven by higher volumes. The increase was also attributable to a benefit recognized upon termination of a contract associated with our former Mobility Products Group and the absence of a charge incurred in 2009 related to inventories acquired as part of the 3ware RAID storage adapter business acquisition.

### Research and Development

	Year Ended December 31,		
	2011	2010	2009
	(Dollars in millions)		
Research and development	\$ 576.0	\$ 563.0	\$ 508.7
Percentage of revenues	28.2%	30.1%	32.3%

R&D expenses consist primarily of employee salaries, contractor expenses and materials used in product development, costs related to third-party design tools and materials used in the design of custom silicon and standard products, as well as depreciation of capital equipment and facilities-related expenditures. In addition to the significant resources required to support hardware technology transitions, we devote significant resources to developing and enhancing software features and functionality to remain competitive.

R&D expense increased by \$13.0 million, or 2.3%, in 2011 as compared to 2010. The increase was primarily attributable to higher compensation-related expenses and facility costs as a result of headcount additions and increased material costs for R&D projects, offset in part by lower costs for shared development engineering projects due to higher contributions from customers associated with existing R&D projects. As a percent of revenues, R&D expense declined from 30.1% in 2010 to 28.2% in 2011 as a result of higher revenues in 2011 as compared to 2010.

R&D expense increased by \$54.3 million, or 10.7%, in 2010 as compared to 2009. The increase was primarily due to the restoration in 2010 of certain employee compensation-related expenses that we reduced in

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2009. The increase was also attributable to increased compensation-related expenses and facility costs as a result of headcount additions in China and India in 2010 and higher headcount from the acquisition of the 3ware RAID storage adapter business in April 2009. As a percent of revenues, R&D expense declined from 32.3% in 2009 to 30.1% in 2010 as a result of higher revenues in 2010 as compared to 2009.

### Selling, General and Administrative

	Year Ended December 31,		
	2011	2010	2009
	(Dollars in millions)		
Selling, general and administrative	\$ 295.4	\$ 279.1	\$ 256.9
Percentage of revenues	14.5%	14.9%	16.3%

SG&A expense increased by \$16.3 million, or 5.8%, in 2011 as compared to 2010. The increase was primarily due to increases in litigation costs and higher sales and marketing expenses, including higher compensation-related expenses as a result of headcount additions, to support increased revenues and design activity. These increases were partially offset by lower stock-based compensation and decreases in general and administrative expenses as a result of our continuing focus on control of expenses. As a percent of revenues, SG&A expense declined from 14.9% in 2010 to 14.5% in 2011 as a result of higher revenues in 2011 as compared to 2010.

SG&A expense increased by \$22.2 million, or 8.6%, in 2010 as compared to 2009. The increase was primarily due to the restoration in 2010 of compensation-related expenses that were reduced in 2009, an increase in sales commissions and other sales-related expenditures as a result of increased design wins and revenues in 2010, and higher compensation-related expenditures associated with the acquisition of the 3ware RAID storage adapter business in April 2009. The increase was offset in part by reductions in spending as a result of maintaining tighter expense controls. As a percent of revenues, SG&A expense declined from 16.3% in 2009 to 14.9% in 2010 as a result of higher revenues in 2010 as compared to 2009.

### Restructuring of Operations and Other Items, net

In 2011, 2010 and 2009, we initiated restructuring plans designed to focus on targeted end markets and to improve operational efficiency and financial results. These plans primarily involved the termination of employees and consolidation of facilities. The restructuring charges recorded in conjunction with these plans primarily represented severance and costs related to the continuation of certain employee benefits, exit costs for facility consolidations and closures, contract termination costs, research and development program cancellations and asset impairment charges.

The following table summarizes items included in restructuring of operations and other items, net from continuing operations:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Lease and contract terminations	\$ 6.2(a)	\$ 3.7(a)	\$ 19.5(a)
Employee severance and benefits	11.3	8.2	10.1
Other exit costs, net	(1.0)(b)	—	0.6
Total restructuring expenses	16.5	11.9	30.2
Asset impairment	4.9(c)	—	—
Other items	2.3(d)	(2.7)(e)	6.3(f)
Total restructuring of operations and other items, net	\$ 23.7	\$ 9.2	\$ 36.5

(a) Includes changes in estimates and changes in time value associated with facility lease exit costs accrued in previous years.

(b) Includes a \$6.4 million gain on the sale of land in Gresham, Oregon, substantially offset by a \$5.5 million write-off of intellectual property in connection with the restructuring actions.

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- (c) Includes a \$4.5 million intellectual property write-off due to a customer program cancellation.
- (d) Primarily consists of \$12.2 million of costs associated with the transition service agreements entered into in connection with the sale of our external storage systems business, \$3.4 million of litigation costs and a \$2.2 million loss on the disposition of fixed assets, substantially offset by a \$15.5 million sales and use tax related liability reversal as a result of concluding various audits.
- (e) Primarily consists of a \$4.4 million reversal of previously accrued litigation costs as a result of a court ruling in our favor, offset in part by \$1.6 million of catch-up depreciation for land improvements resulting from the reclassification of land in Gresham, Oregon from held for sale to held and used in the fourth quarter of 2010.
- (f) Primarily relates to litigation.

### **Interest Expense, Interest Income and Other, net**

The following table summarizes interest expense and components of interest income and other, net:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Interest expense	\$ —	\$ (5.6)	\$ (21.9)
Interest income	11.1	13.7	20.6
Other income/(expense), net	15.4	0.1	(0.3)
Total	<u>\$ 26.5</u>	<u>\$ 8.2</u>	<u>\$ (1.6)</u>

Interest expense decreased by \$5.6 million in 2011 as compared to 2010 as a result of the repayment of our 4% Convertible Subordinated Notes in May 2010. Interest expense decreased by \$16.3 million in 2010 as compared to 2009 as a result of the redemption of our 6.5% Convertible Subordinated Notes in June 2009 and the repayment of our 4% Convertible Subordinated Notes in May 2010.

Interest income decreased by \$2.6 million in 2011 as compared to 2010 primarily as a result of lower interest rates in 2011 compared to 2010. Interest income decreased by \$6.9 million in 2010 as compared to 2009 primarily as a result of lower cash balances and lower interest rates during 2010 compared to 2009.

Other income, net, in 2011 primarily included \$13.6 million of income for services provided under the transition service agreements entered into in connection with the sale of the external storage systems business.

### **Provision for/(Benefit from) Income Taxes**

During 2011, we recorded an income tax provision of \$3.8 million, which represents an effective tax rate of approximately 4% on the income before income taxes of \$93.8 million. This rate differs from the U.S. statutory rate primarily due to the benefit realized from deferred tax assets not previously recognized in the U.S. and lower tax rates in foreign jurisdictions, which is partially offset by certain foreign earnings taxed in the U.S. In addition, the income in discontinued operations results in an intraperiod allocation of tax benefit of \$11.7 million relating to a current-year loss in the domestic continuing operations. The income tax provision in 2011 included \$24.2 million of additional accrual for uncertain tax positions, offset by a reversal of \$18.1 million in liabilities for uncertain tax positions, which included interest and penalties as a result of the expiration of statutes of limitations in multiple jurisdictions.

During 2010, we recorded an income tax provision of \$3.2 million, which represents an effective tax rate of approximately 9% on the income before income taxes of \$37.6 million. This rate differs from the U.S. statutory rate primarily due to lower tax rates in foreign jurisdictions offset by certain foreign earnings taxed in the U.S. and an increase in valuation allowance against the U.S. deferred tax assets. The income tax provision in 2010 included \$14.1 million of additional accrual for uncertain tax positions, offset by a reversal of \$31.8 million in liabilities for uncertain tax positions, which included interest and penalties as a result of the expiration of statutes of limitations in multiple jurisdictions.

During 2009, we recorded an income tax benefit of \$109.3 million, which represents an effective tax rate of approximately 64% on the loss before income taxes of \$169.6 million. This rate differs from the U.S. statutory

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rate primarily due to certain foreign earnings taxed in the U.S. and an increase in valuation allowance against the U.S. deferred tax assets. In addition, the income tax benefit in 2009 was primarily a result of a net reversal of \$111.7 million in liabilities for uncertain tax positions, which included previously unrecognized tax benefits of \$88.3 million and interest and penalties of \$23.4 million, as a result of a settlement of a multi-year audit in a foreign jurisdiction, the expiration of various statutes of limitations and re-measurements of uncertain tax positions taken in prior periods based on new information. Lastly, the income in discontinued operations and other comprehensive income enable the realization of a tax benefit of \$27.6 million relating to the 2009 loss in the domestic continuing operations.

With the exception of certain foreign jurisdictions, we believe it is not more likely than not that the future benefit of deferred tax assets will be realized.

### **Discontinued Operations**

Following is selected financial information included in income from discontinued operations:

	Year Ended December 31,		
	2011	2010	2009
	(In millions)		
Revenues	\$ 210.6	\$ 700.4	\$ 642.8
(Loss)/income before income taxes and gain on disposal	\$ (27.6)	\$ 7.8	\$ 38.8
Gain on disposal of external storage systems business	260.1	—	—
(Benefit from)/provision for income taxes	(9.0)	2.2	26.2
Income from discontinued operations	\$ 241.5	\$ 5.6	\$ 12.6

During the years ended December 31, 2011 and 2010, we recorded write-downs of \$23.0 million and \$44.1 million, respectively, of assets relating to the external storage systems business. The 2011 write-downs primarily consisted of \$10.5 million of identified intangible assets, including \$9.0 million of current technology, \$0.7 million of customer base and \$0.8 million of in-process research and development. The 2011 write-downs also included \$7.8 million of capitalized software and \$3.7 million of inventories and fixed assets. The 2010 write-downs primarily consisted of \$25.4 million of capitalized software and \$17.1 million of identified intangible assets, including \$16.8 million of current technology and \$0.3 million of trade names. Further, we released \$21.0 million of deferred tax liabilities related to tax deductible goodwill in connection with the sale of the external storage systems business in 2011, which is included in the benefit from income taxes of \$9.0 million.

### **FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY**

Cash, cash equivalents and short-term investments are our primary source of liquidity. We believe that our existing liquid resources and cash generated from operations will be adequate to meet our operating and capital requirements and other obligations for more than the next 12 months. We may, however, find it desirable to obtain additional debt or equity financing. Such financing may not be available to us at all or on acceptable terms if we determine that it would be desirable to obtain additional financing.

Cash, cash equivalents and short-term investments increased to \$935.5 million as of December 31, 2011 from \$676.7 million as of December 31, 2010. The increase was mainly due to proceeds from the sale of our external storage systems business and cash inflows generated from operating activities, offset in part by cash outflows for financing and other investing activities, as described below. On January 3, 2012, we used \$319.2 million of cash in connection with the acquisition of SandForce.

### **Working Capital**

Working capital increased by \$182.6 million to \$961.8 million as of December 31, 2011 from \$779.2 million as of December 31, 2010. The increase was primarily attributable to the following:

- Cash, cash equivalents and short-term investments increased by \$258.8 million primarily due to net cash provided by operating activities of \$246.8 million and \$475.2 million of net proceeds from the sale of our external storage systems business, offset in part by the use of \$498.8 million to repurchase our common stock;

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- Accrued salaries, wages and benefits decreased by \$19.4 million primarily as a result of the sale of our external storage systems business and the timing of payments for salaries, benefits and performance-based compensation; and
- Other accrued liabilities decreased by \$5.6 million as a result of the sale of our external storage systems business.

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

- Accounts receivable decreased by \$80.1 million primarily as a result of the sale of our external storage systems business;
- Prepaid expenses and other current assets decreased by \$13.1 million primarily due to the maturity of notes receivable associated with the sale of our Thailand assembly and test operations in 2007; and
- Inventories decreased by \$6.7 million primarily due to the sale of our external storage systems business and the write-down of inventories damaged as a result of the flooding in Thailand, offset by higher inventory to support product demand.

Working capital increased by \$48.1 million to \$779.2 million as of December 31, 2010 from \$731.1 million as of December 31, 2009. The increase was attributable to the following:

- Current portion of long-term debt decreased by \$350.0 million as a result of the repayment of our 4% Convertible Subordinated Notes upon their maturity in May 2010;
- Accounts payable decreased by \$39.1 million primarily due to the normal timing of invoice receipts and payments;
- Other accrued liabilities decreased by \$29.7 million as a result of the utilization of restructuring reserves, payments of taxes and decreases in other accruals related to our operations; and
- Inventories increased by \$17.4 million as December 31, 2009 inventories were held at reduced levels due to expected declines in product demand associated with the overall economic downturn.

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

- Cash, cash equivalents and short-term investments decreased by \$285.4 million primarily due to the use of \$350.0 million to repay our outstanding 4% Convertible Subordinated Notes upon their maturity in May 2010, the use of \$249.9 million to repurchase our common stock and \$60.1 million net cash used in investing activities, offset in part by net cash provided by operating activities of \$367.2 million;
- Accrued salaries, wages and benefits increased by \$49.0 million primarily as a result of timing differences in the payment of salaries and benefits and the restoration of performance-based compensation accruals, which we reduced in 2009 in response to the global economic downturn;
- Prepaid expenses and other current assets decreased by \$41.3 million primarily as a result of the reclassification of \$16.8 million of assets from held for sale to held and used because the held for sale criteria were no longer met at December 31, 2010, as well as decreases in deferred tax assets and other receivables; and
- Accounts receivable decreased by \$12.4 million primarily as a result of an improvement in collections.

## **Cash Provided by Operating Activities**

During the year ended December 31, 2011, we generated \$246.8 million of cash from operating activities as a result of the following:

- Net income adjusted for non-cash items, primarily a \$260.1 million gain on the sale of our external storage systems business and \$189.2 million of depreciation and amortization. The non-cash items and other non-operating adjustments are quantified in our consolidated statements of cash flows included in Item 8;
- Offset in part by a net decrease of \$68.3 million in assets and liabilities, including changes in working capital components, from December 31, 2010 to December 31, 2011, as discussed above.

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During the year ended December 31, 2010, we generated \$367.2 million of cash from operating activities, representing a significant improvement over \$204.5 million of cash from operating activities in 2009. This increase was a result of the following:

- Net income adjusted for non-cash items, including \$266.7 million of depreciation and amortization, \$66.4 million of stock-based compensation expense and \$45.7 million of non-cash restructuring of operations and other items, net. The non-cash items and other non-operating adjustments are quantified in our consolidated statements of cash flows included in Item 8;
- Offset in part by a net decrease of \$66.2 million in assets and liabilities, including changes in working capital components, from December 31, 2009 to December 31, 2010, as discussed above.

During the year ended December 31, 2009, we generated \$204.5 million of cash from operating activities as a result of the following:

- Net loss adjusted for non-cash items, including \$268.2 million of depreciation and amortization and \$64.0 million of stock-based compensation expense. The non-cash items and other non-operating adjustments are quantified in our consolidated statements of cash flows included in Item 8;
- Offset in part by a net decrease of \$86.2 million in assets and liabilities, including changes in working capital components from December 31, 2008 to December 31, 2009.

### **Cash Provided by/(Used in) Investing Activities**

Cash provided by investing activities for the year ended December 31, 2011 was \$430.3 million. The investing activities during 2011 were the following:

- Proceeds from the sale of our external storage systems business, net of transaction fees, of \$475.2 million;
- Purchases of property and equipment, net of proceeds from sales, totaling \$37.4 million;
- Purchases of available-for-sale debt securities and other investments, net of proceeds from maturities and sales of \$17.5 million; and
- Proceeds of \$10.0 million from the maturity of notes receivable associated with the sale of our Thailand assembly and test operations in 2007.

Cash used in investing activities for the year ended December 31, 2010 was \$60.1 million. The investing activities during 2010 were the following:

- Purchases of property and equipment, net of proceeds from sales, totaling \$91.5 million;
- Proceeds from maturities and sales of available-for-sale debt and other investments, net of purchases, of \$21.4 million; and
- Proceeds of \$10.0 million from the maturity of notes receivable associated with the sale of our Thailand assembly and test operations in 2007.

Cash used in investing activities for the year ended December 31, 2009 was \$34.1 million. The investing activities during 2009 were the following:

- Purchases of property and equipment, net of sales, totaling \$87.2 million;
- Proceeds from maturities and sales of available-for-sale debt securities and other investments, net of purchases, of \$76.6 million;
- Acquisition of businesses and companies, net of cash acquired, of \$47.0 million;
- A decrease in non-current assets and deposits of \$13.5 million; and
- Proceeds of \$10.0 million from the maturity of notes receivable associated with the sale of our Thailand assembly and test operations in 2007.



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We expect capital expenditures to be approximately \$65 million in 2012. In recent years, we have reduced our level of capital expenditures as a result of our focus on establishing strategic supplier alliances with foundry semiconductor manufacturers and with third-party assembly and test operations, which enables us to have access to advanced manufacturing capacity while reducing our capital spending requirements.

### Cash Used in Financing Activities

Cash used in financing activities for the year ended December 31, 2011 was \$417.7 million. The financing activities during 2011 were the use of \$498.8 million to repurchase our common stock, offset in part by proceeds of \$81.0 million from issuances of common stock under our employee stock plans. On March 9, 2011, our Board of Directors authorized a stock repurchase program of up to \$750.0 million of our common stock. As of December 31, 2011, \$251.2 million remained available under this stock repurchase program.

Cash used in financing activities for the year ended December 31, 2010 was \$559.1 million. The financing activities during 2010 were the use of \$350 million to repay our outstanding 4% Convertible Subordinated Notes upon their maturity in May 2010 and the use of \$249.9 million to repurchase our common stock, which effectively completed the \$250 million share repurchase program that was authorized by our Board of Directors on March 17, 2010, offset in part by the proceeds of \$40.9 million from issuances of common stock under our employee stock plans.

Cash used in financing activities for the year ended December 31, 2009 was \$225.3 million. The financing activities during 2009 were the use of \$244.0 million to redeem our 6.5% Convertible Subordinated Notes, offset in part by the proceeds from issuances of common stock under our employee stock plans.

We do not currently pay any cash dividends to our stockholders.

### CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of December 31, 2011:

	Payments Due by Period					Total
	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years	Other	
	(In millions)					
Operating lease obligations	\$ 43.8	\$ 46.4	\$ 6.8	\$ 1.4	\$ —	\$ 98.4
Purchase commitments	412.0	42.0	13.6	—	—	467.6
Pension contributions	94.4	*	*	*	*	94.4
Uncertain tax positions	—	—	—	—	91.8**	91.8
Agreement to acquire SandForce	319.2***	—	—	—	—	319.2
Total	<u>\$ 869.4</u>	<u>\$ 88.4</u>	<u>\$ 20.4</u>	<u>\$ 1.4</u>	<u>\$ 91.8</u>	<u>\$ 1,071.4</u>

\* We have pension plans covering substantially all former Agere U.S. employees, excluding management employees hired after June 30, 2003. We also have pension plans covering certain international employees. Although additional future contributions will be required, the amount and timing of these contributions will be affected by actuarial assumptions, the actual rate of return on plan assets, the level of market interest rates, and the amount of voluntary contributions to the plans. The amount shown in the table represents our planned contributions to our pension plans within a year. Because any contributions for 2013 and later will depend on the value of the plan assets in the future and thus are uncertain, we have not included any amounts for 2013 and beyond in the above table. As of December 31, 2011, our projected pension benefit obligation exceeded the fair value of our plan assets by \$595.8 million. See Note 7 to our consolidated financial statements in Item 8.

\*\* This amount represents the non-current tax payable obligation. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

\*\*\* On January 3, 2012, we completed the acquisition of SandForce.

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**Operating Lease Obligations**

We lease real estate and certain non-manufacturing equipment under non-cancelable operating leases. We also include non-cancelable obligations under certain software licensing arrangement in this category.

**Purchase Commitments**

We maintain purchase commitments with certain suppliers, primarily for raw materials and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time horizon as mutually agreed upon between the parties. This forecasted time horizon can vary for different suppliers.

**Uncertain Tax Positions**

As of December 31, 2011, we had \$171.0 million of unrecognized tax benefits, for which we are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur. It is reasonably possible that the total amount of unrecognized tax benefits will increase or decrease in the next 12 months. Such changes could occur based on the normal expiration of statutes of limitations or the possible conclusion of ongoing tax audits in various jurisdictions around the world. If those events occur within the next 12 months, we estimate that the unrecognized tax benefits, plus accrued interest and penalties, could decrease by up to \$17.7 million.

**Standby Letters of Credit**

As of December 31, 2011 and 2010, we had outstanding obligations relating to standby letters of credit of \$3.5 million and \$3.9 million, respectively. Standby letters of credit are financial guarantees provided by third parties for leases, customs and certain self-insured risks. If the guarantees are called, we must reimburse the provider of the guarantee. The fair value of the letters of credit approximates the contract amounts. The standby letters of credit generally renew annually.

**CRITICAL ACCOUNTING ESTIMATES**

The discussion and analysis of our financial condition and results of operations is based on the consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States of America. Note 2 to those financial statements describes our significant accounting policies. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts and disclosures.

We believe the following to be critical accounting estimates. They are important to the portrayal of our financial condition and results, and they require significant management judgment and estimates about matters that are inherently uncertain. As a result of the inherent uncertainty, there is a likelihood that materially different amounts would be reported under different conditions or using different assumptions. Although we believe that our judgments and estimates are reasonable, appropriate and correct, different amounts could have been reported if different estimates were made.

**Stock-Based Compensation**

Determining the fair value of stock-based awards at the grant date requires considerable judgment, including estimating expected volatility, expected term and risk-free interest rate.

***Stock Options:***

The fair value of each option grant is estimated as of the date of grant using a reduced-form calibrated binomial lattice model, or the lattice model. The lattice model requires the use of historical data for employee

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exercise behavior and the use of assumptions, including expected life, risk-free interest rate and expected stock price volatility over the term of our employee stock options. The expected life of employee stock options is affected by all of the underlying assumptions and calibration of our model. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities appropriate for the term of our employee stock options; however, this may not accurately reflect future interest rates.

We use an equally weighted combination of historical and implied volatilities as of the grant date. Although we believe 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, there is no way of accurately predicting the future stock price.

The lattice model estimates the probability of exercise by an employee as a function of two variables based on the entire history of exercises and cancellations for all past option grants made by us since our initial public offering. This estimate may not be a reliable indicator of future employee behavior.

Forfeitures are estimated based on historical experience, which may not hold true in the future.

Our determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as a number of highly complex and subjective assumptions. We use third-party consultants to assist in developing the assumptions used in, as well as calibrating, the lattice model. We are responsible for determining the assumptions used in estimating the fair value of our share-based payment awards. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of our employee stock options. Although the fair value of employee stock options is determined in accordance with the Financial Accounting Standards Board, or FASB, guidance using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

### ***Restricted Stock Units:***

The cost of service-based and performance-based restricted stock units is determined using the fair value of our common stock on the date of grant after considering estimated forfeitures.

For performance-based restricted stock unit awards, we also consider the probability that those restricted stock units will vest. The vesting of performance-based restricted stock unit awards is contingent upon us meeting specified performance criteria and requires that the employee remain employed for a specified period of time.

### ***Employee Stock Purchase Plan:***

Compensation expense for our employee stock purchase plan is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. This model requires the use of historical data for employee exercise behavior and the use of assumptions, including expected life, risk-free interest rate and expected stock price volatility. As such, it is subject to similar risks to those relating to stock options.

### **Inventory Valuation Methodology**

Inventories are valued at the lower of cost or market using the first-in, first-out, or FIFO, method. We write down our inventories for estimated obsolescence based upon assumptions about future demand and market conditions. Inventory impairment charges create a new cost basis for inventory.

We balance the need to maintain strategic inventory levels to ensure competitive delivery performance to our customers with the risk of inventory obsolescence due to rapidly changing technology and customer requirements, product life-cycles, life-time buys at the end of supplier product runs and a shift of production to outsourcing. If actual demand or market conditions are less favorable than we project or our customers' demands fail to meet our projections, additional inventory write-downs may be required.

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If market conditions are more favorable than expected, we could experience more favorable gross profit margins going forward as we sell inventory that was previously written down.

### **Valuation of Long-Lived Assets, Intangible Assets and Goodwill**

We have historically pursued the acquisition of businesses, which has resulted in the accumulation of a significant amount of goodwill and intangible assets. We assess the impairment of long-lived assets and identified intangible assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We assess the impairment of goodwill annually or sooner if events or changes in circumstances indicate that the carrying value may not be recoverable. When we determine that there is an indicator that the carrying value of long-lived assets, identified intangibles or related goodwill may not be recoverable, we measure impairment based on estimates of future cash flows. Impairment of goodwill, if any, is measured based on an implied fair value model that determines the carrying value of goodwill.

To evaluate the recoverability of goodwill, we first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of any of our reporting units is less than its carrying amount. Our qualitative assessment of the recoverability of goodwill, whether performed annually or based on specific events or circumstances, considers various macroeconomic, industry-specific and company-specific factors. Those factors include: (i) severe adverse industry or economic trends; (ii) significant company-specific actions, including exiting an activity in conjunction with restructuring of operations; (iii) current, historical or projected deterioration of our financial performance; or (iv) a sustained decrease in our market capitalization below our net book value. After assessing the totality of events and circumstances, if we determine that it is not more likely than not that the fair value of any of our reporting units is less than its carrying amount, no further assessment is performed. If we determine that it is more likely than not that the fair value of any of our reporting units is less than its carrying amount, we calculate the fair value of that reporting unit and compare the fair value to the reporting unit's net book value. If the fair value of the reporting unit is greater than its net book value, there is no impairment. Otherwise, we calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit. The implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

In determining the fair value of our reporting units, we rely solely on a discounted cash-flow analysis. We do research and analyze peer multiples for comparison purposes, but we do not rely directly upon such data due to the lack of specific comparability between the peer companies and our reporting units. Instead we employ the peer multiple data as a general check on the results of our discounted cash-flow analysis. The material assumptions used in performing the discounted cash-flow analysis include forecasts of expected future cash flows, including elements such as revenues, cost of sales, operating expenses, tax expenses, working capital, investment and capital expenditures. Key assumptions also include expected near- and long-term growth rates, as well as expected profitability levels and capital investment. Since the forecasted cash flows of the business, as well as those allocated to individual assets, need to be discounted to present value in order to arrive at estimates of fair value, discount rates must also be estimated and applied in the valuation models. These discount rates are based on estimates of a market weighted-average cost-of-capital for the reporting units, with adjustments made to account for the relative risk of individual assets valued.

Although we believe that our methods of evaluating goodwill impairment are reasonable, future changes in economic and other conditions could force us to take additional charges. Our next annual test for the impairment of goodwill is expected to be performed in the fourth quarter of 2012 or sooner if events or changes in circumstances indicate that the carrying amount may not be recoverable.

We assess the recoverability of our identified intangible assets based on management's estimates of undiscounted projected future operating cash flows compared to the net book value of the identified intangible assets. In cases where the net book value exceeds undiscounted projected future operating cash flows, impairment exists. The impairment charge is measured as the difference between the net book value of the identified intangible assets and the fair value of such assets. The fair value is determined using a discounted cash-flow approach for each asset grouping.

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**Restructuring Reserves**

We have recorded reserves/accruals for restructuring costs related to our restructuring of operations. The restructuring reserves include estimated payments to employees for severance, termination fees associated with leases and other contracts and selling costs associated with assets held for sale, and other costs related to the closure of facilities. The restructuring reserves are based upon management estimates at the time they are recorded. These estimates can change depending upon changes in facts and circumstances subsequent to when the original liability was recorded. For example, existing accruals for severance may be modified if employees are redeployed due to circumstances not foreseen when the original plans were initiated, accruals for outplacement services may not be fully utilized by former employees, and severance accruals could change for statutory reasons in countries other than the United States. Accruals for facility leases under which we ceased using the benefits conveyed to us under the lease may change if market conditions for subleases change or if we later negotiate a termination of the lease.

**Income Taxes**

The calculation of our tax liabilities involves the application of complex tax rules and regulations in multiple jurisdictions throughout the world. We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions, and in the calculation of specific tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as tax liabilities associated with uncertain tax positions. The calculation of tax liabilities involves uncertainties in the application of complex tax rules and the potential for future adjustment of our uncertain tax positions by various tax jurisdictions. Significant changes to these estimates may result in an increase or a decrease to our tax provision in a subsequent period. The deferred tax assets we record each period depend primarily on our ability to generate future taxable income in the United States and certain non-U.S. jurisdictions. Each period, we evaluate the need for a valuation allowance for our deferred tax assets and, if necessary, we adjust the valuation allowance so that net deferred tax assets will be realized. If our outlook for future taxable income changes significantly, our assessment of the need for a valuation allowance may also change.

**Retirement Benefits**

Post-retirement assets and liabilities are estimates of benefits that we expect to pay to eligible retirees. We consider various factors in determining the value of our post-retirement net assets, including the number of employees that we expect to receive benefits and other actuarial assumptions.

For defined benefit pension plans, we consider various factors in determining our pension liability and net periodic benefit cost, including the number of employees that we expect to receive benefits, their salary levels and years of service, the expected return on plan assets, the discount rate, the timing of the payment of benefits, and other actuarial assumptions. If the actual results and events of our pension plan differ from our current assumptions, our benefit obligations may be over- or under-valued.

The key benefit plan assumptions are the discount rate and the expected rate of return on plan assets. The assumptions discussed below are for our U.S. retirement benefit plans. For our international plans, we chose assumptions specific to each country.

The discount rate we use is based on a cash-flow analysis using the Citigroup Pension Discount Curve and the Citigroup Above Median Pension Discount Curve as of the measurement date. We base our salary increase assumptions on historical experience and future expectations. In developing the expected rate of return, we consider long-term compound annualized returns based on historical market data, historical and expected returns on the various categories of plan assets, and the target investment portfolio allocation among debt, equity securities and other investments.

For 2011, we used an expected rate of return on plan assets of 7.75% for our U.S. pension plans. For our U.S. post-retirement benefit plans, we used a weighted-average long-term rate of return on assets of 6.20%. For

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the U.S. plans, we use a calculated market-related value of assets, or MRVA, in determining the estimated return on plan assets. The MRVA smoothes the recognition of asset gains and losses over a five-year period. Because of this smoothing, the MRVA also affects the determination of amortization of gains or losses. As of December 31, 2011, the MRVA for the U.S. plans was \$942.0 million, as compared to a fair value of \$921.9 million. If we used the fair value, the net periodic benefit cost would increase by \$2.4 million for 2012.

Actuarial assumptions are based on our best estimates and judgment. Material changes may occur in retirement benefit costs in the future if these assumptions differ from actual events or experience. We performed a sensitivity analysis on the discount rate, which is the key assumption in calculating the pension and post-retirement benefit obligations. Each change of 25 basis points in the discount rate assumption would have had an estimated \$43.0 million impact on the benefit obligation as of December 31, 2011. Each change of 25 basis points in the discount rate assumption and expected rate of return assumption would have an estimated \$0.1 million and \$2.4 million, respectively, impact on annual net retirement benefit costs for the year ending December 31, 2012.

### **Fair Value Measurements**

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (i.e., 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.

We determine the estimated fair value of financial assets and liabilities using the market approach and the income approach as considered appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses discounted cash flow models by considering market expectations about future cash flows and other inputs that are observable or can be corroborated by observable market data.

The fair value inputs are reviewed by management for reasonableness, may be further validated by comparison to publicly available information and could be adjusted based on market indices or other information that management deems material to their estimate of fair value. In the current market environment, the assessment of fair value can be difficult and subjective. However, given the relative reliability of the inputs we use to value our investment portfolio, and because substantially all of our valuation inputs are obtained using quoted market prices for identical or similar assets, we do not believe that the nature of estimates and assumptions affected by levels of subjectivity and judgment is material to the valuation of our investment portfolio.

We do not estimate the fair value for non-marketable securities unless there are identified events or changes in circumstances that may have a significant adverse effect on the investment. If management determines that these non-marketable investments are impaired, losses are generally measured by using pricing reflected in current rounds of financing.

### **Other Than Temporary Impairment**

We recognize an impairment charge when declines in the fair values of our investments in debt and equity securities below their cost basis are judged to be other than temporary. We evaluate both qualitative and quantitative factors, such as duration and severity of the unrealized loss, credit ratings, prepayment speeds, default and loss rates of the underlying collateral, structure and credit enhancements, to determine if a credit loss may exist.

For investments in equity securities, to determine if impairment has occurred, we review the financial performance of each investee, industry performance and outlook for each investee, and the trading price of each marketable equity security. For non-marketable equity securities, we review recent financing activities of the investees, movements in equity value, venture capital markets, the investee's capital structure, liquidation preferences of the investee's capital and other economic variables. If an unrealized loss is determined to be other than temporary, a loss is recognized as a component of interest income and other, net in the statements of

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operations. For marketable equity securities, an impairment loss is measured using the closing market price of the marketable security on the date management determines that the investment is impaired. For non-marketable equity securities, an impairment loss is generally measured by using pricing reflected in current rounds of financing. We do not estimate the fair values of non-marketable equity investments unless there are identified events or changes in circumstances that may have a significant adverse effect on the investments.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

The information contained in Note 2 to our financial statements in Part II, Item 8 under the heading "Recent Accounting Pronouncements" is incorporated by reference into this Part II, Item 7.

#### **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

##### **Interest Rate Sensitivity**

A 10% weighted-average worldwide interest rate movement affecting our fixed and floating rate financial instruments as of December 31, 2011 and 2010 would not have a significant effect on our consolidated balance sheets, results of operations or cash flows over the next fiscal year, assuming that the investment balances remained consistent.

##### **Foreign Currency Exchange Risk**

We have foreign subsidiaries that operate and sell our products in various markets around the world. As a result, our cash flows and earnings are exposed to fluctuations in foreign currency exchange rates. We attempt to limit these exposures through operational strategies and financial market instruments. We use various hedge instruments, primarily forward contracts with maturities of twelve months or less, to manage our exposure associated with net asset and liability positions and cash flows denominated in non-functional currencies. We did not enter into derivative financial instruments for trading purposes during 2011 or 2010.

Based on our overall currency rate exposures at December 31, 2011 and 2010, including derivative financial instruments and non-functional currency-denominated receivables and payables, a near-term 10% appreciation or depreciation of the U.S. dollar would not have a significant effect on our consolidated balance sheets, results of operations or cash flows over the next fiscal year.

##### **Credit and Market Liquidity Risks**

As of December 31, 2011, we had cash equivalents of \$674.2 million, which is invested in money market funds. We had short-term investments of \$155.6 million in debt securities. These securities are classified as available-for-sale and accordingly are recorded at fair market value with unrealized gains or losses reported as a separate component of accumulated other comprehensive income, net of applicable taxes.

These investments expose us to credit risk or the risk of loss should the issuer of the debt securities held in our portfolio or by the money market mutual funds we invest in be unable to meet their financial obligations under those securities. Our available-for-sale debt securities at December 31, 2011 included \$107.4 million of asset-backed and mortgage-backed securities, of which \$97.4 million are issued by agencies of the U.S. government. We diversify our investments to reduce the exposure to loss from any single issuer, sector, bank or mutual fund.

We are also exposed to market liquidity risk. This is the risk that the demand for securities in the market becomes significantly lower than normal or ceases to exist, similar to circumstances that existed during the recent global financial crisis. During the course of that crisis, the Federal Reserve implemented a number of new programs designed to improve liquidity and conditions in financial markets. Due to the improved functioning of financial markets, many of those programs have expired or have been closed.

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Despite the potential intervention by the Federal Reserve, should financial market conditions require it in the future, access to our funds could be limited in some cases and some money market funds could limit redemptions for a period of time. The impact of market liquidity risk on our investments is that we may be unable to sell our investments in a timely manner should we need to, or if we are able to sell them, the sale price of the investments may be lower than we expect.

Credit and market liquidity risks could impact our consolidated results of operations to the extent we incur a loss or if management determines that changes in prices of available-for-sale debt securities are other than temporary.



[Table of Contents](#)**Item 8. Financial Statements and Supplementary Data**

**LSI Corporation**  
**Consolidated Balance Sheets**  
**(In thousands, except per share amounts)**

	December 31,	
	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 779,811	\$ 521,786
Short-term investments	155,644	154,880
Accounts receivable, less allowances of \$6,950 and \$9,701, respectively	246,539	326,604
Inventories	180,035	186,772
Prepaid expenses and other current assets	60,659	73,778
Total current assets	1,422,688	1,263,820
Property and equipment, net	180,589	223,181
Identified intangible assets, net	433,790	561,137
Goodwill	72,377	188,698
Other assets	122,604	188,076
Total assets	<u>\$ 2,232,048</u>	<u>\$ 2,424,912</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 175,093	\$ 173,919
Accrued salaries, wages and benefits	106,948	126,307
Other accrued liabilities	178,830	184,402
Total current liabilities	460,871	484,628
Pension and post-retirement benefit obligations	597,183	463,119
Income taxes payable — non-current	91,791	85,717
Other non-current liabilities	23,263	73,946
Total liabilities	1,173,108	1,107,410
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred shares; \$.01 par value; 2,000 shares authorized; none outstanding	—	—
Common stock; \$.01 par value; 1,300,000 shares authorized; 561,767 and 615,191 shares outstanding, respectively	5,618	6,152
Additional paid-in capital	5,623,581	5,998,137
Accumulated deficit	(4,037,031)	(4,368,522)
Accumulated other comprehensive loss	(533,228)	(318,265)
Total stockholders' equity	1,058,940	1,317,502
Total liabilities and stockholders' equity	<u>\$ 2,232,048</u>	<u>\$ 2,424,912</u>

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

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**LSI Corporation**  
**Consolidated Statements of Operations**  
**(In thousands, except per share amounts)**

	Year Ended December 31,		
	2011	2010	2009
Revenues	\$ 2,043,958	\$ 1,869,654	\$ 1,576,381
Cost of revenues	1,081,494	989,009	942,323
Gross profit	962,464	880,645	634,058
Research and development	575,988	562,991	508,657
Selling, general and administrative	295,439	279,126	256,908
Restructuring of operations and other items, net	23,719	9,201	36,458
Income/(loss) from operations	67,318	29,327	(167,965)
Interest expense	—	(5,601)	(21,931)
Interest income and other, net	26,472	13,848	20,272
Income/(loss) from continuing operations before income taxes	93,790	37,574	(169,624)
Provision for/(benefit from) income taxes	3,778	3,170	(109,321)
Income/(loss) from continuing operations	90,012	34,404	(60,303)
Income from discontinued operations (including a gain on disposal of \$260,066 in 2011), net of tax	241,479	5,568	12,584
Net income/(loss)	<u>\$ 331,491</u>	<u>\$ 39,972</u>	<u>\$ (47,719)</u>
Basic income/(loss) per share:			
Income/(loss) from continuing operations	<u>\$ 0.15</u>	<u>\$ 0.05</u>	<u>\$ (0.09)</u>
Income from discontinued operations	<u>\$ 0.42</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Net income/(loss)	<u>\$ 0.57</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>
Diluted income/(loss) per share:			
Income/(loss) from continuing operations	<u>\$ 0.15</u>	<u>\$ 0.05</u>	<u>\$ (0.09)</u>
Income from discontinued operations	<u>\$ 0.40</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Net income/(loss)	<u>\$ 0.55</u>	<u>\$ 0.06</u>	<u>\$ (0.07)</u>
Shares used in computing per share amounts:			
Basic	<u>585,704</u>	<u>638,998</u>	<u>651,238</u>
Diluted	<u>600,893</u>	<u>646,324</u>	<u>651,238</u>

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

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**LSI Corporation**  
**Consolidated Statements of Stockholders' Equity**  
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
Balances at December 31, 2008	648,132	\$ 6,481	\$ 6,058,786	\$ (4,360,775)	\$ (263,570)	\$ 1,440,922
Net loss				(47,719)		
Foreign currency translation adjustments					5,273	
Net unrealized gain on investments, net of tax of \$1,957					3,248	
Net unrealized gain on derivatives, net of tax of \$467					775	
Actuarial loss on pension and post-retirement plans, net of tax of \$717					(23,828)	
Amortization of prior service cost and net actuarial gain					(1,539)	
Total comprehensive loss						(63,790)
Issuance under employee equity incentive plans, net	8,352	84	13,828			13,912
Stock-based compensation			70,060			70,060
Balances at December 31, 2009	656,484	6,565	6,142,674	(4,408,494)	(279,641)	1,461,104
Net income				39,972		
Foreign currency translation adjustments					162	
Net unrealized gain on investments, net of tax of \$644					1,032	
Net unrealized gain on derivatives, net of tax of \$0					357	
Actuarial loss on pension and post-retirement plans, net of tax of \$0					(43,008)	
Amortization of prior service cost and net actuarial loss					2,833	
Total comprehensive income						1,348
Issuance under employee equity incentive plans, net	10,084	101	37,736			37,837
Repurchase of shares	(51,377)	(514)	(249,428)			(249,942)
Stock-based compensation			67,155			67,155
Balances at December 31, 2010	615,191	6,152	5,998,137	(4,368,522)	(318,265)	1,317,502
Net income				331,491		
Foreign currency translation adjustments					(4,786)	
Net unrealized loss on investments, net of tax of \$0					(1,018)	
Net unrealized loss on derivatives, net of tax of \$0					(2,778)	
Actuarial loss on pension and post-retirement plans, net of tax of \$0					(213,701)	
Amortization of transition asset, prior service cost and net actuarial loss					7,320	
Total comprehensive income						116,528
Issuance under employee equity incentive plans, net	18,971	190	73,702			73,892
Repurchase of shares	(72,395)	(724)	(498,062)			(498,786)
Stock-based compensation			49,804			49,804
Balances at December 31, 2011	561,767	\$ 5,618	\$ 5,623,581	\$ (4,037,031)	\$ (533,228)	\$ 1,058,940

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

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**LSI Corporation**  
**Consolidated Statements of Cash Flows**  
**(In thousands)**

	<u>Year Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating activities:			
Net income/(loss)	\$ 331,491	\$ 39,972	\$ (47,719)
Adjustments:			
Depreciation and amortization	189,200	266,672	268,162
Stock-based compensation expense	50,318	66,441	63,983
Non-cash restructuring of operations and other items, net	35,282	45,681	690
Write-down of investments, net of gain on sale	183	6,779	1,529
Gain on sale of business	(260,066)	—	—
(Gain)/loss on sale of property and equipment	(465)	11	(145)
Gain on redemption of convertible subordinated notes	—	—	(149)
Unrealized foreign exchange (gain)/loss	(2,015)	4,311	1,301
Deferred taxes	(28,838)	3,512	3,063
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:			
Accounts receivable, net	80,065	12,357	(34,986)
Inventories	(29,804)	(17,437)	64,592
Prepaid expenses and other assets	(10,782)	14,404	68,469
Accounts payable	(3,879)	(35,213)	8,420
Accrued and other liabilities	(103,915)	(40,315)	(192,736)
Net cash provided by operating activities	<u>246,775</u>	<u>367,175</u>	<u>204,474</u>
Investing activities:			
Purchases of debt securities available-for-sale	(50,967)	(44,643)	(10)
Proceeds from maturities and sales of debt securities available-for-sale	37,460	56,529	90,572
Purchases of other investments	(4,000)	(316)	(14,159)
Proceeds from sale of other investments	—	9,795	165
Purchases of property and equipment	(60,920)	(92,342)	(90,004)
Proceeds from sale of property and equipment	23,622	840	2,773
Acquisitions of businesses and companies, net of cash acquired	—	—	(46,981)
Proceeds from sale of business, net of transaction costs	475,150	—	—
Proceeds from repayments on a note receivable	10,000	10,000	10,000
Decrease in non-current assets and deposits	—	—	13,501
Net cash provided by/(used in) investing activities	<u>430,345</u>	<u>(60,137)</u>	<u>(34,143)</u>
Financing activities:			
Redemption of convertible subordinated notes	—	(349,999)	(244,047)
Issuances of common stock	81,040	40,883	18,747
Purchase of common stock under repurchase programs	(498,786)	(249,942)	—
Net cash used in financing activities	<u>(417,746)</u>	<u>(559,058)</u>	<u>(225,300)</u>
Effect of exchange rate changes on cash and cash equivalents	(1,349)	(4,485)	3,959
Net change in cash and cash equivalents	258,025	(256,505)	(51,010)
Cash and cash equivalents at beginning of year	521,786	778,291	829,301
Cash and cash equivalents at end of year	<u>\$ 779,811</u>	<u>\$ 521,786</u>	<u>\$ 778,291</u>

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

**LSI Corporation**  
**Notes to Consolidated Financial Statements**

**Note 1 — The Company**

LSI Corporation ("LSI" or the "Company") designs, develops and markets complex, high-performance storage and networking semiconductors. The Company offers a broad portfolio of capabilities including custom and standard product integrated circuits that are used in hard disk drives, solid state drives, high-speed communications systems, computer servers, storage systems and personal computers. The Company delivers products to its customers as stand-alone integrated circuits as well as incorporated onto circuit boards that offer additional functionality. The Company also licenses other entities to use its intellectual property.

On May 6, 2011, the Company completed the sale of substantially all of its external storage systems ("ESG") business to NetApp, Inc. ("NetApp"). The results of the ESG business are presented as discontinued operations in the Company's consolidated statements of operations and, as such, have been excluded from all line items other than "income from discontinued operations" for all periods presented. Since the first quarter of 2011, in connection with the March 9, 2011 agreement to sell the ESG business to Net App, the Company operates in one reportable segment. Before it was sold, the ESG business was part of the Storage Systems segment. The results of the RAID adapter business, which were formerly included in the Storage Systems segment, are now included in the Company's remaining reportable segment.

**Note 2 — Significant Accounting Policies**

*Basis of Presentation:* The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Where the functional currency of the Company's foreign subsidiaries is the local currency, assets and liabilities are translated into U.S. dollars using the exchange rates on the balance sheet dates, and revenues and expenses are translated using average rates prevailing during the period. Accounts and transactions denominated in foreign currencies have been re-measured into functional currencies before translation into U.S. dollars. Foreign currency transaction gains and losses are included as a component of interest income and other, net. Gains and losses from foreign currency translation are included as a separate component of comprehensive income.

*Use of Estimates:* The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

*Revenue Recognition:* The Company recognizes revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred and the title and risk of loss have been transferred, (iii) the sales price is fixed or determinable, and (iv) collection of resulting receivables is reasonably assured (or probable in the case of software). Standard products sold to distributors are subject to specific rights of return, and revenue recognition is deferred until the distributor sells the product to a third-party because the selling price is not fixed or determinable. Consideration given to customers, when offered, is primarily in the form of discounts and rebates and is accounted for as reductions to revenues in the same period the related sale is made. The amount of these reductions is based on historical rebate claims, specific criteria included in rebate agreements, and other factors known at the time.

Revenues from the licensing of the Company's intellectual property are recognized when the significant contractual obligations have been fulfilled and the fundamental revenue recognition criteria discussed above are met. The contractual terms of such licensing arrangements generally provide for payments over an extended period of time. The Company recognizes revenue from such arrangements when payments become due. Royalty revenues are recognized upon the sale of products subject to royalties and are recognized based upon reports received from licensees during the period, unless collectibility is not reasonably assured, in which case revenue is recognized when payment is received from the licensee.

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

*Income/(Loss) per Share:* Basic income/(loss) per share is computed by dividing net income/(loss) available to common stockholders (numerator) by the weighted-average number of common shares outstanding (denominator) during the period. Diluted income/(loss) per share is computed using the weighted-average number of common and potentially dilutive common shares outstanding during the period using the treasury stock method for outstanding stock options and restricted stock unit awards and the if-converted method for convertible notes. Under the treasury stock method, the amount the employee must pay for exercising stock options and employee stock purchase rights, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

*Stock-Based Compensation Expense:* The estimated fair value of equity-based awards, including employee stock options, service-based restricted stock units and rights to purchase shares under the employee stock purchase plan, net of estimated forfeitures, is amortized over the award vesting periods on a straight-line basis. The estimated fair value of performance-based restricted stock units is amortized over the award vesting periods using a graded vesting schedule.

*Cash Equivalents:* All highly liquid investments purchased with an original maturity of 90 days or less are considered to be cash equivalents. Cash and cash equivalents consist primarily of highly liquid investments in overnight deposits and money-market funds.

*Accounts Receivable and Allowance for Doubtful Accounts:* Trade receivables are reported in the consolidated balance sheets reduced by an allowance for doubtful accounts reflecting estimated losses resulting from receivables not considered to be collectible. The allowance for doubtful accounts is estimated by evaluating customers' payment history and credit-worthiness as well as current economic and market trends.

*Investments:* Available-for-sale investments include short-term marketable debt securities and long-term marketable equity securities of technology companies. Short-term marketable debt securities are reported at fair value and include all debt securities regardless of their maturity dates because of their highly liquid nature. Long-term marketable equity securities are reported at fair value. Unrealized gains and losses on marketable debt and equity securities, net of related tax, are recorded as a separate component of comprehensive income in stockholders' equity until realized. Long-term non-marketable equity securities consist primarily of non-marketable common and preferred stock of technology companies and are recorded at cost. Pre-tax gains and losses on securities sold are determined based on the specific identification method and are included in interest income and other, net, in the consolidated statements of operations. The Company does not hold any of these securities for speculative or trading purposes.

Unrealized losses for all investments are evaluated to determine if they are other than temporary as follows:

- For marketable debt securities, if the fair value of a debt security is less than its amortized cost basis, the Company assesses whether impairment is other than temporary. Impairment is considered other than temporary if (i) the Company has the intent to sell the security, (ii) it is more likely than not that the Company will be required to sell the security before recovery of its entire amortized cost basis, or (iii) the Company does not expect to recover the entire amortized cost of the security. If impairment is considered other than temporary based on conditions (i) or (ii), the entire difference between the amortized cost and the fair value of the security is recognized in earnings. If impairment is considered other than temporary based on condition (iii), the amount representing credit losses, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security, will be recognized in earnings and the amount relating to all other factors will be recognized in other comprehensive income. The Company evaluates both qualitative and quantitative factors, such as duration and severity of the unrealized loss, credit ratings, prepayment speeds, default and loss rates of the underlying collateral, structure and credit enhancements, to determine if a credit loss may exist.

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

- For marketable equity securities, the Company reviews the financial performance of each investee, industry performance, the outlook of each investee and the trading price of each security. An impairment loss is measured using the closing trading price of the marketable security on the date management determines that the investment is impaired and is recorded in interest income and other, net in the consolidated statements of operations.
- For non-marketable equity securities, the Company reviews recent financing activities of each investee, movements in equity value, venture capital markets, the investee's capital structure, liquidation preferences of the investee's capital and other economic variables. If an unrealized loss is determined to be other than temporary, a loss is generally measured by using pricing reflected in current rounds of financing and is recognized as a component of interest income and other, net, in the consolidated statements of operations. The Company does not estimate the fair values of non-marketable equity securities unless there are identified events or changes in circumstances that may have a significantly adverse effect on the investment.

*Inventories:* Inventories are stated at the lower of cost or market, which approximate actual cost computed on a first-in, first-out basis. Inventory is written down when conditions indicate that the selling price could be less than the cost due to physical deterioration, obsolescence, changes in price levels or other causes. Inventory is also written down when inventory levels are in excess of the forecasted demand for the next 12 months, as judged by management, for each specific product. When inventory is written down, a new cost basis is established.

*Property and Equipment:* Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as presented below:

Buildings and improvements	20-40 years
Equipment	3-5 years
Furniture and fixtures	5 years

Amortization of leasehold improvements is computed using the shorter of the remaining term of the related leases or the estimated useful lives of the improvements.

*Business combinations:* Acquisitions made by the Company are accounted for under the purchase method of accounting. Under this method, the estimated fair value of assets acquired and liabilities assumed and the results of operations of the acquired business are included in the Company's financial statements from the effective date of the acquisition.

*Goodwill:* The Company evaluates the recoverability of goodwill annually in the fourth quarter or sooner if events or changes in circumstances indicate that the carrying amount may not be recoverable. When the Company determines that there is an indicator that the carrying value of goodwill may not be recoverable, the Company measures impairment based on estimates of future cash flows. Impairment, if any, is measured based on an implied fair value model that determines the carrying value of goodwill.

To evaluate the recoverability of goodwill, the Company first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of any of its reporting units is less than its carrying amount. The Company's qualitative assessment of the recoverability of goodwill, whether performed annually or based on specific events or circumstances, considers various macroeconomic, industry-specific and company-specific factors. Those factors include: (i) severe adverse industry or economic trends; (ii) significant company-specific actions, including exiting an activity in conjunction with restructuring of operations; (iii) current, historical or projected deterioration of the Company's financial performance; or (iv) a sustained decrease in the Company's market capitalization below its net book value. After assessing the totality of events and circumstances, if the Company determines that it is not more likely than not that the fair value of any of its reporting units is less than its carrying amount, no further assessment is performed. If the Company determines that it is more likely than not that the fair value of any of its

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

reporting units is less than its carrying amount, the Company calculates the fair value of that reporting unit and compares the fair value to the reporting unit's net book value. If the fair value of the reporting unit is greater than its net book value, there is no impairment. Otherwise, the Company calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit. The implied fair value of goodwill is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference.

In determining the fair values of its reporting units, the Company relies solely on a discounted cash-flow analysis. The Company does research and analyzes peer multiples for comparison purposes, but does not rely directly upon such data due to the lack of specific comparability between the peer companies and its reporting units. Instead the Company employs the peer multiple data as a general check on the results of its discounted cash-flow analysis. The material assumptions used in performing the discounted cash-flow analysis include forecasts of expected future cash flows, including elements such as revenues, cost of sales, operating expenses, tax expenses, working capital, investment and capital expenditures. Key assumptions also include expected near- and long-term growth rates, as well as expected profitability levels and capital investment. Since the forecasted cash flows of the business, as well as those allocated to individual assets, need to be discounted to present value in order to arrive at estimates of fair value, discount rates must also be estimated and applied in the valuation models. These discount rates are based on estimates of a market weighted-average cost-of-capital for the reporting unit, with adjustments made to account for the relative risk of individual assets valued.

*Identified Intangible Assets:* Identified intangible assets subject to amortization are amortized over the periods during which they are expected to contribute to the Company's future cash flows. The Company assesses the recoverability of its identified intangible assets based on management's estimates of undiscounted projected future operating cash flows compared to the net book value of the identified intangible assets. In cases where the net book value exceeds undiscounted projected future operating cash flows, impairment exists. The impairment charge is measured as the difference between the net book value of the identified intangible assets and the fair value of such assets. The fair value is determined using a discounted cash-flow approach for each asset grouping.

*Long-Lived Assets:* The Company evaluates the carrying value of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use and eventual disposition of the asset. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values. When assets are removed from operations and held for sale, the impairment loss is estimated as the excess of the carrying value of the assets over their fair value.

*Retirement Benefits:* Post-retirement assets and liabilities are estimates of benefits that the Company expects to pay to eligible retirees. The Company considers various factors in determining the value of its post-retirement net assets, including the number of employees that the Company expects to receive benefits and other actuarial assumptions.

For defined benefit pension plans, the Company considers various factors in determining its pension liability and net period benefit cost, including the number of employees that the Company expects to receive benefits, their salary levels and years of service, the expected return on plan assets, the discount rate, the timing of the payment of benefits, and other actuarial assumptions. If the actual results and events of the pension plan differ from the Company's current assumptions, the benefit obligations may be over- or under-valued.

The key benefit plan assumptions are the discount rate and the expected rate of return on plan assets. The assumptions discussed below are for the U.S. retirement benefit plans. For the international plans, the Company chose assumptions specific to each country.

The discount rate the Company uses is based on a cash-flow analysis using the Citigroup Pension Discount Curve and the Citigroup Above Median Pension Discount Curve as of the measurement date. The Company



**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

bases the salary increase assumptions on historical experience and future expectations. In developing the expected rate of return, the Company considers long-term compound annualized returns based on historical market data, historical and expected returns on the various categories of plan assets, and the target investment portfolio allocation among debt, equity securities and other investments.

*Fair Value Disclosures of Financial Instruments:* GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (i.e., 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. GAAP 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:

Level 1 — Unadjusted, quoted prices in active, accessible markets for identical assets or liabilities. The Company's investments in marketable equity securities, money-market funds and mutual funds that are traded in active exchange markets, as well as certain U.S. 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 and agency securities, commercial paper, corporate debt securities, U.S. Treasury Inflation-Protected Securities and asset-backed 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, yield curves, prepayment speeds, collateral performance, broker/dealer quotes and indices that are observable at commonly quoted intervals. Foreign exchange forward 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. The Company's investments in commingled funds are valued based on the net asset value per share of each investment at the measurement date. Commingled funds are classified as Level 2 as the Company could redeem these investments with the sponsoring investment management organizations at least monthly.

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 determines the estimated fair value of financial instruments using the market approach and the income approach as considered to be appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses discounted cash flow models by considering market expectations about future cash flows and other inputs that are observable or can be corroborated by observable market data. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts. The fair values of investments and derivative instruments are based on market data. Carrying amounts of accounts receivable and accounts payable approximate fair value due to the short maturity of these financial instruments.

*Derivative Instruments:* All of the Company's derivative instruments are recognized as assets or liabilities and measured at fair value. Derivative instruments that hedge the exposure to variability in expected future cash flows of forecasted transactions qualify as cash flow hedges. Changes in the fair value of these cash flow hedges that are highly effective are recorded in accumulated other comprehensive income and reclassified into earnings during the period in which the hedged transaction affects earnings. The changes in fair value of derivative instruments that are not designated as hedges and the ineffective portion of cash flow hedges are recognized immediately in earnings.

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

The Company would discontinue hedge accounting prospectively when it is determined that the cash flow hedge is not highly effective, the derivative expires or is sold, terminated or exercised, or it is unlikely that the forecasted transaction will occur in the initial identified time period or within a subsequent two-month time period. Gains and losses that were accumulated in other comprehensive income for such derivatives would be reclassified immediately into earnings unless it is probable that the forecasted transaction will occur within the subsequent two-month period. Any subsequent changes in fair value of such derivative instruments are reflected immediately in earnings.

*Concentration of Credit Risk of Financial Instruments:* Financial instruments that potentially subject the Company to credit risk include cash equivalents, short-term investments and accounts receivable. Cash equivalents and short-term investments are maintained with high quality institutions, and their composition and maturities are regularly monitored by management. The Company diversifies its investments to reduce the exposure to loss from any single issuer, sector, bank or mutual fund. A majority of the Company's trade receivables are derived from sales to large, multinational computer, communication, networking and storage manufacturers, with the remainder distributed across other industries. As of December 31, 2011, one customer accounted for 36.6% of trade receivables, and as of December 31, 2010, three customers accounted for 21.2%, 16.8% and 12.2% of trade receivables. Concentrations of credit risk with respect to all other trade receivables are considered to be limited due to the quantity of customers comprising the Company's customer base and their dispersion across industries and geographies. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as considered necessary. Write-offs of uncollectible amounts have not been significant.

*Product Warranties:* The Company warrants finished goods against defects in material and workmanship under normal use and service generally for periods of one to three years. A liability for estimated future costs under product warranties is recorded when products are shipped.

*Litigation and Settlement Costs:* The Company is involved in legal actions arising in the ordinary course of business. The Company records an estimated loss for a loss contingency when both of the following conditions are met: (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (ii) the amount of loss can be reasonably estimated.

*Income Taxes:* The calculation of the Company's tax provision involves the application of complex tax rules and regulations in multiple jurisdictions throughout the world. The Company makes estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments are made in the calculation of tax credits, benefits and deductions, and in the calculation of certain tax assets and liabilities arising from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as tax liabilities associated with uncertain tax positions. Significant changes to these estimates may result in an increase or a decrease to the Company's tax provision in a subsequent period.

The Company recognizes the effect of income tax positions only when it is more likely than not that these positions will be sustained. Recognized income tax positions are measured at the largest amount that is more than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. The Company uses the flow-through method to account for investment tax credits. Under this method, a credit is recognized as a reduction of income tax expense in the year the credit is utilized.

**Recent Accounting Pronouncements**

*Pronouncements not yet effective:*

In May 2011, the Financial Accounting Standards Board ("FASB") issued additional guidance on fair value measurements and related disclosures. The new guidance clarifies the application of existing guidance on fair value measurement for non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance is effective on a prospective basis for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company's results of operations or financial position.

In June 2011, the FASB issued amended guidance regarding the presentation of comprehensive income. The amended guidance gives an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amended guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective on a retrospective basis for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance is not expected to have any impact on the Company's results of operations or financial position.

*Pronouncements adopted during 2011:*

In October 2009, the FASB amended revenue recognition guidance on multiple-deliverable arrangements to address how to separate deliverables and how to measure and allocate arrangement consideration. The new guidance requires the use of management's best estimate of selling price for the deliverables in an arrangement when a vendor does not have specific objective evidence of selling price or third party evidence of selling price. In addition, excluding specific software revenue guidance, the residual method of allocating arrangement consideration is no longer permitted, and an entity is required to allocate arrangement consideration using the relative selling price method. This guidance also expands the disclosure requirements to include both quantitative and qualitative information. The Company adopted this guidance in the first quarter of 2011. The adoption did not impact the Company's results of operations or financial position.

In October 2009, the FASB issued guidance to clarify that tangible products containing software components and non-software components that function together to deliver a product's essential functionality will be considered non-software deliverables and will be scoped out of the software revenue recognition guidance. The Company adopted this guidance in the first quarter of 2011. The adoption did not impact the Company's results of operations or financial position.

In December 2010, the FASB issued guidance to clarify that, when presenting comparative financial statements for business combinations that occurred during the current year, a public entity should disclose revenue and earnings of the combined entity as though the business combinations had occurred as of the beginning of the comparable prior annual reporting period. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

directly attributable to the business combination included in the reported pro forma revenue and earnings. The Company adopted this guidance in the first quarter of 2011. The adoption did not impact the Company's results of operations or financial position.

In September 2011, the FASB amended the goodwill impairment guidance to provide an option for entities to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events and circumstances, if an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performance of the two-step impairment test is no longer required. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company elected to adopt this guidance for its annual goodwill impairment test in the fourth quarter of 2011. The adoption did not impact the Company's results of operations or financial position.

**Note 3 — Restructuring, Asset Impairment Charges and Other Items**

In 2011, 2010 and 2009, management initiated restructuring plans designed to focus on targeted end markets and to improve operational efficiency and financial results. These plans primarily involved the termination of employees and consolidation of facilities. The restructuring charges recorded in conjunction with these plans primarily represented severance and costs related to the continuation of certain employee benefits, exit costs for facility consolidations and closures, contract termination costs, research and development program cancellations and asset impairment charges.

The following table summarizes items included in restructuring of operations and other items, net from continuing operations:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Lease and contract terminations	\$ 6,162(a)	\$ 3,678(a)	\$ 19,466(a)
Employee severance and benefits	11,326	8,264	10,094
Other exit costs, net	(1,033)(b)	—	608
Total restructuring expenses	16,455	11,942	30,168
Asset impairment	4,931(c)	—	—
Other items, net	2,333(d)	(2,741)(e)	6,290(f)
Total restructuring of operations and other items, net	<u>\$ 23,719</u>	<u>\$ 9,201</u>	<u>\$ 36,458</u>

- (a) Includes changes in estimates and changes in time value associated with facility lease exit costs accrued in previous years.
- (b) Includes a \$6.4 million gain on the sale of land in Gresham, Oregon, substantially offset by a \$5.5 million write-off of intellectual property in connection with the restructuring actions.
- (c) Includes a \$4.5 million intellectual property write-off due to a customer program cancellation.
- (d) Primarily consists of \$12.2 million of costs associated with the transition service agreements entered into in connection with the sale of the ESG business, \$3.4 million of litigation costs and a \$2.2 million loss on the disposition of fixed assets, substantially offset by a \$15.5 million sales and use tax related liability reversal as a result of concluding various audits.
- (e) Primarily consists of a \$4.4 million reversal of previously accrued litigation costs as a result of a court ruling in favor of the Company, offset in part by \$1.6 million of catch-up depreciation for land improvements resulting from the classification of land in Gresham, Oregon from held for sale to held and used in the fourth quarter of 2010.
- (f) Primarily relates to litigation.

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**Notes to Consolidated Financial Statements — (continued)**

Late in 2010, in response to the changing external storage systems market, the Company changed some of its business strategies for its ESG business. In 2011, the Company decided to exit the ESG business. In connection with each of these actions, the Company terminated employees, closed several office locations, terminated certain contracts, discontinued various development projects and wrote off intangible assets and software due to the cancellation of the development programs.

The results of those actions are included in discontinued operations and are summarized below:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Lease and contract terminations	\$ 2,141	\$ 1,951	\$ 59
Employee severance and benefits	15,428	3,626	—
Other exit costs	23,294	44,107	—
Total restructuring expenses	40,863	49,684	59
Other items	—	—	1,729(a)
Total restructuring of operations and other items, net	<u>\$ 40,863</u>	<u>\$ 49,684</u>	<u>\$ 1,788</u>

(a) Represents the repayment to the Israeli government of a grant due to the transfer of certain intellectual property out of Israel that was restricted by the terms of the grant.

The following table summarizes the significant activity within, and components of, the Company's restructuring obligations:

	Lease and Contract Terminations	Employee Severance and Benefits	Other Exit Costs	Total
	(In thousands)			
Balance at December 31, 2009	\$ 40,397	\$ 4,905	\$ —	\$ 45,302
Expense	5,629	11,890	44,107	61,626
Utilized	(25,121)(a)	(11,844)(a)	(44,107)	(81,072)
Balance at December 31, 2010	\$ 20,905	\$ 4,951	\$ —	\$ 25,856
Expense	8,303	26,754	22,261	57,318
Utilized	(17,456)(a)	(21,261)(a)	(22,261)	(60,978)
Balance at December 31, 2011	<u>\$ 11,752(b)</u>	<u>\$ 10,444(b)</u>	<u>\$ —</u>	<u>\$ 22,196</u>

(a) Represent cash payments.

(b) The balance remaining for the lease and contract terminations is expected to be paid during the remaining terms of the leases, which extend through 2013. The balance remaining for employee severance and benefits is expected to be paid by the first quarter of 2012.

**Note 4 — Stock-Based Compensation**

**Equity Incentive Plans**

**2003 Equity Incentive Plan ("2003 Plan"):**

Under the 2003 Plan, the Company may grant stock options and stock appreciation rights with an exercise price that is no less than the fair market value of the stock on the date of grant. Under the 2003 Plan, the Company may also grant restricted stock and restricted stock unit awards to employees and non-employee directors. The Company typically grants restricted stock units. No participant may be granted stock options covering more than four million shares of stock or more than an aggregate of one million shares of restricted

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**Notes to Consolidated Financial Statements — (continued)**

stock and restricted stock units in any fiscal year. The term of each option or restricted stock unit is determined by the Board of Directors or its delegate and, for option grants on or after February 12, 2004, is generally seven years. Options generally vest in annual increments of 25% per year commencing one year from the date of grant.

In May 2010, the 2003 plan was amended to increase the shares available for issuance under the plan to a total of 45 million shares, with 30 million shares for restricted stock and restricted stock units, and to update the performance measures that can be used to determine the vesting of awards intended to qualify for deductibility under Section 162(m) of the Internal Revenue Code to better match the metrics the Company uses to manage its business.

As of December 31, 2011, the 2003 Plan had approximately 31.0 million common shares available for future grants. A total of approximately 81.1 million shares of common stock were reserved for issuance upon exercise of outstanding options and upon vesting of outstanding restricted stock units as of December 31, 2011.

**Employee Stock Purchase Plan ("ESPP"):**

Under the ESPP, rights are granted to LSI 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.

In May 2010, the ESPP was amended to increase the shares available for issuance under the plan to a total of 30 million shares and to extend the term of the ESPP through May 12, 2020. In March 2009, the ESPP was amended to increase the maximum number of shares that a participant can purchase in a single purchase period from 1,000 shares to 2,000 shares, effective November 15, 2009.

As of December 31, 2011, the ESPP had approximately 20.8 million shares available for future purchase.

**Stock-Based Compensation Expense**

Stock-based compensation expense included in continuing operations, net of estimated forfeitures, related to the Company's stock options, ESPP and restricted stock unit awards by expense category was as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Cost of revenues	\$ 6,921	\$ 7,044	\$ 6,600
Research and development	23,646	23,471	22,180
Selling, general and administrative	20,343	23,487	24,432
Total stock-based compensation expense	<u>\$ 50,910</u>	<u>\$ 54,002</u>	<u>\$ 53,212</u>

Stock-based compensation costs capitalized to inventory in 2011, 2010 and 2009 were not significant. The income tax benefits that the Company realized for the tax deduction from option exercises and other awards were not significant.

**Stock Options:**

The fair value of each option grant is estimated as of the date of grant using a reduced-form calibrated binomial lattice model ("lattice model"). The following table summarizes the weighted-average assumptions that the Company applied in the lattice model:

	Year Ended December 31,		
	2011	2010	2009
Estimated grant date fair value per share	\$ 2.14	\$ 1.95	\$ 1.42
Expected life (years)	4.51	4.30	4.26
Risk-free interest rate	1.83%	1.91%	1.80%
Volatility	47%	51%	67%

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**Notes to Consolidated Financial Statements — (continued)**

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.

The Company uses 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 option's 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 are estimated based on historical experience.

The Company's determination of the 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.

The following table summarizes changes in stock options outstanding:

	<u>Number of Shares</u> (In thousands)	<u>Weighted-Average Exercise Price per Share</u>	<u>Weighted-Average Remaining Contractual Term</u> (In years)	<u>Aggregate Intrinsic Value</u> (In thousands)
Options outstanding at January 1, 2011	84,044	\$ 6.97		
Options granted	10,033	\$ 6.34		
Options exercised	(10,927)	\$ 4.94		
Options canceled	(18,905)	\$ 10.46		
Options outstanding at December 31, 2011	<u>64,245</u>	\$ 6.19	3.34	\$ 49,676
Options exercisable at December 31, 2011	<u>41,008</u>	\$ 6.83	2.40	\$ 23,904

As of December 31, 2011, the total unrecognized compensation expense related to unvested stock options, net of estimated forfeitures, was \$28.2 million and is expected to be recognized over the next 2.0 years on a weighted-average basis. The total intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009 was \$22.9 million, \$4.2 million and \$0.6 million, respectively. Cash received from stock option exercises was \$53.9 million in 2011.

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**Notes to Consolidated Financial Statements — (continued)**

**Employee Stock Purchase Plan:**

Compensation expense for the Company's ESPP is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. The following table summarizes the weighted-average assumptions that went into the calculation of the fair value of ESPP grants:

	Year Ended December 31,		
	2011	2010	2009
Estimated grant date fair value per share	\$ 1.81	\$ 1.49	\$ 1.79
Expected life (years)	0.8	0.8	0.7
Risk-free interest rate	0.1%	0.2%	0.3%
Volatility	45%	36%	52%

In 2011, 2010 and 2009, 5.8 million, 6.7 million and 5.1 million shares of common stock were issued under ESPP at a weighted-average price of \$4.64, \$4.72 and \$2.67 per share, respectively. Cash received from ESPP issuances was \$27.1 million in 2011.

**Restricted Stock Units:**

The cost of service-based and performance-based restricted stock units ("RSUs") is determined using the fair value of the Company's common stock on the date of grant. For performance-based restricted stock unit awards, the Company also considers the probability that those RSUs will vest.

*Service-based:*

The vesting requirements for service-based RSUs are determined at the time of grant and require that the employee remain employed by the Company for a specified period of time.

The following table summarizes changes in service-based RSUs outstanding:

	Number of Units	Weighted-Average Grant Date Fair Value per Share
	(In thousands)	
Unvested service-based RSUs at January 1, 2011	8,415	\$ 5.56
Granted	8,953	\$ 6.23
Vested	(2,333)	\$ 5.93
Forfeited	(2,950)	\$ 5.73
Unvested service-based RSUs at December 31, 2011	<u>12,085</u>	<u>\$ 5.94</u>

As of December 31, 2011, the total unrecognized compensation expense related to the service-based RSUs, net of estimated forfeitures, was \$52.7 million and will be recognized over the next 2.9 years on a weighted-average basis. The total weighted-average grant date fair value of service-based RSUs granted was \$55.7 million, \$40.8 million and \$1.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. The total fair value of the shares vested was \$14.6 million, \$8.9 million and \$15.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

*Performance-based:*

Since 2010, the Company has also granted performance-based RSUs. The vesting of these RSUs is contingent upon the Company meeting specified performance criteria and requires that the employee remain employed by the Company for a specified period of time.



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**Notes to Consolidated Financial Statements — (continued)**

The following table summarizes changes in performance-based RSUs outstanding:

	Number of Units		Weighted-Average Grant Date Fair Value per Share
	(In thousands)		
Unvested performance-based RSUs at January 1, 2011	2,894	\$	5.51
Granted	4,224	\$	6.18
Vested	(1,022)	\$	5.51
Forfeited	(1,367)	\$	5.95
Unvested performance-based RSUs at December 31, 2011	<u>4,729</u>	\$	5.98

As of December 31, 2011, the total unrecognized compensation expense related to the performance-based RSUs, net of estimated forfeitures, was \$22.2 million and, if the performance conditions are fully met, will be recognized over the next 3 years. The total weighted-average grant date fair value of performance-based RSUs granted was \$26.1 million and \$16.8 million for the years ended December 31, 2011 and 2010, respectively. The total fair value of the shares issued upon the vesting of performance-based RSUs was \$6.3 million for the year ended December 31, 2011.

**Note 5 — Business Combinations**

There were no business acquisitions during 2011 or 2010. Acquisitions made during 2009 are presented below.

**Acquisition of 3ware RAID Storage Adapter Business**

On April 21, 2009, the Company completed the acquisition of the assets and certain associated intellectual property of the 3ware RAID storage adapter business of Applied Micro Circuits Corporation. 3ware products include SAS and SATA RAID adapters and high-capacity storage solutions for a broad range of applications. The acquisition was intended to enhance the Company's competitive position in server RAID adapter solutions for distributors and system builders.

The total cash consideration was allocated based on the estimated fair values as follows (in thousands):

Net tangible assets	\$	12,272
Identified intangible assets		5,020
Goodwill		4,250
Total	<u>\$</u>	<u>21,542</u>

The goodwill represents the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired.

The following table summarizes the components of the acquired identified intangible assets. These assets are amortized over the periods during which they are expected to contribute to the Company's future cash flows.

	Fair Value	Weighted- Average Life
	(In thousands)	(In years)
Current technology	\$ 1,490	2
Customer base	3,230	5
Trade names	300	2
Total acquired identified intangible assets	<u>\$ 5,020</u>	

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

**Acquisition of ONStor, Inc.**

On July 27, 2009, the Company acquired privately-held ONStor, Inc. ("ONStor"), which provided clustered network-attached storage solutions designed to help enterprises consolidate, protect and manage unstructured data. The acquisition was intended to further advance the Company's storage systems business.

The total cash consideration was allocated based on the estimated fair values as follows (in thousands):

Net tangible assets	\$	847
Identified intangible assets		15,060
Goodwill		8,812
In-process research and development		760
Total	\$	<u>25,479</u>

The goodwill represents the excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired. In 2011, the Company determined that the goodwill and intangible assets related to the ONStor acquisition were no longer recoverable and wrote off the net carrying amounts.

**Note 6 — Common Stock Repurchases**

On March 9, 2011, the Company's Board of Directors authorized a new stock repurchase program of up to \$750.0 million of its common stock. Repurchases under this program have been funded from the proceeds of the sale of the ESG business, available cash and short-term investments. Through December 31, 2011, the Company had repurchased 72.4 million shares for \$498.8 million and \$251.2 million remained available under this stock repurchase program. On March 17, 2010, the Company announced that its Board of Directors had authorized a stock repurchase program of up to \$250.0 million of the Company's common stock in open market or privately negotiated transactions. The Company repurchased 51.4 million shares for \$249.9 million in cash during the year ended December 31, 2010, effectively completing the program. Repurchased shares are retired immediately after the repurchases are completed. Retirement of repurchased shares is recorded as a reduction of common stock and additional paid-in capital.

**Note 7 — Benefit Obligations****Pension and Post-retirement Benefit Plans**

The Company has pension plans covering substantially all former Agere Systems Inc. ("Agere") U.S. employees, excluding management employees hired after June 30, 2003. Retirement benefits are offered under defined benefit pension plans, which include a management plan and a represented plan. The payments under the management plan are based on an adjusted career-average-pay formula or a cash-balance program. The cash-balance program provides for annual company contributions based on a participant's age, compensation and interest on existing balances. It covers employees of certain companies acquired by Agere since 1996 and management employees hired after January 1, 1999 and before July 1, 2003. The payments under the represented plan are based on a dollar-per-month formula. Since February 2009, there have been no active participants under the represented plan. The Company also has a non-qualified supplemental pension plan in the U.S. that principally provides benefits based on compensation in excess of amounts that can be considered under a tax qualified plan. The Company also provides post-retirement life insurance coverage under a group life insurance plan for former Agere employees excluding participants in the cash-balance program and management employees hired after June 30, 2003. The Company also has pension plans covering certain international employees.

Effective April 6, 2009, the Company froze the U.S. management defined benefit pension plans. Participants in the adjusted career-average-pay program will not earn any future service accruals after that date. Participants in the cash-balance program will not earn any future service accruals, but will continue to earn 4% interest per year on their cash-balance accounts.

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**Notes to Consolidated Financial Statements — (continued)**

**Net Periodic Benefit Cost/(Credit):**

The following table summarizes the components of the net periodic benefit cost or credit:

	Year Ended December 31,					
	2011		2010		2009	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)					
Service cost	\$ 531	\$ 75	\$ 472	\$ 81	\$ 1,792	\$ 79
Interest cost	67,499	2,597	70,337	2,441	73,774	2,426
Expected return on plan assets	(67,965)	(4,128)	(71,464)	(4,597)	(76,802)	(4,877)
Amortization of prior service cost and transition asset	18	—	38	—	49	—
Amortization of net actuarial loss/(gain)	6,750	552	2,155	—	(94)	—
Special termination benefit	—	—	—	—	426(a)	—
Other	54	—	—	—	—	(1,529)(b)
Total benefit cost/(credit)	<u>\$ 6,887</u>	<u>\$ (904)</u>	<u>\$ 1,538</u>	<u>\$ (2,075)</u>	<u>\$ (855)</u>	<u>\$ (3,901)</u>

- (a) The special termination benefit in 2009 reflects enhanced retirement benefits given to active represented plan participants impacted by a workforce reduction in January 2009.
- (b) The amount in 2009 reflects the reversal of the excess retiree medical liability accrued for claims from 2008.

**Change in Projected Benefit Obligation:**

The following table sets forth a reconciliation of the beginning and ending balances of the projected benefit obligation during the periods presented. The measurement date was December 31 for each year.

	Year Ended December 31,			
	2011		2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)			
Projected benefit obligation at January 1	\$ 1,331,137	\$ 44,488	\$ 1,274,415	\$ 41,124
Service cost	531	75	472	81
Interest cost	67,499	2,597	70,337	2,441
Actuarial loss	150,776	11,893	66,607	1,692
Benefits paid(a)	(86,659)	(1,119)	(85,988)	(850)
Other adjustments	(205)	—	5,294	—
Projected benefit obligation at December 31	<u>\$ 1,463,079</u>	<u>\$ 57,934</u>	<u>\$ 1,331,137</u>	<u>\$ 44,488</u>

- (a) The pension benefits paid include amounts paid under certain international pension plans, which do not maintain plan assets.

The projected pension benefit obligations as of December 31, 2011 and 2010 included \$22.2 million and \$21.4 million, respectively, of obligations related to the Company's international pension plans.

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**Notes to Consolidated Financial Statements — (continued)**

***Change in Plan Assets:***

The following table sets forth a reconciliation of the beginning and ending balances of the fair value of plan assets during the periods presented. The fair value of plan assets was measured at December 31 for each year.

	Year Ended December 31,			
	2011		2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)			
Fair value of plan assets at January 1	\$ 868,809	\$ 66,781	\$ 819,410	\$ 62,300
Actual gain on plan assets	19,721	1,379	95,967	5,402
Employer contributions	65,112	—	31,027	—
Benefits paid	(86,302)	(1,192)	(85,789)	(921)
Other adjustments	(99)	—	8,194	—
Fair value of plan assets at December 31	<u>\$ 867,241</u>	<u>\$ 66,968</u>	<u>\$ 868,809</u>	<u>\$ 66,781</u>

The fair value of pension plan assets at December 31, 2011 and 2010 included \$12.3 million and \$10.6 million, respectively, of assets for certain of the Company's international pension plans. During 2011, the Company contributed a total of \$64.3 million to its U.S. defined benefit pension plans and \$0.7 million to its non-qualified supplemental pension plan. The Company's contributions to its international pension plans were immaterial for the year ended December 31, 2011.

***Funded Status of the Plans:***

The following table sets forth the funded status of the plans, which is the fair value of plan assets less projected benefit obligations:

	December 31,			
	2011		2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)			
Funded status of the plans (liability)/asset	\$ (595,838)	\$ 9,034	\$ (462,328)	\$ 22,293

*Plans with Benefit Obligations in excess of Plan Assets:*

	December 31,			
	2011		2010	
	Pension Benefits			
	(In thousands)			
Projected benefit obligation	\$	1,455,297	\$	1,324,302
Accumulated benefit obligation	\$	1,453,690	\$	1,322,394
Fair value of plan assets	\$	857,259	\$	860,414

The accumulated benefit obligations as of December 31, 2011 and 2010 included \$20.5 million and \$19.4 million, respectively, related to the Company's international pension plans.

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**Notes to Consolidated Financial Statements — (continued)**

*Plans with Benefit Obligations less than Plan Assets:*

	December 31,	
	2011	2010
	Pension Benefits	
(In thousands)		
Projected benefit obligation	\$ 7,782	\$ 6,835
Accumulated benefit obligation	\$ 7,666	\$ 6,740
Fair value of plan assets	\$ 9,982	\$ 8,395

	December 31,	
	2011	2010
	Post-retirement Benefits	
(In thousands)		
Accumulated benefit obligation	\$ 57,934	\$ 44,488
Fair value of plan assets	\$ 66,968	\$ 66,781

The following table sets forth amounts recognized in the consolidated balance sheets for the plans:

	December 31,			
	2011		2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
(In thousands)				
Non-current assets	\$ 2,201	\$ 9,034	\$ 1,560	\$ 22,293
Current liabilities	(856)	—	(769)	—
Non-current liabilities	(597,183)	—	(463,119)	—
Net (liability)/asset	<u>\$ (595,838)</u>	<u>\$ 9,034</u>	<u>\$ (462,328)</u>	<u>\$ 22,293</u>

***Accumulated Other Comprehensive Loss:***

The following table sets forth amounts recognized in accumulated other comprehensive loss related to pension and post-retirement plans:

	December 31,			
	2011		2010	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
(In thousands)				
Net prior service cost	\$ 242	\$ —	\$ 278	\$ —
Net actuarial loss	527,045	24,788	334,809	10,625
Transition asset	(157)	—	(175)	—
Accumulated other comprehensive loss	527,130	24,788	334,912	10,625
Tax on prior actuarial gains	23,813	3,026	23,813	3,026
Accumulated other comprehensive loss, after tax	<u>\$ 550,943</u>	<u>\$ 27,814</u>	<u>\$ 358,725</u>	<u>\$ 13,651</u>

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**Notes to Consolidated Financial Statements — (continued)**

The following table summarizes changes in accumulated other comprehensive loss related to pension and post-retirement plans:

	Year Ended December 31,					
	2011		2010		2009	
	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits	Pension Benefits	Post-retirement Benefits
	(In thousands)					
Accumulated other comprehensive loss at January 1, after tax	\$ 358,725	\$ 13,651	\$ 319,507	\$ 12,694	\$ 292,951	\$ 13,883
Recognized during period — Prior service cost and transition asset	(18)	—	(38)	—	(49)	—
Recognized during period — Actuarial (loss)/gain	(6,750)	(552)	(2,155)	—	94	—
Occurring during period — Actuarial loss/(gain)	198,986	14,715	42,051	957	26,546	(3,435)
Other adjustments	—	—	(640)	—	(35)	1,529
Accumulated other comprehensive loss at December 31	550,943	27,814	358,725	13,651	319,507	11,977
Tax	—	—	—	—	—	717
Accumulated other comprehensive loss at December 31, after tax	<u>\$ 550,943</u>	<u>\$ 27,814</u>	<u>\$ 358,725</u>	<u>\$ 13,651</u>	<u>\$ 319,507</u>	<u>\$ 12,694</u>

The estimated prior service cost, transition asset and net actuarial loss for the pension plans that will be amortized from accumulated other comprehensive loss into pension costs for the year ending December 31, 2012 are \$38 thousand, \$19 thousand and \$13.9 million, respectively. For the post-retirement benefit plans, the estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into post-retirement costs for the year ending December 31, 2012 is \$1.9 million.

**Plan Assets:**

*Defined Benefit Pension Plans:*

The Company's investment strategy for the U.S. defined benefit pension plans is to allocate assets in a manner that seeks both to maximize the safety of promised benefits and to minimize the cost of funding those benefits. The Company directs the overall portfolio allocation, and uses an investment consultant that has discretion to structure portfolios and select the investment managers within those allocation parameters. Multiple investment managers are utilized, including both active and passive management approaches. The plan assets are diversified across different asset classes and investment styles, and those assets are periodically rebalanced toward asset allocation targets.

The target asset allocation for plan assets reflects a risk/return profile that the Company believes is appropriate relative to the liability structure and return goals for the plans. The Company periodically reviews the allocation of plan assets relative to alternative allocation models to evaluate the need for adjustments based on forecasted liabilities and plan liquidity needs. The current target allocations for the U.S. management and represented pension plan assets are 55% in public equity securities, 40% in fixed-income securities, and 5% in real estate securities. The equity investment target allocation is equally divided between U.S. and international equity securities. The fixed-income allocation is primarily directed toward long-term core bond investments, with smaller allocations to Treasury Inflation-Protected Securities and high-yield bonds.

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**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

The fair values of the assets for the defined benefit pension plans by asset category were as follows:

	Fair Value Measurements as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash and cash equivalents	\$ 5,183	\$ 23,493(a)	\$ —	\$ 28,676
Equity securities:				
Domestic equity securities	169,635 (b)	359(c)	—	169,994
International equity securities	76,202 (b)	2,401(c)	—	78,603
Fixed-income securities:				
U.S. treasuries(d)	—	80,426	—	80,426
Corporate bonds(e)	—	155,666	—	155,666
Asset-backed and mortgage-backed securities	—	2,976	—	2,976
Agency-backed securities	—	7,793	—	7,793
Municipal bonds	—	6,334	—	6,334
Government bonds	—	17,242	—	17,242
Other types of investments:				
Commingled funds — equities(f)	—	163,510	—	163,510
Commingled funds — bonds(g)	—	156,393	—	156,393
Derivatives	40	(412)	—	(372)
<b>Total</b>	<b>\$ 251,060</b>	<b>\$ 616,181</b>	<b>\$ —</b>	<b>\$ 867,241</b>

	Fair Value Measurements as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Cash and cash equivalents	\$ 11,382	\$ 13,346(a)	\$ —	\$ 24,728
Equity securities:				
Domestic equity securities	183,239(b)	2,750(c)	—	185,989
International equity securities	151,041(b)	1,990(c)	—	153,031
Fixed-income securities:				
U.S. treasuries(d)	—	73,554	—	73,554
Corporate bonds(e)	—	140,106	—	140,106
Asset-backed and mortgage-backed securities	—	14,739	—	14,739
Agency-backed securities	—	10,930	—	10,930
Municipal bonds	—	8,253	—	8,253
Government bonds	—	11,059	—	11,059
Other types of investments:				
Commingled funds — equities(f)	—	180,935	—	180,935
Commingled funds — bonds(g)	—	65,232	—	65,232
Derivatives	180	73	—	253
<b>Total</b>	<b>\$ 345,842</b>	<b>\$ 522,967</b>	<b>\$ —</b>	<b>\$ 868,809</b>

- (a) The amounts represent cash equivalents and primarily include short-term investment funds, which consisted of short-term money market instruments that are valued using quoted prices for similar assets and liabilities in active markets.
- (b) The amounts include funds that invest primarily in equity securities of publicly-traded companies. Quoted prices for the funds are available in active markets.
- (c) The amounts include funds that invest primarily in equity securities that are traded less frequently than exchange-traded securities and are valued using inputs that include quoted prices for similar assets in active markets.

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

- (d) The fair value was determined based on compilation of primary observable market information and 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 broker/dealer quotes, yield curves and indices that are observable at commonly quoted intervals.
- (e) The amounts include funds that invest primarily in investment-grade debt securities.
- (f) The amounts consist of investments in funds not registered with U.S. Securities and Exchange Commission, with underlying investments primarily in publicly traded U.S. and non-U.S. equity securities, including securities with small and large market capitalization. The fair value was determined based on the net asset value per share of each investment at December 31, 2011 and 2010. These funds are classified as Level 2 in the fair value hierarchy as the Company could redeem these investments with the sponsoring investment management organizations at December 31, 2011 and 2010, and with at least monthly frequency on an ongoing basis.
- (g) The amounts consist of investments in funds not registered with U.S. Securities and Exchange Commission, with underlying investments primarily in Treasury Inflation-Protected Securities and high-yield bonds. The fair value was determined based on the net asset value per share of each investment at December 31, 2011 and 2010. These funds are classified as Level 2 in the fair value hierarchy as the Company could redeem these investments with the sponsoring investment management organizations at December 31, 2011 and 2010, and with at least monthly frequency on an ongoing basis.

*Post-retirement Benefit Plan:*

The Company's overall investment strategy for the group life insurance plan is to allocate assets in a manner that seeks to both maximize the safety of promised benefits and minimize the cost of funding those benefits. The target asset allocation for plan assets reflects a risk/return profile that the Company believes is appropriate relative to the liability structure and return goals for the plans. The Company periodically reviews the allocation of plan assets relative to alternative allocation models to evaluate the need for adjustments based on forecasted liabilities and plan liquidity needs. The Company sets the overall portfolio allocation and uses an investment manager that directs the investment of funds consistent with that allocation. The investment manager invests the plan assets in index funds that it manages. The current target allocations for post-retirement benefit plan assets are 40% in equity securities and 60% in fixed-income securities. The equity investment target allocation is equally divided between domestic and international equity securities.

The fair values of the assets for the post-retirement benefit plan by asset category were as follows:

	<b>Fair Value Measurements as of December 31, 2011</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)			
Commingled funds — domestic equities(a)	\$ —	\$ 13,302	\$ —	\$ 13,302
Commingled funds — international equities(a)	—	13,536	—	13,536
Commingled funds — bonds(a)	—	40,130	—	40,130
Total	<u>\$ —</u>	<u>\$ 66,968</u>	<u>\$ —</u>	<u>\$ 66,968</u>
	<b>Fair Value Measurements as of December 31, 2010</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)			
Commingled funds — domestic equities(a)	\$ —	\$ 13,310	\$ —	\$ 13,310
Commingled funds — international equities(a)	—	13,369	—	13,369
Commingled funds — bonds(a)	—	40,102	—	40,102
Total	<u>\$ —</u>	<u>\$ 66,781</u>	<u>\$ —</u>	<u>\$ 66,781</u>



**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

- (a) The amounts consist of investments in funds not registered with U.S. Securities and Exchange Commission, with underlying investments primarily in the equity securities included in the S&P 500 Index, non-U.S. equity securities and investment grade fixed-income securities. The fair value was determined based on the net asset value per share of each investment at December 31, 2011 and 2010. These funds are classified as Level 2 in the fair value hierarchy as the Company could redeem these investments with the sponsoring investment management organizations at December 31, 2011 and 2010, and with at least monthly frequency on an ongoing basis.

*Non-qualified Supplemental Pension Plan:*

The Company does not set the target asset allocation or investment strategy for assets set aside for the non-qualified supplemental pension plan. The Company monitors the investment strategy established by the trustee, who has discretion over the trust assets, trust asset allocation and trust investment decisions. The trust agreement requires that at least \$1 million be held in cash to meet near-term expenses. The trustee typically directs that an incremental amount of trust assets above that minimum requirement be held in cash or cash equivalents to reduce the need to liquidate investments in volatile market environments. The current target allocation established by the trustee for the non-qualified supplemental pension plan assets is 70% in fixed-income securities and 30% in equity securities.

The fair values of the assets for the non-qualified supplemental pension plan by asset category were as follows:

Fair Value Measurements as of December 31, 2011				
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Money-market funds	\$ 1,353	\$ —	\$ —	\$ 1,353
Mutual funds(a)	9,284	—	—	9,284
<b>Total</b>	<b>\$ 10,637</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10,637</b>
Fair Value Measurements as of December 31, 2010				
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Money market funds	\$ 2,061	\$ —	\$ —	\$ 2,061
Mutual funds(a)	8,427	—	—	8,427
<b>Total</b>	<b>\$ 10,488</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10,488</b>

- (a) The amounts consist of registered investment company funds with quoted prices in active markets.

*Plan Asset Allocations for Pension Plans and Post-retirement Benefit Plan:*

The following table sets forth the actual plan asset allocations:

	December 31,					
	2011			2010		
	Pension Benefits	Non-qualified Pension Benefits	Post-retirement Benefits	Pension Benefits	Non-qualified Pension Benefits	Post-retirement Benefits
Equity securities	54%	34%	40%	57%	35%	40%
Debt securities	42%	66%	60%	38%	65%	60%
Real estate securities	4%	—	—	5%	—	—

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

**Actuarial Assumptions:**

The Company reassesses its benefit plan assumptions on a regular basis. The actuarial assumptions for the principal pension and post-retirement plans are as follows:

	Year Ended December 31,					
	2011		2010		2009	
	Pension Benefits	Post- retirement Life Benefits	Pension Benefits	Post- retirement Life Benefits	Pension Benefits	Post- retirement Life Benefits
Discount rate to determine net periodic cost	5.25%	5.70%	5.75%	6.00%	6.50%	6.50%
Discount rate to determine the benefit obligation as of December 31	4.30%	4.50%	5.25%	5.70%	5.75%	6.00%
Rate of compensation increase to determine net periodic cost	N/A	3.50%	N/A	4.00%	4.00%	4.00%
Rate of compensation increase to determine the benefit obligation as of December 31	N/A	3.50%	N/A	3.50%	N/A	4.00%
Expected average rate of return on plan assets	7.75%(a)	6.20%	8.00%(a)	7.00%	8.25(b)/8.00%(c)	7.50%

- (a) Rate for both management and represented plans.
- (b) Rate for management plan.
- (c) Rate for represented plan.

The Company bases the salary increase assumptions on historical experience and future expectations. The expected rate of return for the Company's retirement benefit plans represents the average rate of return expected to be earned on plan assets over the period that the benefit obligations are expected to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns based on historical market data, historical and expected returns on the various categories of plan assets, and the target investment portfolio allocations. The rates used are adjusted for any current or anticipated shifts in the investment mix of the plans. The rates also factor in the historic performance of the plans' assets. The gain on the pension assets during 2011 was \$19.7 million, with the gains smoothed over the next five years through the return on assets assumption using the market-related value of assets ("MRVA") with those not yet recognized through MRVA amortized under current accounting rules for recognizing asset and liability gains and losses.

**Benefit Payments:**

The following table reflects the benefit payments that the Company expects the plans to pay in the periods presented. These payments include amounts related to future service.

	Pension Benefits	Post-retirement Benefits
	(In thousands)	
Year ending December 31, 2012	\$ 89,144	\$ 1,430
Year ending December 31, 2013	\$ 88,991	\$ 1,550
Year ending December 31, 2014	\$ 88,610	\$ 1,670
Year ending December 31, 2015	\$ 88,548	\$ 1,790
Year ending December 31, 2016	\$ 89,817	\$ 1,920
Years ending December 31, 2017 through December 31, 2021	\$ 444,596	\$ 11,900

The Company expects to contribute approximately \$94.4 million to its pension plans during the year ending December 31, 2012. The Company does not expect to contribute to its post-retirement benefit plan in 2012.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

**LSI 401(k) Defined Contribution Plan**

Eligible employees in the U.S. may participate in the LSI Corporation 401(k) Plan ("401(k) Plan"). The Company provides a matching contribution of a fixed percentage of eligible compensation contributed by employees and may make additional variable matching contributions based on the Company's performance. Company contributions to the 401(k) Plan were \$18.7 million, \$20.5 million and \$3.8 million during the years ended December 31, 2011, 2010 and 2009, respectively. The Company temporarily suspended its matching contributions between April 6, 2009 and December 27, 2009.

**Note 8 — Supplemental Financial Information:**

	December 31,	
	2011	2010
(In thousands)		
<b>Inventories:</b>		
Raw materials	\$ 236	\$ 30,691
Work-in-process	78,886	33,513
Finished goods	100,913	122,568
Total inventories	<u>\$ 180,035</u>	<u>\$ 186,772</u>
<b>Property and equipment:</b>		
Land	\$ 34,339(a)	\$ 54,796
Buildings and improvements	82,545	95,782
Equipment	285,645	348,145
Furniture and fixtures	24,595	31,602
Leasehold improvements	40,567	42,938
Construction in progress	15,317	9,490
Total property and equipment, gross	483,008	582,753
Accumulated depreciation	(302,419)	(359,572)
Total property and equipment, net	<u>\$ 180,589</u>	<u>\$ 223,181</u>
<b>Other accrued liabilities:</b>		
Restructuring reserves — current	\$ 16,773	\$ 16,698
Deferred revenue	30,659	37,141
Accrued expenses	131,398	130,563
Total other accrued liabilities	<u>\$ 178,830</u>	<u>\$ 184,402</u>
<b>Accumulated other comprehensive loss:</b>		
Unrealized gain on investments	\$ 5,942	\$ 6,960
Unrealized (loss)/gain on derivatives	(2,551)	227
Actuarial loss on pension and post-retirement plans	(578,757)	(372,376)
Foreign currency translation adjustments	42,138	46,924
Total accumulated other comprehensive loss	<u>\$ (533,228)</u>	<u>\$ (318,265)</u>

(a) In 2011, the Company sold land in Gresham, Oregon for \$16.2 million.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

	Year Ended December 31,		
	2011	2010	2009
(In thousands)			
Reconciliation of basic and diluted shares:			
Basic shares	585,704	638,998	651,238
Dilutive effect of stock options, employee stock purchase rights and restricted stock unit awards	15,189	7,326	—
Diluted shares	600,893	646,324	651,238

The weighted-average common share equivalents that were excluded from the computation of diluted shares because their inclusion would have had an anti-dilutive effect on net income/(loss) per share were as follows:

	Year Ended December 31,		
	2011	2010	2009
(In thousands)			
Anti-dilutive securities:			
Stock options	41,927	70,018	78,661
Restricted stock unit awards	227	93	2,037
Convertible notes	—	9,789	33,341

**Note 9 — Identified Intangible Assets and Goodwill**

**Identified Intangible Assets**

Identified intangible assets were comprised of the following:

	December 31,			
	2011		2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
(In thousands)				
Current technology	\$ 857,367	\$ (702,500)	\$ 1,033,189	\$ (819,383)
Customer base	402,739	(269,409)	409,809	(241,705)
Patent licensing	312,800	(167,728)	312,800	(135,603)
Workforce	3,567	(3,046)	3,567	(2,450)
Trade names	300	(300)	550	(397)
In-process research and development	—	—	760	—
Total identified intangible assets	<u>\$ 1,576,773</u> (a)	<u>\$ (1,142,983)</u> (a)	<u>\$ 1,760,675</u>	<u>\$ (1,199,538)</u>

(a) Includes the effect of adjustments related to the exit of the ESG business, as disclosed in Note 17-Discontinued Operations.

The following table summarizes amortization expense and the weighted-average lives of identified intangible assets:

	Weighted- Average Lives (In months)	Year Ended December 31,		
		2011	2010	2009
(In thousands)				
Current technology	52	\$ 49,243	\$ 77,808	\$ 90,262
Customer base	45	33,921	36,440	38,123
Patent licensing	36	32,125	36,220	36,140
Workforce	72	596	596	596
Trade names	66	50	148	100
Non-compete agreements	34	—	—	61
Total	46	<u>\$ 115,935</u>	<u>\$ 151,212</u>	<u>\$ 165,282</u>

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**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

The estimated annual future amortization expenses related to identified intangible assets as of December 31, 2011 are as follows:

	<b>Amortization Expense</b>	
<u>Years ending December 31:</u>	<b>(In thousands)</b>	
2012	\$	98,786
2013		90,804
2014		84,731
2015		78,822
2016 and thereafter		80,647
<b>Total</b>	<b>\$</b>	<b>433,790</b>

**Goodwill**

The following table summarizes changes in the carrying amount of goodwill:

	<b>Goodwill</b>	
	<b>(In thousands)</b>	
Balance as of December 31, 2010	\$	188,698
Exit of the ESG business		(116,321)
Balance as of December 31, 2011	<b>\$</b>	<b>72,377</b>

After completing annual impairment reviews during the fourth quarters of 2011, 2010 and 2009, the Company concluded that goodwill was not impaired in any of these years. As of December 31, 2011 and 2010, accumulated impairment losses in total were \$2.4 billion.

**Note 10 — Cash Equivalents and Investments**

The following tables summarize the Company's cash equivalents and investments measured at fair value:

	<b>Fair Value Measurements as of December 31, 2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Cash equivalents:</b>				
Money-market funds	\$ 674,219(a)	\$ —	\$ —	\$ 674,219
<b>Available-for-sale debt securities:</b>				
<b>Asset-backed and mortgage-backed securities:</b>				
Agency securities	\$ —	\$ 97,408(b)	\$ —	\$ 97,408
Non-agency securities	—	9,989(b)	—	9,989
U.S. government and agency securities	5,403(a)	30,572(b)	—	35,975
Corporate debt securities	—	12,272(b)	—	12,272
<b>Total short-term investments</b>	<b>\$ 5,403</b>	<b>\$ 150,241</b>	<b>\$ —</b>	<b>\$ 155,644</b>
<b>Long-term investments in equity securities:</b>				
Marketable available-for-sale equity securities	\$ 1,514(c)	\$ —	\$ —	\$ 1,514

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

	Fair Value Measurements as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
<b>Cash equivalents:</b>				
Money-market funds	\$ 378,382(a)	\$ —	\$ —	\$ 378,382
U.S. government and agency securities	2,000(a)	—	—	2,000
Total cash equivalents	<u>\$ 380,382</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 380,382</u>
<b>Available-for-sale debt securities:</b>				
Asset-backed and mortgage-backed securities:				
Agency securities	\$ —	\$ 97,544(b)	\$ —	\$ 97,544
Non-agency securities	—	19,008(b)	—	19,008
U.S. government and agency securities	1,496(a)	24,502(b)	—	25,998
Corporate debt securities	—	12,330(b)	—	12,330
Total short-term investments	<u>\$ 1,496</u>	<u>\$ 153,384</u>	<u>\$ —</u>	<u>\$ 154,880</u>
Long-term investments in equity securities:				
Marketable available-for-sale equity securities	\$ 1,681(c)	\$ —	\$ —	\$ 1,681

- (a) The fair value of money-market funds is determined using unadjusted prices in active markets. The fair value of these U.S. government and agency securities is determined using quoted prices in active markets.
- (b) These investments are traded less frequently than Level 1 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, yield curves, prepayment speeds, collateral performance, broker/dealer quotes and indices that are observable at commonly quoted intervals.
- (c) The fair value of marketable equity securities is determined using quoted market prices in active markets. These amounts are included within other assets in the consolidated balance sheets.

As of December 31, 2011 and 2010, the aggregate carrying value of the Company's non-marketable securities was \$43.9 million and \$39.9 million, respectively. The Company recognized a pre-tax gain of \$4.8 million associated with the sale of certain non-marketable securities during the year ended December 31, 2010. There were no sales of non-marketable securities for the years ended December 31, 2011 or 2009.

**Investments in Available-for-Sale Securities**

The following tables summarize the Company's available-for-sale securities:

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss (*)	Fair Value
	(In thousands)			
<b>Short-term debt securities:</b>				
Asset-backed and mortgage-backed securities	\$ 99,884	\$ 7,891	\$ (378)	\$ 107,397
U.S. government and agency securities	35,179	799	(3)	35,975
Corporate debt securities	12,146	153	(27)	12,272
Total short-term debt securities	<u>\$ 147,209</u>	<u>\$ 8,843</u>	<u>\$ (408)</u>	<u>\$ 155,644</u>
Long-term marketable equity securities	\$ 669	\$ 846	\$ (1)	\$ 1,514

\* As of December 31, 2011, there were 64 investments in an unrealized loss position.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

	December 31, 2010			
	Amortized	Gross	Gross	Fair Value
	Cost	Unrealized Gain	Unrealized Loss	
(In thousands)				
Short-term debt securities:				
Asset-backed and mortgage-backed securities	\$ 107,891	\$ 9,012	\$ (351)	\$ 116,552
U.S. government and agency securities	25,313	812	(127)	25,998
Corporate debt securities	12,226	176	(72)	12,330
Total short-term debt securities	<u>\$ 145,430</u>	<u>\$ 10,000</u>	<u>\$ (550)</u>	<u>\$ 154,880</u>
Long-term marketable equity securities	\$ 852	\$ 868	\$ (39)	\$ 1,681

The following tables summarize the gross unrealized losses and fair values of the Company's short-term investments that have been in a continuous unrealized loss position for less than and greater than 12 months, aggregated by investment category:

	December 31, 2011			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)				
Asset-backed and mortgage-backed securities	\$ 10,645	\$ (286)	\$ 1,301	\$ (92)
U.S. government and agency securities	3,872	(3)	—	—
Corporate debt securities	2,375	(27)	505	—
Total	<u>\$ 16,892</u>	<u>\$ (316)</u>	<u>\$ 1,806</u>	<u>\$ (92)</u>

	December 31, 2010			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)				
Asset-backed and mortgage-backed securities	\$ 11,807	\$ (179)	\$ 2,469	\$ (172)
U.S. government and agency securities	13,969	(127)	—	—
Corporate debt securities	6,527	(72)	—	—
Total	<u>\$ 32,303</u>	<u>\$ (378)</u>	<u>\$ 2,469</u>	<u>\$ (172)</u>

During the year ended December 31, 2011, the Company recognized an impairment charge of \$0.2 million for marketable securities. There were no impairment charges for marketable securities for the years ended December 31, 2010 or 2009. Net realized gains on sales of available-for-sale securities were not material for the years ended December 31, 2011, 2010 and 2009.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

Contractual maturities of available-for-sale debt securities as of December 31, 2011 were as follows:

	<b>Available-for-Sale Debt Securities</b>	
	<b>(In thousands)</b>	
Due within one year	\$	16,090
Due in 1-5 years		37,905
Due in 5-10 years		10,726
Due after 10 years		90,923
<b>Total</b>	<b>\$</b>	<b>155,644</b>

The maturities of asset-backed and mortgage-backed securities were allocated based on contractual principal maturities assuming no prepayments.

**Note 11 — Segment and Geographic Information**

Since the first quarter of 2011, the Company has operated in one reportable segment — the Semiconductor segment. The change in reportable segments was made in connection with the March 9, 2011 agreement to sell the ESG business to NetApp and has been reflected in the Company's segment reporting for all periods presented.

The Company's chief executive officer is the chief operating decision maker ("CODM"). The Company's CODM bears ultimate responsibility for, and is actively engaged in, the allocation of resources and the evaluation of the Company's operating and financial results. Management's conclusion that the Company operates in a single reportable segment is based on the following:

- The Company assesses performance, including incentive compensation, based upon consolidated operational performance and financial results;
- The CODM allocates resources and makes other operational decisions based on direct involvement with the Company's operations and product development efforts;
- The Company is managed under a functionally-based organizational structure, with the head of each function reporting directly to the CODM. Management of shared functions also reports directly to the CODM or to one of his direct reports; and
- The Company frequently integrates its discrete technologies across many of its products and its integrated circuits are largely manufactured under similar processes. This integrated approach supports the Company's ability to make financial decisions based on consolidated financial performance, without reliance on discrete financial information.

**Significant Customers**

The following table provides information about the Company's one customer that accounted for 10% or more of consolidated revenues:

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Percentage of consolidated revenues	25%	19%	22%



**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

**Information about Geographic Areas**

The following tables summarize the Company's revenues by geography based on the ordering location of the customer and long-lived assets by geography. Because the Company sells its products primarily to other sellers of technology products and not to end users, the information in the table below may not accurately reflect geographic end-user demand for its products.

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Revenues:</b>			
North America*	\$ 520,193	\$ 431,184	\$ 305,547
Asia	1,323,510	1,223,082	1,125,840
Europe and the Middle East	200,255	215,388	144,994
<b>Total</b>	<b>\$ 2,043,958</b>	<b>\$ 1,869,654</b>	<b>\$ 1,576,381</b>

	December 31,	
	2011	2010
	(In thousands)	
<b>Long-lived assets:</b>		
North America*	\$ 160,500	\$ 204,862
Asia**	18,350	15,872
Europe and the Middle East	1,739	2,447
<b>Total</b>	<b>\$ 180,589</b>	<b>\$ 223,181</b>

\* Primarily the United States.

\*\* Primarily China, Singapore and Taiwan.

**Information about Product Groups**

The following table presents the Company's revenues by product groups:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Revenues:</b>			
Storage products	\$ 1,487,069	\$ 1,302,104	\$ 1,133,134
Networking products	453,652	473,275	384,835
Other	103,237	94,275	58,412
<b>Total</b>	<b>\$ 2,043,958</b>	<b>\$ 1,869,654</b>	<b>\$ 1,576,381</b>

**Note 12 — Derivative Instruments**

The Company has foreign subsidiaries that operate and sell the Company's products in various markets around the world. As a result, the Company is exposed to changes in foreign-currency exchange rates. The Company utilizes forward contracts to manage its exposure associated with net asset and liability positions denominated in non-functional currencies and to reduce the volatility of earnings and cash flows related to forecasted foreign-currency transactions. The Company does not hold derivative financial instruments for speculative or trading purposes.

**Cash-Flow Hedges**

The Company enters into forward contracts that are designated as foreign-currency cash-flow hedges of selected forecasted payments denominated in currencies other than U.S. dollars. These forward contracts generally mature within twelve months. The Company evaluates and calculates the effectiveness of each hedge at

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

least quarterly. Changes in the fair value attributable to changes in time value are excluded from the assessment of effectiveness and are recognized in interest income and other, net. The effective portion of the forward contracts' gain or loss is recorded in other comprehensive income and is subsequently reclassified into earnings when the hedged expense is recognized within the same line item in the statements of operations as the impact of the hedged transaction. The ineffective portion of the gain or loss is reported in earnings immediately. As of December 31, 2011 and 2010, the total notional value of the Company's outstanding forward contracts, designated as foreign-currency cash-flow hedges, was \$36.9 million and \$41.7 million, respectively. For the years ended December 31, 2011, 2010 and 2009, the after-tax effect of foreign-exchange forward contract derivatives on other comprehensive income was not material.

**Other Foreign-Currency Hedges**

The Company enters into foreign-exchange forward contracts that are used to hedge certain foreign-currency-denominated assets or liabilities that do not qualify for hedge accounting. These forward contracts generally mature within three months. Changes in the fair value of these forward contracts are recorded immediately in earnings to offset the changes in the fair value of the assets or liabilities being hedged. As of December 31, 2011 and 2010, the total notional value of the Company's outstanding forward contracts, not designated as hedges under hedge accounting, was \$37.6 million and \$112.3 million, respectively. For the years ended December 31, 2011, 2010 and 2009, a loss of \$3.1 million and gains of \$2.7 million and \$7.9 million, respectively, on other foreign-currency hedges were recognized in interest income and other, net. These amounts were substantially offset by the gain and losses on the underlying foreign-currency-denominated assets or liabilities.

**Fair Values of Derivative Instruments**

As of December 31, 2011 and 2010, the total fair value of derivative assets was \$0.1 million and \$0.8 million, respectively, and was recorded in prepaid expenses and other current assets in the consolidated balance sheets. As of December 31, 2011 and 2010, the total fair value of derivative liabilities was \$3.0 million and \$0.3 million, respectively, and was recorded in other accrued liabilities in the consolidated balance sheets.

**Note 13 — Debt**

The Company repaid the \$350.0 million principal amount of its 4% Convertible Subordinated Notes plus accrued interest upon their maturity on May 15, 2010.

During the year ended December 31, 2009, the Company redeemed the outstanding \$243.0 million principal amount of its 6.5% Convertible Subordinated Notes, which the Company guaranteed as part of the merger with Agere, at a price of 100.43% of the principal amount of each note plus accrued interest to the date of redemption. A net pre-tax gain of \$0.1 million was recognized and included in interest income and other, net. The pre-tax gain was net of the write-off of the unamortized accrued debt premium as of the redemption date.

Cash payments for interest on debt were \$7.0 million and \$21.9 million during the years ended December 31, 2010 and 2009, respectively. No interest was paid during the year ended December 31, 2011.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

**Note 14 — Income Taxes**

The provision for/(benefit from) income taxes consisted of the following:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Current:</b>			
Federal	\$ (2,850)	\$ 176	\$ (28,979)
State	336	1,521	379
Foreign	13,601	(1,243)	(82,992)
Total current taxes	<u>11,087</u>	<u>454</u>	<u>(111,592)</u>
<b>Deferred:</b>			
Federal	(7,240)	3,494	3,334
State	211	344	248
Foreign	(280)	(1,122)	(1,311)
Total deferred taxes	<u>(7,309)</u>	<u>2,716</u>	<u>2,271</u>
<b>Total</b>	<u>\$ 3,778</u>	<u>\$ 3,170</u>	<u>\$ (109,321)</u>

The following table summarizes the domestic and foreign components of income/(loss) before income taxes:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Domestic	\$ (31,636)	\$ (115,078)	\$ (150,329)
Foreign	125,426	152,652	(19,295)
<b>Income/(loss) before income taxes</b>	<u>\$ 93,790</u>	<u>\$ 37,574</u>	<u>\$ (169,624)</u>

The following table summarizes significant components of the Company's deferred tax assets and liabilities:

	December 31,	
	2011	2010
	(In thousands)	
<b>Deferred tax assets:</b>		
Tax credit carryovers	\$ 408,444	\$ 432,707
Net operating loss carryforwards	989,989	1,338,831
Capital loss carryover	552	147,107
Future deductions for purchased intangible assets	152,507	178,906
Depreciation and amortization	120,764	105,349
Pension and post-retirement benefits	220,747	165,718
Future deductions for reserves and other	155,618	195,840
Total deferred tax assets	<u>2,048,621</u>	<u>2,564,458</u>
Valuation allowance	(1,902,187)	(2,385,677)
<b>Net deferred tax assets</b>	<u>146,434</u>	<u>178,781</u>
<b>Deferred tax liabilities:</b>		
Tax deductible goodwill	(17,120)	(36,338)
Purchased intangible assets	(130,219)	(172,186)
<b>Total deferred tax liabilities</b>	<u>(147,339)</u>	<u>(208,524)</u>
<b>Total net deferred tax liabilities</b>	<u>\$ (905)</u>	<u>\$ (29,743)</u>

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

Valuation allowances reduce the deferred tax assets to the amount that, based upon all available evidence, is more likely than not to be realized. The deferred tax assets' valuation allowance is attributed to U.S. federal, state and certain foreign deferred tax assets primarily consisting of reserves, other one-time charges, purchased intangible assets, tax credit carryovers and net operating loss carryovers that could not be benefited under existing carry-back rules. Approximately \$102.0 million of the valuation allowance at December 31, 2011 relates to tax benefits from stock option deductions, which will be credited to equity if and when realized. The deferred tax asset for net operating loss carryforwards decreased by \$328.5 million in 2011 due to a reduction in the carryforward amount on the tax return pursuant to the position Internal Revenue Service is currently taking. Further, the Company realized benefits of deferred tax assets during the year of \$116.5 million related to discontinued operations.

As of December 31, 2011, the Company had federal, state and foreign net operating loss carryovers of approximately \$2,456.4 million, \$1,386.5 million and \$152.4 million, respectively. The federal net operating losses will begin expiring in 2021 through 2030. Certain state net operating losses will begin expiring in 2012 through 2031. The foreign net operating losses will carry forward indefinitely. Approximately \$2,273.4 million of the federal net operating loss carryover and \$1,082.4 million of the state net operating loss carryover relate to acquisitions and are subject to certain limitations under Section 382 of the Internal Revenue Code of 1986. As of December 31, 2011, the Company had tax credits of approximately \$456.0 million, which will begin expiring in 2012.

A reconciliation of the provision for/(benefit from) income taxes with the amount computed by applying the statutory federal income tax rate to income/(loss) before income taxes for the years ended December 31, 2011, 2010 and 2009 is as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Expected tax expense/(benefit) at federal statutory rate of 35%	\$ 32,826	\$ 13,151	\$ (59,368)
State taxes, net of federal benefit	130	715	75
Foreign rate differential	(37,428)	(39,912)	6,432
U.S. taxes on foreign earnings	32,793	36,128	16,349
Withholding taxes	8,770	5,933	5,786
Settlements of foreign tax audits	—	—	(81,047)
Change in valuation allowance	(32,233)	2,921	28,523
Nondeductible expenses	8,047	5,731	4,131
Unrecognized tax benefits	6,054	(17,755)	2,496
Tax refunds/credits	(2,926)	(3,140)	(2,057)
Tax benefit related to refundable R&D/alternative minimum tax credit	(530)	—	(3,595)
Intraperiod allocation of tax benefit to continuing operations	(11,725)	(644)	(27,603)
Other	—	42	557
Total tax provision/(benefit)	<u>\$ 3,778</u>	<u>\$ 3,170</u>	<u>\$ (109,321)</u>

The Company paid income taxes, net of refunds received, of \$11.8 million, \$29.3 million and \$24.6 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company has a tax holiday in effect for its business operations in Singapore effective January 1, 2009. The tax holiday allows for a reduced tax rate of 10% on the qualifying profits generated through December 31, 2018. For the years ended December 31, 2011, 2010 and 2009, the tax savings from this holiday were approximately \$2.0 million, \$2.1 million and \$2.0 million, respectively, with no material per-share impact.

In 2009, the Company recorded an income tax benefit of \$3.6 million related to refundable research and development tax credits due to the enactment of the Housing and Economic Recovery Act of 2008. The American Recovery and Reinvestment Act of 2009 extended this temporary benefit through 2009.

In 2009, with settlements of tax audits in foreign jurisdictions, the Company recognized a tax benefit of \$81.0 million, which included unrecognized tax benefits of \$71.9 million and interest and penalties of \$9.1 million.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

The Company has not provided for U.S. income and foreign withholding taxes on \$83.1 million of cumulative undistributed earnings of various non-U.S. subsidiaries. Such earnings are intended to be reinvested in the non-U.S. subsidiaries for an indefinite period of time. It is not practicable to compute the amount of incremental taxes that would result from the repatriation of those earnings.

**Uncertain Income Tax Positions**

As of December 31, 2011 and 2010, the Company had \$171.0 million and \$151.9 million of unrecognized tax benefits, respectively. The \$171.0 million as of December 31, 2011 is related to unrecognized tax benefits that, if realized, would affect the effective tax rate of the Company.

The Company is unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur. It is reasonably possible that the total amount of unrecognized tax benefits will increase or decrease in the next 12 months. Such changes could occur based on the normal expiration of statutes of limitations or the possible conclusion of ongoing tax audits in various jurisdictions around the world. If those events occur within the next 12 months, the Company estimates that unrecognized tax benefits, plus accrued interest and penalties, could decrease by up to \$17.7 million.

The Company files income tax returns at the U.S. federal level and in various state and foreign jurisdictions. With some exceptions, 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 2007. In 2009, the Company's subsidiary in Singapore settled its 1999 to 2007 income tax audit and the subsidiary in Hong Kong settled its 1997 to 2008 income tax audit.

The Company recognizes interest and penalties accrued in relation to unrecognized tax benefits as a tax expense. For the years ended December 31, 2011, 2010 and 2009, the Company recorded charges to tax expense of approximately \$6.3 million, \$7.7 million and \$18.6 million for interest and penalties, respectively. Also, for the years ended December 31, 2011, 2010 and 2009, the Company recorded tax benefits of approximately \$8.6 million, \$17.7 million and \$32.0 million for interest and penalties, respectively, as a result of reductions to tax positions taken in a prior year, lapses in statutes of limitations and audit settlements. As of December 31, 2011 and 2010, the Company had \$29.6 million and \$31.8 million, respectively, of accrued interest and penalties which are included in non-current income tax liabilities in the consolidated balance sheets.

The following table sets forth a reconciliation of the beginning and ending amounts of the liability for unrecognized tax benefits:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Balance at January 1	\$ 151,898	\$ 163,859	\$ 232,050
Tax positions related to current year:			
Additions	19,482	10,874	10,738
Tax positions related to prior years:			
Additions	29,312	1,541	54,058
Reductions	(20,156)	(800)	—
Lapses in statute of limitations	(9,580)	(14,174)	(16,374)
Settlements	—	—	(96,926)
Payments	—	(9,780)	(22,151)
Foreign exchange loss	38	378	2,464
Balance at December 31	<u>\$ 170,994</u>	<u>\$ 151,898</u>	<u>\$ 163,859</u>

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

**Note 15 — Related Party Transactions**

A member of the Company's board of directors is also a member of the board of directors of Seagate Technology ("Seagate"). The Company sells semiconductors used in storage product applications to Seagate for prices comparable to those charged to an unrelated third-party. Revenues from sales by the Company to Seagate were \$520.5 million, \$355.5 million and \$344.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. The Company had accounts receivable from Seagate of \$90.3 million and \$55.0 million as of December 31, 2011 and 2010, respectively.

The Company has an equity interest in a joint venture, Silicon Manufacturing Partners Pte Ltd. ("SMP"), with GLOBALFOUNDRIES, a manufacturing foundry for integrated circuits. SMP operates an integrated circuit manufacturing facility in Singapore. The Company owns a 51% equity interest in this joint venture and accounts for its ownership position under the equity method of accounting. The Company is effectively precluded from unilaterally taking any significant action in the management of SMP due to GLOBALFOUNDRIES' significant participatory rights under the joint venture agreement. Because of GLOBALFOUNDRIES' approval rights, the Company cannot make any significant decisions regarding SMP without GLOBALFOUNDRIES' approval, despite the 51% equity interest. In addition, the General Manager, who is responsible for the day-to-day management of SMP, is appointed by GLOBALFOUNDRIES, and GLOBALFOUNDRIES provides day-to-day operational support to SMP.

The Company purchased \$49.0 million, \$44.0 million and \$46.1 million of inventory from SMP during the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011 and 2010, the amounts payable to SMP were \$5.0 million and \$1.2 million, respectively.

**Note 16 — Commitments, Contingencies and Legal Matters**

**Operating Leases**

The Company leases real estate and certain non-manufacturing equipment under non-cancelable operating leases, which expire through 2026. The Company also includes non-cancelable obligations under certain software licensing arrangements in this category. The facilities lease agreements typically provide for base rental rates that are increased at various times during the terms of the lease and for renewal options at the then fair market rental value. Future minimum payments under the operating lease agreements for the above-mentioned facilities, equipment and software are \$43.8 million, \$28.4 million, \$18.0 million, \$4.5 million, \$2.3 million and \$1.4 million for the years ending December 31, 2012, 2013, 2014, 2015, 2016 and thereafter, respectively.

Rental expense under all operating leases was \$37.0 million, \$32.8 million and \$32.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

**Purchase Commitments**

The Company maintains purchase commitments with certain suppliers, primarily for raw materials and manufacturing services and for some non-production items. Purchase commitments for inventory materials are generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary for different suppliers. As of December 31, 2011, the Company had purchase commitments of \$467.6 million, which are due through 2016.

The Company has a take-or-pay agreement with SMP under which it has agreed to purchase 51% of the managed wafer capacity from SMP's integrated circuit manufacturing facility and GLOBALFOUNDRIES has agreed to purchase the remaining managed wafer capacity. SMP determines its managed wafer capacity each year based on forecasts provided by the Company and GLOBALFOUNDRIES. If the Company fails to purchase its required commitments, it will be required to pay SMP for the fixed costs associated with the unpurchased wafers. GLOBALFOUNDRIES is similarly obligated with respect to the wafers allotted to it. The agreement may be terminated by either party upon two years written notice. The agreement may also be terminated for material breach, bankruptcy or insolvency.

**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

**Guarantees*****Product Warranties:***

The following table sets forth a summary of the changes in product warranties:

	<b>Year Ended December 31</b>	
	<b>2011</b>	<b>2010</b>
	(In thousands)	
Balance at the beginning of the period	\$ 17,617	\$ 13,831
Accruals for warranties issued during the period	7,180	18,453
Accruals related to pre-existing warranties (including changes in estimates)	508	314
Settlements made during the period (in cash or in kind)	(8,138)	(14,981)
Balance at the end of the period	<u>\$ 17,167</u>	<u>\$ 17,617</u>

***Standby Letters of Credit:***

As of December 31, 2011 and 2010, the Company had outstanding obligations relating to standby letters of credit of \$3.5 million and \$3.9 million, respectively. Standby letters of credit are financial guarantees provided by third parties for leases, customs and certain self-insured risks. If the guarantees are called, the Company must reimburse the provider of the guarantee. The fair values of the letters of credit approximate the contract amounts. The standby letters of credit generally renew annually.

**Indemnifications**

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party. These obligations arise primarily in connection with sales contracts and license agreements or the sale of assets, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of warranties, representations and covenants related to such matters as title to assets sold, validity of certain intellectual property rights, non-infringement of third-party rights, and certain income tax-related matters. In each of these circumstances, payment by the Company is typically subject to the other party making a claim to and cooperating with the Company pursuant to the procedures specified in the particular contract. This usually allows the Company to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, the Company's obligations under these agreements may be limited in terms of activity (typically to replace or correct the products or terminate the agreement with a refund to the other party), duration and/or amounts. In some instances, the Company may have recourse against third parties covering certain payments made by the Company.

**Legal Matters**

On December 6, 2006, Sony Ericsson Mobile Communications USA Inc. ("Sony Ericsson") filed a lawsuit against Agere in Wake County Superior Court in North Carolina, alleging unfair and deceptive trade practices, fraud and negligent misrepresentation in connection with Agere's engagement with Sony Ericsson to develop a wireless data card for personal computers. The complaint claimed an unspecified amount of damages and sought compensatory damages, treble damages and attorneys' fees. In August 2007, the case was dismissed for improper venue. On October 22, 2007, Sony Ericsson filed a lawsuit in the Supreme Court of the State of New York, New York County against LSI, raising substantially the same allegations and seeking substantially the same relief as the North Carolina proceeding. In January 2010, Sony Ericsson amended its complaint by adding claims for fraudulent concealment and gross negligence. On September 10, 2010, LSI filed a motion for summary judgment. On August 4, 2011, the court granted LSI's motion and ordered the dismissal of all of Sony Ericsson's claims. Sony Ericsson has appealed this decision. The Company is unable to estimate the possible loss or range of loss, if any, that may be incurred with respect to this matter.

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

On March 23, 2007, CIF Licensing, LLC, d/b/a GE Licensing ("GE") filed a lawsuit against Agere in the United States District Court for the District of Delaware, asserting that Agere products infringe patents in a portfolio of patents GE acquired from Motorola. GE has asserted that four of the patents cover inventions relating to modems. GE is seeking monetary damages. Agere believes it has a number of defenses to the infringement claims in this action, including laches, exhaustion and its belief that it has a license to the patents. The court postponed hearing motions based on these defenses until after the trial, and did not allow Agere to present evidence on these defenses at trial. On February 17, 2009, the jury in this case returned a verdict finding that three of the four patents were invalid and that Agere products infringed the one patent found to be valid and awarding GE \$7.6 million for infringement of that patent. The jury also found Agere's infringement was willful, which means that the judge could increase the amount of damages up to three times its original amount. The court has not scheduled hearings on Agere's post-trial motions related to its defenses. One of these motions seeks to have a mis-trial declared based on Agere's belief that GE withheld evidence in discovery, which affected Agere's ability to present evidence at trial. On October 6, 2010, a special master appointed by the court determined that GE's actions were not wrongful and that the evidence withheld by GE was not material to the jury's findings. Agere is challenging this determination. If the jury's verdict is entered by the court, Agere would also expect to be required to pay interest from the date of infringing sales. If the verdict is entered, Agere intends to appeal the matter. On February 17, 2010, the court issued an order granting GE's summary judgment motions seeking to bar Agere's defenses of laches, exhaustion, and license and denying Agere's summary judgment motions concerning the same defenses. On July 30, 2010, the court held that one of the patents found invalid by the jury was valid. The court also held that the February 17, 2010 order was not inconsistent with its previous ruling that Agere would be permitted to renew its laches, licensing, and exhaustion defenses, and that Agere has not been precluded from asserting them post-trial. The Company is unable to estimate the possible loss or range of loss, if any, that may be incurred with respect to this matter.

On December 1, 2010, Rambus Inc. ("Rambus") filed a lawsuit against LSI in the United States District Court for the Northern District of California alleging that LSI products infringe one or more of 19 Rambus patents. These products contain either DDR-type memory controllers or certain high-speed SerDes peripheral interfaces, such as PCI Express interfaces and certain SATA and SAS interfaces. Rambus is seeking unspecified monetary damages, treble damages and costs, expenses and attorneys' fees due to alleged willfulness, interest and permanent injunctive relief in this action. In addition, on December 1, 2010, Rambus filed an action with the International Trade Commission ("ITC") against LSI and five of its customers alleging that LSI products infringe six of the 19 patents in the California case. Rambus also named five other companies and a number of their customers in the ITC action. Rambus is seeking an exclusionary order against LSI and its customers in the ITC action, which, if granted, would preclude LSI and its customers from selling these products in the U.S. The ITC held a hearing on the matter in October 2011. The Company and Rambus have been engaged in discussions to settle these proceedings. While the Company is unable to predict the terms of any settlement or whether a settlement will be reached at all, it is possible that any settlement could include a license from Rambus giving the Company the right to use certain Rambus intellectual property in the future. As a result of these uncertainties, the Company is unable to estimate the possible loss or range of loss, if any, that may be incurred with respect to these proceedings or as a result of any potential settlement.

In addition to the foregoing, the Company and its subsidiaries are parties to other litigation matters and claims in the normal course of business. The Company does not believe, based on currently available facts and circumstances, that the final outcome of these other matters, taken individually or as a whole, will have a material adverse effect on the Company's consolidated results of operations or financial position. However, the pending unsettled lawsuits may involve complex questions of fact and law and may require the expenditure of significant funds and the diversion of other resources to defend. From time to time, the Company may enter into confidential discussions regarding the potential settlement of such lawsuits. However, there can be no assurance that any such discussions will occur or will result in a settlement. Moreover, the settlement of any pending litigation could require the Company to incur substantial costs and, in the case of the settlement of any intellectual property proceeding against the Company, may require the Company to obtain a license to a third-



**LSI Corporation****Notes to Consolidated Financial Statements — (continued)**

party's intellectual property that could require royalty payments in the future and the Company to grant a license to certain of its intellectual property to a third party under a cross-license agreement. The results of litigation are inherently uncertain, and material adverse outcomes are possible.

The Company has not provided accruals for any legal matters in its financial statements as potential losses for such matters are not considered probable and reasonably estimable. However, because such matters are subject to many uncertainties, the ultimate outcomes are not predictable, and there can be no assurances that the actual amounts required to satisfy alleged liabilities from the matters described above will not have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

**Note 17 — Discontinued Operations**

On May 6, 2011, the Company completed the sale of substantially all of its ESG business to NetApp for \$480.0 million in cash. The strategic decision to exit the ESG business was based on the Company's expectation that long-term shareholder value could be maximized by becoming a pure-play semiconductor company. Under the terms of the agreement, NetApp purchased substantially all the assets of the Company's ESG business, which developed and delivered external storage systems products and technology to a wide range of partners who provide storage solutions to end customers. As part of the transaction, the Company is providing transitional services to NetApp for a period of up to 18 months. The purpose of these services is to provide short-term assistance to the buyer in assuming the operations of the purchased business.

Following is selected financial information included in income from discontinued operations:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Revenues	\$ 210,591	\$ 700,393	\$ 642,778
(Loss)/income before income taxes and gain on disposal	\$ (27,579)	\$ 7,818	\$ 38,794
Gain on disposal of ESG business	260,066	—	—
(Benefit from)/provision for income taxes	(8,992)	2,250	26,210
Income from discontinued operations	<u>\$ 241,479</u>	<u>\$ 5,568</u>	<u>\$ 12,584</u>

During the years ended December 31, 2011 and 2010, the Company recorded write-downs of \$23.0 million and \$44.1 million, respectively, of assets relating to the ESG business. The 2011 write-downs primarily consisted of \$10.5 million of identified intangible assets, including \$9.0 million of current technology, \$0.7 million of customer base and \$0.8 million of in-process research and development. The 2011 write-downs also included \$7.8 million of capitalized software and \$3.7 million of inventories and fixed assets. The 2010 write-downs primarily consisted of \$25.4 million of capitalized software and \$17.1 million of identified intangible assets, including \$16.8 million of current technology and \$0.3 million of trade names. Further, the Company released \$21.0 million of deferred tax liabilities related to tax deductible goodwill in connection with the sale of the ESG business in 2011, which is included in the \$9.0 million benefit from income taxes.

**Note 18 — Subsequent Event****Acquisition of SandForce**

On January 3, 2012, the Company completed the acquisition of SandForce for total consideration of approximately \$346.1 million, net of cash acquired. SandForce is a provider of flash storage processors for enterprise and client flash solutions and solid state drives. This acquisition is expected to enhance LSI's position in storage technology solutions.

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**LSI Corporation**  
**Notes to Consolidated Financial Statements — (continued)**

Total consideration consisted of the following (in thousands):

Cash paid, net of cash acquired	\$	319,231
Fair value of partially vested equity awards		18,722
Fair value of LSI's previous investment in SandForce		8,120
Total	\$	<u>346,073</u>

The Company has not yet finalized the allocation of the SandForce purchase consideration to assets acquired and liabilities assumed. The preliminary allocation of the purchase price was based upon a preliminary valuation, and the estimates and assumptions are subject to change up to one year from the acquisition date. The primary areas of the preliminary purchase price allocation that are not yet finalized are the valuation of net tangible assets acquired and residual goodwill. The preliminary fair values of assets acquired and liabilities assumed by major class in the SandForce acquisition were recognized as follows (in thousands):

Accounts receivable	\$	10,711
Inventory		24,268
Identified intangible assets		172,400
Goodwill		181,601
Net deferred tax liabilities		(41,705)
Other, net		(1,202)
Total	\$	<u>346,073</u>

The preliminary goodwill is primarily attributable to the assembled workforce of SandForce and synergies and economies of scale expected from combining the operations of LSI and SandForce. The goodwill recognized is not deductible for tax purposes.

Identified intangible assets were comprised of the following:

	<u>Fair Value</u> (In thousands)	<u>Weighted- Average Life</u> (In years)
Current technology	\$ 73,400	4.0
Customer relationships	41,700	7.0
Order backlog	4,500	0.5
Trade names	1,500	3.0
Total identified intangible assets subject to amortization	<u>121,100</u>	
In-process research and development	<u>51,300</u>	
Total identified intangible assets	<u>\$ 172,400</u>	

Current technology represents the fair value of SandForce products that had reached technological feasibility and were a part of its product offering. Customer relationships represent the fair values of the underlying relationships and agreements with SandForce's customers.

In-process research and development ("IPR&D") represents the fair value of incomplete research and development projects that had not reached technological feasibility as of the date of the acquisition. At the time of acquisition, SandForce had IPR&D related to its next generation flash storage processor (the "Griffin project"). Expected costs to complete the Griffin project are approximately \$34 million through its anticipated completion date in 2013. The Company's methodology for allocating the purchase price to acquired IPR&D involves established valuation techniques in the high-technology industry with the assistance of third-party service providers. The fair value of each project in process is determined by discounting forecasted cash flows directly related to the products expected to result from the subject research and development once commercially

**LSI Corporation**

**Notes to Consolidated Financial Statements — (continued)**

feasible, net of returns on contributory assets including working capital, fixed assets, customer relationships, trade names, and assembled workforce. The net cash flows from the identified projects are based on estimates of revenues, cost of revenues, research and development costs, selling, general and administrative costs and applicable income taxes for the projects. Total revenues for the Griffin project are expected to extend through 2018. These projections were based on estimates of market size and growth, expected trends in technology and the expected timing of new product introductions by the Company's competitors and the Company. A discount rate of 17.4% was used for the Griffin project, reflecting risks associated with the inherent uncertainties surrounding the successful development of the IPR&D, market acceptance of the technology, the useful life of the technology, the profitability level of such technology and the uncertainty of technological advances, which could impact the estimates recorded. The discount rate used in the present value calculation was derived from a weighted-average cost of capital analysis. This estimate does not account for any potential synergies realizable as a result of the acquisition and is in line with industry averages and growth estimates. The acquisition date fair value of the Griffin project will be either amortized or impaired depending on whether the project is completed or abandoned.

Estimated acquisition-related costs of \$9.2 million are expected to be incurred and included in restructuring of operations and other items, net in the Company's consolidated statements of operations. Of this amount, \$0.9 million was recognized in the year ended December 31, 2011 and \$8.3 million will be recognized in the first quarter of 2012. The Company will also recognize \$4.5 million of selling, general and administrative expense related to accelerated vesting of stock options, restricted stock units and restricted shares for certain SandForce employees in the first quarter of 2012. In addition, the Company will recognize a gain of \$5.8 million as a result of re-measuring its pre-acquisition equity interest in SandForce to estimated fair value. The gain will be included in interest income and other, net in the Company's consolidated statements of operations in the first quarter of 2012. Furthermore, the Company expects to recognize a tax benefit of approximately \$41.7 million in the first quarter of 2012 due to the release of valuation allowance resulting from the net deferred tax liabilities created from the acquisition.

Pro forma results of operations for the acquisition have not been presented because the effect of the acquisition is not material to the Company's financial results.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
of LSI Corporation

In our opinion, the consolidated financial statements listed in the index appearing under item 15(a)(1) present fairly, in all material respects, the financial position of LSI Corporation and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 29, 2012

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**Supplementary Financial Data**  
**Interim Financial Information (Unaudited)**

	Quarter			
	First	Second	Third	Fourth
(In thousands, except per share amounts)				
<b>Year Ended December 31, 2011</b>				
Revenues	\$473,264	\$500,644	\$546,910	\$523,140
Gross profit	224,174	237,620	263,845	236,825
Income from continuing operations	18,546	28,408	31,650	11,408
(Loss)/income from discontinued operations (including a gain on disposal of \$260,066 in the second quarter of 2011), net of tax	(8,392)	265,376	(2,311)	(13,194)
Net income/(loss)	10,154	293,784	29,339	(1,786)
Basic income/(loss) per share:				
Income from continuing operations	\$ 0.03	\$ 0.05	\$ 0.05	\$ 0.02
(Loss)/income from discontinued operations	\$ (0.01)	\$ 0.44	\$ (0.00)	\$ (0.02)
Net income/(loss)	\$ 0.02	\$ 0.49	\$ 0.05	\$ (0.00)
Diluted income/(loss) per share:				
Income from continuing operations	\$ 0.03	\$ 0.05	\$ 0.05	\$ 0.02
(Loss)/income from discontinued operations	\$ (0.01)	\$ 0.43	\$ (0.00)	\$ (0.02)
Net income/(loss)	\$ 0.02	\$ 0.48	\$ 0.05	\$ (0.00)
<b>Year Ended December 31, 2010</b>				
Revenues	\$472,672	\$473,447	\$452,878	\$470,657
Gross profit	214,794	224,768	218,220	222,863
Income from continuing operations	14,348	2,682	12,819	4,555
Income/(loss) from discontinued operations, net of tax	8,172	4,750	10,602	(17,956)
Net income/(loss)	22,520	7,432	23,421	(13,401)
Basic income/(loss) per share:				
Income from continuing operations	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.01
Income/(loss) from discontinued operations	\$ 0.01	\$ 0.01	\$ 0.02	\$ (0.03)
Net income/(loss)	\$ 0.03	\$ 0.01	\$ 0.04	\$ (0.02)
Diluted income/(loss) per share:				
Income from continuing operations	\$ 0.02	\$ 0.00	\$ 0.02	\$ 0.01
Income/(loss) from discontinued operations	\$ 0.01	\$ 0.01	\$ 0.02	\$ (0.03)
Net income/(loss)	\$ 0.03	\$ 0.01	\$ 0.04	\$ (0.02)

On May 6, 2011, the Company completed the sale of its ESG business to NetApp. The results of the ESG business are presented as discontinued operations in the Company's consolidated statements of operations and, as such, have been excluded from all line items other than "income/(loss) from discontinued operations" for all periods presented.

During the first, second, third and fourth quarters of 2011, the Company recorded charges/(benefits) for restructuring of operations and other items, net, of \$2.8 million, \$(10.9) million, \$10.8 million and \$21.0 million, respectively.

During the first, second, third and fourth quarters of 2010, the Company recorded charges/(benefits) for restructuring of operations and other items, net, of \$1.6 million, \$5.1 million, \$3.5 million and \$(1.0) million, respectively.

In 2011, the Company's fiscal quarters ended on April 3, July 3, October 2 and December 31. In 2010, the Company's fiscal quarters ended on April 4, July 4, October 3 and December 31.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures:* The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required or necessary disclosures. Our chief executive officer and chief financial officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management with the participation of our chief executive officer and chief financial officer, as of the end of the period covered by this report, that our disclosure controls and procedures were effective for this purpose.

*Management's Report on Internal Control Over Financial Reporting:* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act. Internal control over financial reporting consists of policies and procedures that are designed and operated to provide reasonable assurance regarding the reliability of our financial reporting and our process for the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control — Integrated Framework*. Based on the results of our assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears in Item 8 and is incorporated herein by reference.

*Changes in Internal Controls:* During the fourth quarter of 2011, we did not make any change in our internal control over financial reporting that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

We have a code of ethics that our principal executive officer and senior financial officers must follow. We also have a separate code of conduct, called the Standards of Business Conduct, that applies to all directors, officers and employees. You can find these documents on our website at the following address: <http://www.lsi.com/governance>. We will post any amendments to the code of ethics and Standards of Business Conduct, as well as any waivers that are required to be disclosed by the rules of either the Securities and Exchange Commission or the New York Stock Exchange, on our website. You can also obtain a printed copy of any of these documents by contacting us at the following address:

LSI Corporation  
1110 American Parkway NE  
Room 12A-106C  
Allentown, PA 18109  
Attn: Response Center  
Telephone: 1-800-372-2447

Apart from certain information about our executive officers that is set forth under the caption "Executive Officers of LSI" in Part I of this report and is incorporated herein by reference, the other information required by this Item is incorporated herein by reference to the applicable information in the proxy statement for our 2012 annual meeting, including the information set forth under the captions "Election of Directors — Nominees," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance — Board Structure and Composition — Audit Committee."

**Item 11. *Executive Compensation***

The information required by this Item is incorporated by reference to the applicable information in the proxy statement for our 2012 annual meeting, including the information set forth under the captions "Compensation Discussion and Analysis," "Executive Compensation," "Corporate Governance — Director Compensation," "Corporate Governance — Board Structure and Composition, and "Corporate Governance — Compensation Committee Interlocks and Insider Participation."

The information in the section of the proxy statement for our 2012 annual meeting captioned "Compensation Committee Report" is incorporated by reference herein but shall be deemed furnished, not filed, and shall not be deemed to be incorporated by reference into any filing we make under the Securities Act of 1933 or the Securities Exchange Act of 1934.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this Item is incorporated by reference to the applicable information in the proxy statement for our 2012 annual meeting, including the information set forth under the captions "Security Ownership" and "Equity Compensation Plan Information as of December 31, 2011."

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item is incorporated by reference to the proxy statement for our 2012 annual meeting, including the information set forth under the captions "Related Persons Transaction Policy and Procedures" and "Corporate Governance — Board Structure and Composition."

**Item 14. *Principal Accounting Fees and Services***

The information required by this Item is incorporated by reference to the proxy statement for our 2012 annual meeting, including the information set forth under the caption "Ratification of Selection of Independent Auditors."

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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements

The following consolidated financial statements of LSI Corporation and Report of Independent Registered Public Accounting Firm are filed as part of this Form 10-K:

	<b>PAGE IN THE FORM 10-K</b>
<a href="#">Consolidated Balance Sheets — As of December 31, 2011 and 2010</a>	38
<a href="#">Consolidated Statements of Operations — For the Three Years Ended December 31, 2011, 2010 and 2009</a>	39
<a href="#">Consolidated Statements of Stockholders' Equity — For the Three Years Ended December 31, 2011, 2010 and 2009</a>	40
<a href="#">Consolidated Statements of Cash Flows — For the Three Years Ended December 31, 2011, 2010 and 2009</a>	41
<a href="#">Notes to Consolidated Financial Statements</a>	42
<a href="#">Report of Independent Registered Public Accounting Firm</a>	81

(a)(2) Financial Statement Schedule

The following financial statement schedule is filed as part of this Form 10-K:

**SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS  
(In millions)**

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>
<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Costs, Expenses or Other Accounts</b>	<b>Deductions*</b>	<b>Balance at End of Period</b>
<b>2011</b>				
Accounts Receivable Allowances	\$ 10	\$ 7	\$ (10)	\$ 7
<b>2010</b>				
Accounts Receivable Allowances	\$ 10	\$ 12	\$ (12)	\$ 10
<b>2009</b>				
Accounts Receivable Allowances	\$ 10	\$ 12	\$ (12)	\$ 10

\* Deductions include write-offs of uncollectible accounts and collections of amounts previously reserved.

(a)(3) **Exhibits**

See Item 15(b) below.

(b) **Exhibits**

The exhibits listed in the exhibit index, which follows the signature page to this report, are filed or furnished as part of this Form 10-K.

(c) **Financial statement schedule**

See Item 15(a)(2) above.





**EXHIBIT INDEX**

- 2.1 Agreement and Plan of Merger by and among LSI Corporation, Autobahn Acquisition Corporation, SandForce, Inc. and Shareholder Representative Services LLC, dated as of October 26, 2011. (Exhibits and Schedules have been omitted pursuant to Regulation S-K Item 601(b) (2), but will be provided to the Securities and Exchange Commission upon request.)
- 2.2 Asset Purchase Agreement by and between LSI Corporation and NetApp, Inc., dated as of March 9, 2011. Incorporated by reference to Exhibit 2.1 to our Quarterly Report on Form 10-Q filed on May 12, 2011.
- 3.1 Certificate of Incorporation. Incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on November 16, 2009.
- 3.2 By-laws. Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on November 14, 2011.
- 4.1 Specimen Common Stock Certificate. Incorporated by reference to Exhibit 4.3 to our Annual Report on Form 10-K filed on March 2, 2009.
- 10.1 Form of Indemnification Agreement. Incorporated by reference to exhibit 10.1 to our Current Report on Form 8-K filed on February 22, 2008.\*
- 10.2.1 LSI Corporation Severance Policy for Executive Officers. Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on May 20, 2008.\*
- 10.2.2 LSI Corporation Severance Policy for Executive Officers Non-Change-in-Control Program. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 14, 2011.\*
- 10.2.3 LSI Corporation Severance Policy for Executive Officers Change-in-Control Program. Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on November 14, 2011.\*
- 10.3.1 1991 Equity Incentive Plan. Incorporated by reference to Exhibit 4.5 to our Registration Statement on Form S-8 (No. 333-96543) filed on July 16, 2002.\*
- 10.3.2 1991 Equity Incentive Plan Nonqualified Stock Option Agreement. Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 12, 2004.\*
- 10.3.3 1991 Equity Incentive Plan Form of Notice of Grant of Stock Options and Option Agreement. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 12, 2004.\*
- 10.4.1 1995 Director Option Plan. Incorporated by reference to Exhibit 4.4 to our Registration Statement on Form S-8 (No. 333-106205) filed on June 17, 2003.\*
- 10.4.2 Form of Annual Director Option Agreement under 1995 Director Option Plan. Incorporated by reference to Exhibit 1.3 to our Current Report on Form 8-K filed on April 7, 2005.\*
- 10.4.3 Form of Notice of Grant of Stock Options and Option Agreement under 1995 Director Option Plan. Incorporated by reference to Exhibit 1.4 to our Current Report on Form 8-K filed on April 7, 2005.\*
- 10.5 1999 Nonstatutory Stock Option Plan. Incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-8 (No. 333-96549) filed on July 16, 2002.\*
- 10.6.1 2003 Equity Incentive Plan.\*
- 10.6.2 2003 Equity Incentive Plan Form of Nonqualified Stock Option Agreement for Employees.\*
- 10.6.3 2003 Equity Incentive Plan Form of Notice of Grant of Stock Option. Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on February 13, 2009.\*

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10.6.4	2003 Equity Incentive Plan Form of Restricted Stock Unit Agreement. Incorporated by reference to Exhibit 10.6.4 to our Annual Report on Form 10-K filed on February 26, 2010.*
10.6.5	2003 Equity Incentive Plan Form of Restricted Stock Unit Agreement for Non-Employee Directors. Incorporated by reference to Exhibit 10.6.5 to our Annual Report on Form 10-K filed on February 26, 2010.*
10.6.6	2003 Equity Incentive Plan Form of Notice of Grant of Restricted Stock Units. Incorporated by reference to Exhibit 10.6.6 to our Annual Report on Form 10-K filed on February 26, 2010.*
10.6.7	2003 Equity Incentive Plan Form of Notice of Grant of Restricted Stock Units (Revenue and non-GAAP operating income performance tests). Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on February 17, 2010.*
10.6.8	2003 Equity Incentive Plan Form of Notice of Grant of Restricted Stock Units (Revenue and non-GAAP operating income performance tests — 2012).*
10.6.9	2003 Equity Incentive Plan Form of Nonqualified Stock Option Agreement for Non-Employee Directors. Incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on February 13, 2009.*
10.6.10	Abhijit Y. Talwalkar 2003 Equity Incentive Plan Nonqualified Stock Option Agreement, effective as of June 1, 2005. Incorporated by reference to Exhibit 10.49 to our Quarterly Report on Form 10-Q filed on August 12, 2005.*
10.6.11	Abhijit Y. Talwalkar Notice of Grant of Stock Option, effective as of June 1, 2005. Incorporated by reference to Exhibit 10.50 to our Quarterly Report on Form 10-Q filed on August 12, 2005.*+
10.7	Standalone Stock Option Agreement issued to Abhijit Y. Talwalkar. Incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8 (No. 333-126594) filed on July 14, 2005.*
10.8.1	Agere Systems Inc. 2001 Long Term Incentive Plan. Incorporated by reference to Exhibit 10.1 to Agere's Quarterly Report on Form 10-Q filed on May 5, 2006.*
10.8.2	Agere Systems Inc. 2001 Long Term Incentive Plan Form of Nonstatutory Stock Option Agreement. Incorporated by reference to Exhibit 10.8 to Agere's Registration Statement on Form S-1/A, File No. 333-51594, filed on February 7, 2001.*
10.8.3	Agere Systems Inc. 2001 Long Term Incentive Plan Form of Restricted Stock Unit Award Agreement. Incorporated by reference to Exhibit 10.7 to Agere's Registration Statement on Form S-1/A, File No. 333-51594, filed on February 7, 2001.*
10.9	LSI Corporation Incentive Plan. Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 18, 2009.*
10.10	Policy on Recoupment of Incentive Compensation. Incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K filed on February 26, 2010.*
10.11	Agere Systems Inc. Supplemental Pension Plan. Incorporated by reference to Exhibit 10.10 to Agere's Registration Statement on Form S-1, File No. 333-51594, filed on February 7, 2001.*
10.12	Separation Agreement with Andrew Micallef. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 12, 2010.*
10.13	Separation Agreement with Philip Bullinger. Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 12, 2011.*
21	List of Subsidiaries.
23	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney.

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31.1	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350.**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.**
101.INS	XBRL instance document
101.SCH	XBRL taxonomy extension schema document
101.CAL	XBRL taxonomy extension calculation linkbase document
101.DEF	XBRL taxonomy extension definition linkbase document
101.LAB	XBRL taxonomy extension label linkbase document
101.PRE	XBRL taxonomy extension presentation linkbase document

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\* Denotes management contract or compensatory plan or arrangement.

+ Confidential treatment has been granted with respect to certain portions of these exhibits. Redacted versions have been filed with the Securities and Exchange Commission.

\*\* Furnished, not filed.

Note: The Securities and Exchange Commission file number for Agere Systems Inc. is 001-16397.

**AGREEMENT AND PLAN OF MERGER**

**by and among**

**LSI CORPORATION,**

**AUTOBAHN ACQUISITION CORPORATION,**

**SANDFORCE, INC.,**

**and**

**SHAREHOLDER REPRESENTATIVE SERVICES LLC**

**as Stockholder Representative**

**October 26, 2011**

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**INDEX OF EXHIBITS**

<b>Exhibit</b>	<b>Description</b>
Exhibit A	Form of Escrow Agreement
Exhibit B-1	Form of Offer Letter (with Change of Control)
Exhibit B-2	Form of Offer Letter (without Change of Control)
Exhibit C	Form of Non-Competition Agreement for Key Employees
Exhibit D	Form of Written Consent
Exhibit E-1	Form of Optionholder Letter of Transmittal (Employee)
Exhibit E-2	Form of Optionholder Letter of Transmittal (Non-Employee)
Exhibit E-3	Form of Stockholder Letter of Transmittal
Exhibit F	Form of Proprietary Information and Inventions Assignment Agreement

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## AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "**Agreement**") is made and entered into as of October 26, 2011 by and among LSI Corporation, a Delaware corporation ("**Parent**"), Autobahn Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of Parent ("**Merger Sub**"), SandForce, Inc., a Delaware corporation (the "**Company**"), and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the representative of the Indemnifying Holders (the "**Stockholder Representative**").

### RECITALS

A. The Boards of Directors of each of Parent, Merger Sub and the Company believe it is advisable and in the best interests of each company and their respective stockholders that Parent acquire the Company through the statutory merger of Merger Sub with and into the Company on the terms and subject to the conditions set forth in this Agreement, and in furtherance thereof, have approved this Agreement and the transactions contemplated hereby.

B. On the terms and subject to the conditions set forth in this Agreement, as of the Effective Time of the Merger and pursuant thereto, (i) all of the issued and outstanding capital stock of the Company immediately prior to the Effective Time will be converted into the right to receive the consideration set forth herein, except for any awards of restricted stock of the Company that are unvested as of the Effective Time, which will be exchanged by Parent for awards of Parent restricted stock, (ii) all of the issued and outstanding restricted stock units settleable in capital stock of the Company will be assumed by Parent and become settleable (in accordance with their existing terms) in shares of common stock of Parent, (iii) all of the issued and outstanding options to acquire shares of capital stock of the Company that are held by (A) employees of the Company or (B) Section 1.1 Consultants and, in each case, that are unvested as of immediately prior to the Effective Time, will be assumed by Parent and become exercisable (in accordance with their existing terms) for shares of common stock of Parent, (iv) all of the issued and outstanding options to acquire shares of capital stock of the Company that are (A) held by (A) employees of the Company or (B) Section 1.1 Consultants, in each case that are vested as of immediately prior to the Effective Time or (B) held by non-employees (other than Section 1.1 Consultants) of the Company (whether vested or unvested) will be cashed-out as of immediately prior to the Effective Time (if not exercised prior thereto), (v) all of the issued and outstanding warrants to acquire shares of capital stock of the Company will terminate as of the Effective Time (if not exercised prior thereto) and will not be assumed by Parent, and (vi) Parent, which is Merger Sub's sole stockholder, will become the sole stockholder and the sole holder of any rights to acquire capital stock of the Company.

C. At the Closing, on the terms and subject to the conditions set forth herein, a portion of the Aggregate Merger Consideration otherwise payable by Parent in connection with the Merger will be deposited by Parent into an interest bearing escrow fund as security for the indemnification obligations of the Indemnifying Holders set forth in this Agreement, to be held and disbursed to the Indemnifying Holders or Parent, as the case may be, on the terms and subject to the conditions set forth in this Agreement and the Escrow Agreement, in the form attached hereto as **Exhibit A** (the "**Escrow Agreement**"), to be executed and delivered by Parent, the Escrow Agent and the Stockholder Representative, as representative of the Indemnifying Holders, concurrent with the execution and delivery of this Agreement.

D. Concurrent with the execution and delivery of this Agreement, and as a material inducement to the willingness of Parent and Merger Sub to enter into this Agreement, each of the Key

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Employees is accepting an Offer Letter from Parent in the form attached hereto as **Exhibit B-1** or **Exhibit B-2, as applicable** (each, an "**Offer Letter**" and collectively, the "**Offer Letters**") and each of the Specified Key Employees is entering into a Non-Competition Agreement with Parent in the form attached hereto as **Exhibit C** (each, a "**Non-Competition Agreement**" and collectively, the "**Non-Competition Agreements**", and collectively with this Agreement, the Offer Letters and the Escrow Agreement, the "**Transaction Agreements**").

E. Immediately following the execution and delivery of this Agreement, certain Company Stockholders, directors and executive officers of the Company are delivering a written consent in the form attached hereto as **Exhibit D** (the "**Written Consent**"), which will be sufficient approval of the stockholders of the Company under applicable Law and any Contracts to which the Company is a party to authorize and approve this Agreement and consummate the Merger and the other transactions contemplated hereby.

F. The Company, on the one hand, and Parent and Merger Sub, on the other hand, desire to make certain representations, warranties, covenants and other agreements in connection with the transactions contemplated hereby and to prescribe various conditions to their respective obligations under this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements, covenants and other promises set forth herein, the mutual benefits to be gained by the performance thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, the parties hereby agree as follows:

## ARTICLE I

### DEFINITIONS AND INTERPRETATIONS

1.1 Capitalized Terms. For all purposes of and under this Agreement, the following terms shall have the respective meanings ascribed thereto below:

"**Affiliate**" shall mean, with respect to any particular Person, any Person controlling, controlled by or under common control with such Person, whether by ownership or control of voting securities, by contract or otherwise, or any partner, director, manager or executive officer of such Person.

"**Aggregate Merger Consideration**" shall mean an amount equal to (i) the sum of (x) Four Hundred Million Dollars (\$400,000,000), (y) the aggregate exercise price of all Company Options that are outstanding and unexercised as of the execution and delivery of this Agreement (other than Company Options that are terminated following the date hereof and immediately prior to the Effective Time without having been exercised, and other than Company Options that are net-exercised following the date hereof and prior to the Effective Time), and (z) the aggregate exercise price of all Company Warrants that are outstanding and unexercised as of the execution and delivery of this Agreement (other than Company Warrants that are terminated following the date hereof and immediately prior to the Effective Time without having been exercised), less (ii) the sum of (x) all Transaction Expenses incurred by the Company in connection with the Merger and the other transactions contemplated by this Agreement, whether paid prior to the date hereof or after the date hereof and prior to the Effective Time or payable after the Effective Time, and (y) all Indebtedness of the Company outstanding as of immediately prior to the Effective Time, whether or not paid off or otherwise forgiven, canceled or otherwise retired in connection with the consummation of the Merger.

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**"Assets and Properties"** with respect to any Person, shall mean all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned, licensed or leased by such Person, including cash, cash equivalents, investment assets, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and Intellectual Property Rights and Technology.

**"Assumed Company Option"** shall mean each Company Option that (i) is held by an employee of the Company or by a Section 1.1 Consultant, in each case as of immediately prior to the Effective Time, (ii) is unvested as of immediately prior to the Effective Time, and (iii) does not vest at the Effective Time in accordance with its terms.

**"Assumed Company RSU"** shall mean each Company RSU that (i) is outstanding as of immediately prior to the Effective Time and (ii) either (A) has not vested prior to the Effective Time or (B) does not vest and is not paid out at the Effective Time in accordance with its terms.

**"Business Day"** shall mean a day other than Saturday, Sunday or any day on which banks located in the State of California are authorized or obligated to close.

**"California Law"** shall mean the California Corporations Code.

**"Cash-Out Capital Shares"** shall mean the aggregate number of shares of Company Common Stock (other than shares of Unvested Company Common Stock) held by the Indemnifying Holders as of immediately prior to the Effective Time, after giving effect to the issuance of (a) all shares of Company Common Stock that are issuable upon the full conversion, exercise, exchange or settlement of all shares of Company Preferred Stock, all Company Options (other than Assumed Company Options), and all Company RSUs (other than Assumed Company RSUs) held by the Indemnifying Holders as of immediately prior to the Effective Time, and (b) all shares of Company Common Stock that are issuable upon the full conversion of all shares of Company Preferred Stock that are issuable upon the full exercise, exchange or settlement of all Company Options (other than Assumed Company Options), all Company Warrants and all Company RSUs (other than Assumed Company RSUs) held by the Indemnifying Holders as of immediately prior to the Effective Time.

**"Closing Merger Consideration"** shall mean (x) the Aggregate Merger Consideration *less* (y) the Escrow Amount.

**"COBRA"** shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended and as codified in Section 4980B of the Code and Section 601 et. seq. of ERISA.

**"Code"** shall mean the Internal Revenue Code of 1986, as amended.

**"Company Capital Stock"** shall mean shares of Company Common Stock, Company Preferred Stock and any other shares of capital stock of the Company.

**"Company Common Stock"** shall mean shares of common stock of the Company, \$0.001 par value.

**"Company Employee Plan"** shall mean any plan, program, policy, practice, contract, agreement or other arrangement providing for compensation, bonus pay, severance, change of control

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benefits, termination pay, retirement benefits, deferred compensation, performance awards, stock or stock related awards, phantom stock, commission pay, vacation, sick leave or any other leave, welfare benefits, fringe benefits or other employee benefits or remuneration of any kind, whether written or unwritten or otherwise, funded or unfunded, including without limitation, each "employee benefit plan," within the meaning of Section 3(3) of ERISA which is maintained, contributed to, or required to be contributed to, by the Company or its Subsidiary for the benefit of any Employee, or with respect to which the Company or its Subsidiary has or may have any liability or obligation, including all International Employee Plans, but excluding all Employee Agreements.

"**Company Intellectual Property**" shall mean any Technology and Intellectual Property Rights that are owned by the Company.

"**Company Intellectual Property Rights**" shall mean any Intellectual Property Rights that are owned by, or exclusively licensed to, the Company, including the Company Registered Intellectual Property.

"**Company Material Adverse Effect**" shall mean any change, event, violation, inaccuracy, circumstances or effect that, individually or in the aggregate with all other changes, events, violations, inaccuracies, circumstances or effects, is or is reasonably likely to be materially adverse to the assets, liabilities, business, condition (financial or otherwise) or results of operations of the Company; *provided, however*, that none of the following, individually or in combination, shall be deemed to constitute, nor shall any of the following be taken into account in determining whether there has been, or will be, a Company Material Adverse Effect, (i) any conditions, changes or developments in or generally affecting the industries in which the Company operates to the extent they do not disproportionately affect the Company in relation to other companies in the industries in which the Company operates, (ii) any conditions, changes or developments in or generally affecting the economy, the financial, capital or credit markets, in the United States or elsewhere in the world to the extent they do not disproportionately affect the Company in relation to other companies in the industries in which the Company operates, (iii) any conditions, changes or developments primarily resulting from (A) the announcement or pendency of this Agreement and the transactions contemplated hereby, (B) changes in GAAP or other accounting standards (or the interpretation thereof), (C) changes in applicable laws, rules, regulations, orders or other binding directives issued by a Governmental Authority, to the extent they do not disproportionately affect the Company in relation to other companies in the industries in which the Company operates, or (D) any natural disasters, pandemics or acts of war, sabotage or terrorism, or a material escalation or worsening thereof to the extent such disasters, pandemics, acts or war, sabotage, terrorism or the material escalation or worsening thereof do not disproportionately affect the Company in relation to other companies in the industries in which the Company operates, or (iv) any conditions, changes or developments arising or relating to actions taken or failure to take action, in each case, to which Parent has approved, consented to or requested in writing, or the failure to take any action expressly prohibited by this Agreement.

"**Company Option Plan**" shall mean the Company's 2007 Stock Plan, as amended on July 22, 2008, October 29, 2009, February 2, 2010, May 21, 2010, September 24, 2010, March 4, 2011, and October 21, 2011.

"**Company Optionholders**" shall mean all holders of Company Options.

"**Company Options**" shall mean all options to purchase or otherwise acquire shares of Company Capital Stock, whether or not vested or exercisable, that were granted or otherwise issued under the Company Option Plan or otherwise.

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"**Company Preferred Stock**" shall mean shares of Company Series A Preferred Stock, Company Series B Preferred Stock, Company Series C Preferred Stock, Company Series D Preferred Stock and any other shares of preferred stock of the Company.

"**Company RSUs**" shall mean all restricted stock units settleable in Company Common Stock that were granted or otherwise issued under the Company Option Plan or otherwise.

"**Company Series A Preferred Stock**" shall mean shares of the Company's Series A Preferred Stock, \$0.001 par value.

"**Company Series B Preferred Stock**" shall mean shares of the Company's Series B Preferred Stock, \$0.001 par value.

"**Company Series C Preferred Stock**" shall mean shares of the Company's Series C Preferred Stock, \$0.001 par value.

"**Company Series D Preferred Stock**" shall mean shares of the Company's Series D Preferred Stock, \$0.001 par value.

"**Company Source Code**" means, collectively, (a) the source code for any Software that is embodied or incorporated in Company Product, and (b) the net lists, GDS-II files, verilog files and RTL files, or other similar code constituting the designs for any Company Products or upon which the manufacture of any Company Products can be based.

"**Company Stock Certificates**" shall mean certificates representing shares of Company Capital Stock.

"**Company Stockholders**" shall mean holders of shares of Company Capital Stock.

"**Company Warrantholders**" shall mean all holders of Company Warrants.

"**Company Warrants**" shall mean all issued and outstanding warrants or other direct or indirect rights (other than Company Options) to purchase or otherwise acquire shares of Company Capital Stock.

"**Contract**" shall mean any contract, mortgage, indenture, lease, covenant or other agreement, instrument or commitment, permit, concession, franchise or license, whether written or oral.

"**Delaware Law**" shall mean all applicable Laws of the State of Delaware, including the General Corporation Law of the State of Delaware.

"**DOL**" shall mean the United States Department of Labor.

"**Employee**" shall mean any current, former or retired employee, consultant, contractor or director of the Company or its Subsidiary.

"**Employee Agreement**" shall mean each employment, management, change in control, severance, separation, settlement, contractor, consulting, relocation, retention bonus, bonus, commission, loan, work permit, repatriation or expatriation agreement, whether written or unwritten, between the

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Company or its Subsidiary and any Employee and under which the Company or its Subsidiary may have any Liability.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any other current or former Person or entity under common control with the Company within the meaning of Section 414(b), (c), (m) or (o) of the Code and the regulations issued thereunder.

"Escrow Agent" shall mean U.S. Bank National Association.

"Escrow Amount" shall mean an amount equal to 10% of the product of (x) the quotient of (A) the Aggregate Merger Consideration divided by (B) Fully Diluted Shares times (y) the aggregate number of Cash-Out Capital Shares.

"Exchange Ratio" shall mean the quotient obtained by dividing (x) the quotient of (i) the Aggregate Merger Consideration *divided by* (ii) Fully Diluted Shares, by (y) the average of the closing prices of Parent Common Stock as reported on the New York Stock Exchange for the ten (10) trading days ending five (5) trading days prior to the Closing Date.

"FMLA" shall mean the Family Medical Leave Act of 1993, as amended.

"Follow-On Transaction" means any transaction or series of transactions pursuant to which the Surviving Corporation is merged into, or consolidated with, Parent or any affiliates of Parent or the assets of the Surviving Corporation are transferred or assigned to Parent or any affiliates of Parent.

"Fully Diluted Shares" shall mean the sum, without duplication, of (w) the aggregate number of shares of Company Common Stock that are issued and outstanding as of immediately prior to the Effective Time, (x) the maximum aggregate number of shares of Company Common Stock that are issuable upon the full conversion, exercise, exchange or settlement of all Company Preferred Stock, Company Options, Company RSUs, and any other rights (whether vested or unvested) convertible into, exercisable for or exchangeable for, shares of Company Common Stock that are issued and outstanding as of immediately prior to the Effective Time, (y) the maximum aggregate number of shares of Company Common Stock that are issuable upon the conversion of the maximum number of shares of Company Preferred Stock that are issuable upon the full exercise or settlement of all Company Options, Company RSUs, all Company Warrants, and other rights to acquire shares of Company Preferred Stock (if any) that are issued and outstanding as of immediately prior to the Effective Time, and (z) the maximum aggregate number of shares of Company Common Stock that would be issuable upon the full conversion, exercise, exchange or settlement of all PRC Employee Equity Award Equivalents set forth on **Section 6.11(d)** of the Company Disclosure Letter had such PRC Employee Equity Award Equivalents been granted by the Company prior to the Effective Time; *provided however*, that no share included in the calculation of shares issuable upon conversion, exercise, exchange or settlement of any Company Option, Company Warrant, Company RSU or Company Preferred Stock shall be double-counted when calculating the number of shares of issued or outstanding Company Capital Stock.

"GAAP" shall mean United States generally accepted accounting principles consistently applied.

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**"Governmental Authority"** shall mean any court, tribunal, arbitrator, authority, agency, bureau, board, commission, department, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision and shall include any stock exchange, quotation service and the National Association of Securities Dealers.

**"Indebtedness"** shall mean, with respect to any Person, (i) all indebtedness of such Person, whether or not contingent, for borrowed money, (ii) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments but excluding any capital leases for ordinary course business equipment, (iii) all obligations, contingent or otherwise, of such Person under banker's acceptance, letter of credit or other similar facilities, but excluding any stand-by letters of credit that have not been drawn, and (iv) all indebtedness of others referenced in the foregoing clauses (i), (ii) and (iii) directly or indirectly guaranteed in any manner by such Person, including by way of agreement (A) to pay or purchase such indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness, (B) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such indebtedness or to assure the holder of such indebtedness against loss, or (C) otherwise to assure a creditor against loss.

**"Indemnifying Holders"** shall mean holders of shares of Company Capital Stock and holders of Cash-Out Options as of immediately prior to Effective Time (after giving effect to any exercises of Company Options and Company Warrants, or settlement of Company RSUs, conditioned upon the occurrence of the Closing), excluding, for the avoidance of doubt, Parent and any direct or indirect wholly owned subsidiary of Parent (including the Surviving Corporation).

**"Intellectual Property Rights"** shall mean any or all of the following and all statutory and/or common law rights throughout the world in, arising out of, or associated therewith or with Intellectual Property: (i) all United States and foreign patents and utility models and applications therefor and all reissues, divisions, re examinations, renewals, extensions, provisionals, continuations and continuations in part thereof, and equivalent or similar rights anywhere in the world in inventions and discoveries including without limitation invention disclosures ("**Patents**"); (ii) all trade secrets and other rights in knowhow and confidential or proprietary information; (iii) all copyrights, copyright registrations and applications therefor and all other rights corresponding thereto throughout the world ("**Copyrights**"); (iv) all industrial designs and any registrations and applications therefor throughout the world; (v) mask works, mask work registrations and applications therefor, and all other rights corresponding thereto throughout the world ("**Mask Works**"); (vi) all rights in World Wide Web addresses and domain names and applications and registrations therefor, all trade names, logos, common law trademarks and service marks, trademark and service mark registrations and applications therefor and all goodwill associated therewith throughout the world ("**Trademarks**"); (vii) any other rights in or to Technology; and (viii) any similar, corresponding or equivalent rights to any of the foregoing anywhere in the world.

**"International Employee Plan"** shall mean each Company Employee Plan or Employee Agreement that has been adopted, established or maintained by the Company or its Subsidiary for the benefit of Employees who perform services outside the United States.

**"IRS"** shall mean the United States Internal Revenue Service.

**"Key Employees"** shall mean those individuals whose names are set forth on **Section 7.2(g)(ii)(1)** of the Company Disclosure Letter.

**"Knowledge"** shall mean, with respect to the Company, the actual knowledge of Bernie Sardinha, Duston Williams, Earl Cohen, Kamran Malik, Matt Ready, Michael Raam, Steve Rowe and



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Thad Omura after Reasonable Inquiry. "Reasonable Inquiry" as used in this definition means, with respect to each such Person identified in the preceding sentence, review of (a) the applicable representations and warranties with such Person's direct reports having management responsibility for the Company's functional area relating to the facts, circumstances, events or other matters described in such representation or warranty, and (b) the Company's books, records and files of the type reasonably likely to contain relevant information concerning the facts, circumstances, events or other matters described in the applicable representation and warranty.

"**Liability**" shall mean any liability, obligation, expense, claim, guaranty or endorsement of any kind, character or type whatsoever, whether absolute or contingent (or based upon any contingency), known or unknown, determined or determinable, matured or unmatured, fixed or otherwise, due or to become due, whether or not accrued or paid and (unless otherwise indicated) whether or not required to be reflected in, or reserved against on, financial statements prepared in accordance with GAAP.

"**Lien**" shall mean any lien, mortgage, pledge, hypothecation, claim, security interest, encumbrance, restriction on transfer, adverse interest, easement, encroachment, burden, title defect, or similar restriction or limitation.

"**made available**", "provided", "delivered" or words of similar import shall mean, for purposes of **Article III** hereof, with respect to any material, that a copy of such material has been posted on or before 9:00 p.m. California time on October 25, 2011 to the electronic data room at <https://collaborate4.dlapiper.com/eRoomASP/CookieTest/eRoom/SandForce/SandForceInc>.

"**Multiemployer Plan**" shall mean any "Pension Plan" which is a "multiemployer plan," as defined in Section 3(37) of ERISA.

"**Open Source Materials**" shall mean all Software that is licensed pursuant to an Open Source License or otherwise defined as "Open Source" by the Open Source Initiative ([www.opensource.org](http://www.opensource.org)).

"**Open Source License**" shall mean a license that is considered an "Open Source License" by the Open Source Initiative ([www.opensource.org](http://www.opensource.org)), including, for example, the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), or any other license that otherwise requires that (i) the Source Code for Software of the licensee that is or becomes subject to such license be licensed on the same terms as set forth in such license, or (ii) that the Source Code of licensee that is or becomes subject to such license be made publicly available without a requirement for payment, or (iii) requires that the licensee include specified notices of attribution in its Software that is or becomes subject to such license.

"**Ordinary Course of Business**" shall mean, in respect of any Person, the ordinary course of such Person's business, as conducted by such Person in accordance with past practice and undertaken by such Person in good faith.

"**Parent Common Stock**" means shares of Parent's common stock, par value \$0.01 per share.

"**Parent Material Adverse Effect**" shall mean any change, event, violation, inaccuracy, circumstances or effect that, individually or in the aggregate with all other changes, events, violations,

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inaccuracies, circumstances or effects, is or is reasonably likely to prevent or materially delay Parent from performing its obligations under this Agreement in any material respect.

**"Parent Shares"** shall mean shares of Company Capital Stock owned by Parent or by any Affiliate of Parent immediately prior to the Effective Time.

**"Pension Plan"** shall mean an "employee pension benefit plan," within the meaning of Section 3(2) of ERISA.

**"Permitted Liens"** shall mean (i) statutory Liens for Taxes that are not yet due and payable or the validity of which are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP, (ii) statutory Liens to secure obligations to landlords, lessors or renters under leases or rental agreements, (iii) deposits or pledges made in connection with, or to secure payment of, workers' compensation, unemployment insurance or similar programs mandated by applicable law, (iv) statutory Liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like Liens for work not yet completed, (v) Liens in favor of customs and revenue authorities arising as a matter of applicable law to secure payments of customs duties in connection with the importation of goods, (vi) pledges or deposits made in the Ordinary Course of Business to secure the performance of bids, tenders, statutory obligations, fee and expense arrangements with trustees and fiscal agents (exclusive of obligations incurred in connection with the borrowing of money or the payment of the deferred purchase price of property), (vii) Liens arising by operation of law on insurance policies and proceeds thereof to secure premiums thereunder, (viii) Liens to secure capital lease obligations for ordinary course business equipment to the extent the incurrence of such obligations does not otherwise violate this Agreement, and (ix) any Liens incurred pursuant to equipment leases in the Ordinary Course of Business.

**"Per Share Closing Consideration"** shall mean (x) the quotient obtained by dividing (i) the Aggregate Merger Consideration by (ii) Fully Diluted Shares minus (y) the quotient obtained by dividing (i) the Escrow Amount by (ii) the aggregate number of Cash Out Capital Shares.

**"Per Share Escrow Release Amount"** shall mean the quotient obtained by dividing (x) the Escrow Amount remaining available, if any, for distribution pursuant to the terms of this Agreement and the Escrow Agreement to the Indemnifying Holders, by (y) the aggregate number of Cash-Out Capital Shares. For purposes of clarity, in no event shall the aggregate Per Share Escrow Release Amount exceed the Escrow Amount remaining available, if any, for distribution pursuant to the terms of this Agreement and the Escrow Agreement to the Indemnifying Holders.

**"Per Share Expense Fund Release Amount"** shall mean the quotient obtained by dividing (x) the portion of the Expense Fund remaining available, if any, for distribution pursuant to the terms of this Agreement to the Indemnifying Holders, by (y) the aggregate number of Cash-Out Capital Shares. For purposes of clarity, in no event shall the aggregate Per Share Expense Fund Release Amount exceed the portion of the Expense Fund remaining available, if any, for distribution pursuant to the terms of this Agreement to the Indemnifying Holders.

**"Person"** shall mean any natural person, company, corporation, limited liability company, general partnership, limited partnership, trust, proprietorship, joint venture, business organization or Governmental Authority.

**"Personally Identifiable Information"** shall mean any information that alone or in combination with other information held by the Company can be used to specifically identify a Person.

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**"PRC Employee Equity Award Equivalents"** shall have the meaning ascribed to such term in **Section 6.11(d)** of the Company Disclosure Letter.

**"Pro Rata Portion"** shall mean, with respect to any Indemnifying Holder, a fraction, (i) the numerator of which is the value of the aggregate Per Share Closing Consideration payable to such Indemnifying Holder pursuant to this Agreement in respect of all shares of Company Common Stock (other than shares of Unvested Company Common Stock) held by the Indemnifying Holders as of immediately prior to the Effective Time, after giving effect to the issuance of (a) all shares of Company Common Stock that are issuable upon the full conversion, exercise, exchange or settlement of all shares of Company Preferred Stock, all Company Options (other than Assumed Company Options), and all Company RSUs (other than Assumed Company RSUs) held by the Indemnifying Holders as of immediately prior to the Effective Time, and (b) all shares of Company Common Stock that are issuable upon the full conversion of all shares of Company Preferred Stock that are issuable upon the full exercise, exchange or settlement of all Company Options (other than Assumed Company Options), all Company Warrants exercised and not terminated prior to Closing and all Company RSUs (other than Assumed Company RSUs) held by the Indemnifying Holders as of immediately prior to the Effective Time and (ii) the denominator of which is the value of the aggregate Per Share Closing Consideration payable to all Indemnifying Holders pursuant to this Agreement in respect of the Cash-Out Capital Shares.

**"Registered Intellectual Property"** shall mean all United States, international and foreign: (i) Patents, including applications therefor; (ii) registered Trademarks, applications to register Trademarks, including intent to use applications, or other registrations or applications related to Trademarks; (iii) Copyrights and (iv) any other Intellectual Property Right that is the subject of an application, certificate, filing, registration or other document issued by, filed with, or recorded by, any state, government or other public legal authority at any time.

**"Requisite Stockholder Approval"** shall mean the affirmative approval of the holders of (i) a majority of the issued and outstanding shares of Company Common Stock and Company Preferred Stock (on an as-converted to Company Common Stock basis), acting together as a single class, and (ii) at least 66% of the issued and outstanding shares of Company Preferred Stock (on an as-converted to Company Common Stock basis), acting together as a single class, and (iii) a majority of the issued and outstanding shares of Company Common Stock, to adopt this Agreement and approve the Merger and the other transactions contemplated hereby.

**"Section 1.1 Consultants"** shall mean those Persons identified on **Section 1.1** of the Company Disclosure Letter (by name and location) located outside of the United States who accept and do not rescind, prior to the Effective Time, offers of employment from Parent, conditioned upon the occurrence of the Closing.

**"Software"** shall mean any and all computer software and code, including applets, applications, operating systems, libraries, assemblers, compilers, design tools, source code, object code, net lists, GDS-II files, gerber files, test vectors, data (including image and sound data) and user interfaces, in any form or format, however fixed. Software shall include source code listings and documentation.

**"Specified Key Employees"** shall mean those individuals whose names are set forth on **Section 7.2(g)(ii)(2)** of the Company Disclosure Letter.

**"Subsidiary"** shall mean, with respect to any Person, any other Person, whether incorporated or unincorporated, of which (i) such Person or any other Subsidiary of such Person is a general partner (excluding such partnerships where such Person or any Subsidiary of such Person does

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not have a majority of the voting interest in such partnership) or (ii) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such other Person is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries.

**"Tax"** shall mean (i) any and all U.S. federal, state and local and non-U.S. taxes, assessments and other governmental charges, duties, impositions and liabilities, including taxes based upon or measured by gross receipts, income, profits, sales, use and occupation, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, escheat, excise and property taxes as well as public imposts, fees and social security charges (including but not limited to health, unemployment and pension insurance), together with all interest, penalties and additions imposed with respect to such items, (ii) any liability for the payment of any items of the type described in clause (i) of this definition as a result of being a member of an affiliated, consolidated, combined, unitary or similar group for any period (including any arrangement for group or consortium relief or similar arrangement), and (iii) any liability for the payment of any items of the type described in clauses (i) or (ii) of this definition as a result of any express or implied obligation to indemnify any other person or as a result of any obligation under any agreement or arrangement with any other person with respect to such items and including any liability for taxes of a predecessor or transferor or otherwise by operation of law.

**"Technology"** shall mean any or all of the following: (i) works of authorship including, without limitation, Software or otherwise, documentation, designs, files, records and data; (ii) inventions (whether or not patentable), improvements, and technology; (iii) proprietary and confidential information, including technical data and customer and supplier lists, trade secrets, show how, knowhow and techniques; (iv) databases, data compilations and collections and technical data; (v) processes, devices, prototypes, schematics, bread boards, net lists, mask works, test methodologies and hardware development tools; (vi) logos, trade names, trade dress, trademarks, service marks, World Wide Web addresses and domain names, tools, methods and processes; (vii) and other tangible forms of Intellectual Property Rights, and all instantiations of the foregoing in any form and embodied in any media.

**"Transaction Expenses"** shall mean (a) all third party fees and expenses incurred by the Company in connection with this Agreement, the Merger and the other transactions contemplated hereby (including any fees and expenses of legal counsel, financial advisors, investment bankers, brokers, strategic consultants, tax consultants, outsourced operations service providers, accountants and auditors, in each case incurred by the Company in connection with this Agreement, the Merger and the other transactions contemplated hereby), whether paid prior to the date hereof or after the date hereof and prior to the Effective Time or payable after the Effective Time and (b) an amount equal to the Expense Fund. For the avoidance of doubt, third party fees and expenses incurred in connection with the preparation of audited financial statements of the Company or other financial statements including, but not limited to, pro forma financial statements, for inclusion in Parent's public filings, do not constitute Transaction Expenses.

**"Unvested Company Common Stock"** shall mean each share of Company Common Stock outstanding immediately prior to the Effective Time that is unvested or is subject to a repurchase option or obligation, risk of forfeiture or other condition under any applicable restricted stock purchase agreement or other Contract with the Company or under which the Company has any rights.

**"WARN Act"** shall mean the Worker Adjustment and Retraining Notification Act.

1.2 Other Capitalized Terms. For all purposes of and under this Agreement, the following capitalized terms shall have the respective meanings ascribed thereto in the Section of this Agreement set forth opposite each such capitalized term below:

<u>Capitalized Term</u>	<u>Section</u>
Acquisition Proposal	6.1(a)
Acquisition Transaction	6.1(a)
Action of Divestiture	6.4(b)
Affiliate	1.1
Aggregate Merger Consideration	1.1
Agreement	Preamble
Assets and Properties	1.1
Assumed Company Options	1.1
Assumed Company RSU	1.1
Business Day	1.1
California Law	1.1
Cash-Out Capital Shares	1.1
Cash-Out Options	2.6(g)(ii)
Certificate of Merger	2.2(b)
Charter Documents	3.1
Claim Certificate	8.4(a)
Closing	2.2(a)
Closing Certificate	7.2(i)(iii)
Closing Date	2.2(a)
Closing Merger Consideration	1.1
COBRA	1.1
Code	1.1
Company	Preamble
Company Authorizations	3.17
Company Capital Stock	1.1
Company Common Stock	1.1
Company Disclosure Letter	Article III
Company Employee Plan	1.1
Company Financial Statements	3.8(a)
Company Insurance Policies	3.24(a)
Company Intellectual Property	1.1
Company Intellectual Property Rights	1.1
Company Material Adverse Effect	1.1
Company Option Plan	1.1
Company Optionholders	1.1
Company Options	1.1
Company Owned Shares	2.6(d)
Company Preferred Stock	1.1
Company Products	3.14(a)
Company Registered Intellectual Property	3.14(b)
Company Representatives	6.1(a)
Company RSUs	1.1
Company Series A Preferred Stock	1.1
Company Series B Preferred Stock	1.1

<b>Capitalized Term</b>	<b>Section</b>
Company Series C Preferred Stock	1.1
Company Series D Preferred Stock	1.1
Company Source Code	1.1
Company Stock Certificates	1.1
Company Stockholders	1.1
Company Warrantholders	1.1
Company Warrants	1.1
Conflict	3.6
Continuing Employee	6.11(a)
Contract	1.1
Copyrights	1.1
Current Balance Sheet	3.8(a)
Customer Information	3.13(f)
D&O Tail Period	6.14(b)
Delaware Law	1.1
Dissenting Share Payments	2.6(f)(iii)
Dissenting Shares	2.6(f)(i)
DOJ	3.7
DOL	1.1
Effective Time	2.2(b)
Employee	1.1
Employee Agreement	1.1
Equipment	3.13(e)
ERISA	1.1
ERISA Affiliate	1.1
Escrow Agent	1.1
Escrow Agreement	Recitals
Escrow Amount	1.1
Escrow Fund	8.5(a)
Escrow Period	8.5(b)
Exchange Ratio	1.1
Expense Fund	8.7(d)
Export Approvals	3.27(a)
FCPA	3.26
FMLA	1.1
Follow-On Transaction	1.1
FTC	3.7
Fully Diluted Shares	1.1
GAAP	1.1
Governmental Authority	1.1
Hazardous Material	3.21(a)
Hazardous Materials Activities	3.21(b)
HSR Act	3.7
Inbound Licenses	3.14(k)
Indebtedness	1.1
Indemnified Parties	8.2(a)
Indemnifying Parties	8.2(a)
Indemnifying Holders	1.1

<b>Capitalized Term</b>	<b>Section</b>
Intellectual Property Rights	1.1
Interested Party	3.16(a)
International Employee Plan	1.1
Inventory	3.29
IP Licenses	3.14(k)
IRS	1.1
Key Employees	1.1
Knowledge	1.1
Law Firm	10.13
Lease Agreements	3.13(b)
Leased Real Property	3.13(a)
Letter of Transmittal	2.7(c)
Liability	1.1
Lien	1.1
Loss	8.2(b)
Losses	8.2(b)
Mask Works	1.1
Material Contract	3.15(a)
Merger	2.1
Merger Sub	Preamble
Multiemployer Plan	1.1
Non-Competition Agreement	Recitals
Non-Disclosure Agreement	10.3
Offer Letter	6.11(a)
Open Source Materials	1.1
Open Source License	1.1
Ordinary Course of Business	1.1
Outbound Licenses	3.14(k)
Parent	Preamble
Parent Common Stock	1.1
Parent Material Adverse Effect	1.1
Parent Plans	6.11(c)
Parent Shares	1.1
Patents	1.1
Payment Agent	2.7(a)
Payment Spreadsheet	6.9
Pension Plan	1.1
Permitted Liens	1.1
Per Share Closing Consideration	1.1
Per Share Escrow Release Amount	1.1
Per Share Expense Fund Release Amount	1.1
Person	1.1
Personally Identifiable Information	1.1
Pro Rata Portion	1.1
PTO	3.14(b)
Registered Intellectual Property	1.1
Representative Losses	8.7(b)
Requisite Stockholder Approval	1.1

<u>Capitalized Term</u>	<u>Section</u>
Returns	3.11(a)
Section 1.1 Consultants	1.1
Section 280G Payments	3.23(g)
Section 409A	3.23(j)
Seller Group	10.13
Stockholder Representative	Preamble
Significant Customer	3.30
Significant Supplier	3.31
Software	1.1
Special Representations	8.1(b)
Specified Key Employees	1.1
Stockholder Representative	Preamble
Standard Form Agreements	3.14(s)
Statement of Transaction Expenses	6.10(b)
Subsidiary	1.1
Survival Date	8.1
Surviving Corporation	2.1
Tax	1.1
Tax Incentive	3.11(o)
Technology	1.1
Terminated Company Employee Plans	6.11(b)
Threshold	8.3(d)
Trademarks	1.1
Transaction Agreements	Recitals
Transaction Expenses	1.1
Unvested Company Common Stock	1.1
WARN Act	1.1
Written Consent	Recitals

### 1.3 Interpretations.

(a) When a reference is made in this Agreement to an Exhibit, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. When a reference is made in this Agreement to an Article or a Section, such reference shall be to an Article or a Section of this Agreement unless otherwise indicated.

(b) The words "include", "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation".

(c) The headings set forth in this Agreement are for convenience of reference purposes only and shall not modify, limit or otherwise affect in any way the meaning or interpretation of this Agreement or any term or provision hereof.

(d) All references in this Agreement to the Company shall be deemed to refer to the Company and its Subsidiaries unless the context otherwise requires.

(e) The parties hereto agree that they have been represented and advised by legal counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other



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document shall be construed against the party drafting such agreement or document. In the event of an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party hereto by virtue of authorship of any provisions of this Agreement.

## ARTICLE II

### THE MERGER

2.1 The Merger. At the Effective Time and upon the terms and subject to the conditions of this Agreement and the applicable provisions of Delaware Law, Merger Sub shall be merged with and into the Company (the "**Merger**"), the separate corporate existence of Merger Sub shall cease, and the Company shall continue as the surviving corporation. The Company as the surviving corporation after the Merger is sometimes referred herein to as the "**Surviving Corporation**."

#### 2.2 Closing and Effective Time.

(a) Closing. Unless this Agreement is earlier terminated pursuant to **Section 9.1**, the closing of the Merger (the "**Closing**") will take place on a Business Day as promptly as practicable after the execution and delivery of this Agreement by the parties hereto, but no later than five (5) Business Days following satisfaction or waiver of the conditions set forth in **Article VII** (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, One Market Street, Spear Tower Suite 3300, San Francisco, California, unless another time and/or place is mutually agreed upon in writing by Parent and the Company; *provided, however*, that if the conditions set forth in **Article VII** (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions) are satisfied or waived prior to January 3, 2012, the Closing shall not occur, without the consent of Parent, prior to January 3, 2012. The date upon which the Closing actually occurs shall be referred to herein as the "**Closing Date**."

(b) Effective Time. On the Closing Date, the parties hereto shall cause the Merger to be consummated by filing with the Secretary of State of the State of Delaware a certificate of merger in customary form and substance for the Merger (the "**Certificate of Merger**") in accordance with the applicable provisions of Delaware Law. The time of filing of the Certificate of Merger is referred to herein as the "**Effective Time**."

2.3 General Effects of the Merger. At the Effective Time, the effect of the Merger shall be as provided in this Agreement, the Certificate of Merger and the applicable provisions of Delaware Law. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, except as otherwise agreed to pursuant to the terms of this Agreement, all the property, rights, privileges, powers and franchises of the Company and Merger Sub shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Merger Sub shall become the debts, liabilities and duties of the Surviving Corporation.

#### 2.4 Certificates of Incorporation and Bylaws.

(a) Certificate of Incorporation of Surviving Corporation. Unless otherwise determined by Parent prior to the Effective Time, the certificate of incorporation of the Surviving Corporation shall be amended and restated as of the Effective Time to be identical to the certificate of incorporation of Merger Sub as in effect immediately prior to the Effective Time until thereafter amended in accordance with Delaware Law and as provided in such certificate of incorporation.

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(b) Bylaws of Surviving Corporation. Unless otherwise determined by Parent prior to the Effective Time, the bylaws of the Surviving Corporation shall be amended and restated as of the Effective Time to be identical to the bylaws of Merger Sub as in effect immediately prior to the Effective Time, until thereafter amended in accordance with Delaware Law and as provided in the certificate of incorporation of the Surviving Corporation and such bylaws.

#### 2.5 Directors and Officers.

(a) Directors of Surviving Corporation. The directors of the Company shall resign effective as of the Effective Time. Unless otherwise determined by Parent prior to the Effective Time, the directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation immediately after the Effective Time, each to hold the office of a director of the Surviving Corporation in accordance with the provisions of Delaware Law, the certificate of incorporation and bylaws of the Surviving Corporation until their successors are duly elected and qualified, or until their earlier resignation or removal.

(b) Officers of Surviving Corporation. The officers of the Company shall resign effective as of the Effective Time. Unless otherwise determined by Parent prior to the Effective Time, the officers of Merger Sub immediately prior to the Effective Time shall be the officers of the Surviving Corporation immediately after the Effective Time, each to hold office in accordance with the provisions of the bylaws of the Surviving Corporation.

#### 2.6 Effect of Merger on Capital Stock.

(a) Merger Sub Capital Stock. At the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, the Company or any Company Stockholder, each share of common stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and exchanged for one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation. Each stock certificate of Merger Sub evidencing ownership of any such shares shall continue to evidence ownership of such shares of capital stock of the Surviving Corporation.

(b) Company Preferred Stock and Company Common Stock. At the Effective Time, by virtue of the Merger and without any action on the part of Merger Sub, the Company or any Company Stockholder (including that no holder of Company Preferred Stock shall be required to convert such shares of Company Preferred Stock into shares of Company Common Stock), each outstanding share of Company Common Stock and Company Preferred Stock (other than any shares of Unvested Company Common Stock, Company-Owned Shares, Parent Shares and Dissenting Shares), upon the terms and subject to the conditions set forth in this **Section 2.6** and throughout this Agreement, including the escrow provisions set forth in **Article VIII** hereof, shall be cancelled and extinguished and converted automatically into the right to receive, upon surrender of the certificate representing such shares of Company Common Stock or Company Preferred Stock, as applicable, (i) an amount of cash equal to the Per Share Closing Consideration, (ii) an amount of cash equal to the Per Share Escrow Release Amount, if any, distributed to Indemnifying Holders in the manner provided in **Article VIII** of this Agreement and the Escrow Agreement and (iii) an amount of cash equal to the Per Share Expense Fund Release Amount, if any, distributed to Indemnifying Holders in the manner provided in **Article VIII** of this Agreement. For purposes of calculating the amount of cash consideration payable to each Company Stockholder at the Effective Time pursuant to this **Section 2.6**, all shares of Company Capital Stock held by each Company Stockholder at the Effective Time shall be aggregated on a certificate-by-certificate basis and rounded up to the nearest whole cent.

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(c) Unvested Company Common Stock.

(i) As of the Effective Time, each outstanding share of Unvested Company Common Stock shall be exchanged by Parent for a number of shares of Parent Common Stock equal to the product obtained by multiplying (x) the number of shares of Unvested Company Common Stock, and (y) the Exchange Ratio, rounded down to the nearest whole number of shares of Parent Common Stock. Such shares of Parent Common Stock issued in exchange for the Unvested Company Common Stock shall also be unvested and subject to the same repurchase option, risk of forfeiture or other conditions applicable to the Unvested Company Common Stock, and shall be "restricted securities" within the meaning of Rule 144 as promulgated under the Securities Act of 1933, as amended ("**Rule 144**").

(ii) Prior to the Effective Time, the Company shall take all action that may be necessary to ensure that, from and after the Effective Time, Parent is entitled to exercise any such repurchase option or other right set forth in any restricted stock purchase agreement or other Contract with respect to each share of Unvested Company Common Stock.

(iii) As soon as reasonably practicable following the Effective Time, Parent shall file a registration statement on Form S-8 (or any successor or other appropriate form that Parent is eligible to use) under the Securities Act of 1933, as amended, with respect to the shares of Parent Common Stock issuable upon exchange for the Unvested Company Common stock in connection with the Merger.

(d) Company-Owned Shares. At the Effective Time, each share of Company Capital Stock that are owned by the Company as treasury stock (including any Company Preferred Stock) ("**Company-Owned Shares**") shall be cancelled and extinguished without any rights to conversion thereof, and no consideration shall be delivered in exchange therefor.

(e) Parent Shares. At the Effective Time, each Parent Share shall be cancelled and extinguished without any rights to conversion thereof, and no consideration shall be delivered in exchange therefor.

(f) Dissenting Shares.

(i) Notwithstanding anything to contrary set forth in this Agreement, any shares of Company Capital Stock that are held by a holder who has not effectively withdrawn or lost such holder's appraisal, dissenter's or similar rights for such shares available under Section 262 of Delaware Law or, if applicable, Chapter 13 of the California Corporation Code ("**Dissenting Shares**") shall not be converted into or represent a right to receive the consideration payable and issuable in respect of such shares of Company Capital Stock pursuant to this Agreement, but the holder thereof shall only be entitled to such rights as are granted by Section 262 of Delaware Law or, if applicable, Chapter 13 of California Law.

(ii) Notwithstanding the provisions of **Section 2.6(f)(i)**, if any holder of Dissenting Shares shall effectively withdraw or lose (through failure to perfect or otherwise) his, her or its appraisal or dissenter's rights, then, as of the later of the Effective Time and the occurrence of such event, such holder's Dissenting Shares shall then cease to be Dissenting Shares and shall automatically be converted into and represent only the right to receive the consideration payable or issuable in respect of such shares of Company Capital Stock pursuant to this Agreement, without interest thereon, upon surrender of the certificate representing such shares.

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(iii) Prior to the Closing, the Company shall give Parent (A) prompt notice of any written demand for appraisal or dissenter's rights received by the Company pursuant to the applicable provisions of Section 262 of Delaware Law or Chapter 13 of California Law, if applicable, and (B) the opportunity to participate in all negotiations and proceedings with respect to such demands. The Company shall not, except with the prior written consent of Parent or if directed to do so by a court order or judgment, voluntarily make any payment with respect to any such demands or offer to settle or settle any such demands. Notwithstanding the foregoing, to the extent that Parent or the Company (1) shall make any payment or payments in respect of any Dissenting Shares in excess of the portion of the Aggregate Merger Consideration that otherwise would have been payable or issuable in respect of such shares under this Agreement, or (2) incurs any other costs or expenses in respect of any Dissenting Shares (excluding payments for such shares) (together "**Dissenting Share Payments**"), Parent shall be entitled to indemnification in respect of such Dissenting Share Payments pursuant to **Article VIII**.

(g) Company Options.

(i) At the Effective Time, each Assumed Company Option outstanding immediately prior to the Effective Time shall be assumed by Parent. Each Assumed Company Option so assumed by Parent under this Agreement shall continue to have, and be subject to, the same terms and conditions set forth in the Company Option Plan and any option agreement between the Company and the optionee with regard to the Company Option immediately prior to the Effective Time, except that (A) each Assumed Company Option will be exercisable for that number of whole shares of Parent Common Stock equal to the product of the number of shares of Company Common Stock that were issuable upon exercise of such Assumed Company Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of shares of Parent Common Stock, and (B) the per share exercise price for the shares of Parent Common Stock issuable upon exercise of such Assumed Company Option will be equal to the quotient determined by dividing the exercise price per share of Company Common Stock at which such Assumed Company Option was exercisable immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent. It is intended that Assumed Company Options assumed by Parent shall qualify following the Effective Time as incentive stock options as defined in Section 422 of the Code to the extent Assumed Company Options qualified as incentive stock options immediately prior to the Effective Time and the provisions of this **Section 2.6(g)(i)** shall be applied consistent with such intent. The conversion and assumption of the Assumed Company Options is intended to comply with the regulations and other binding guidance under Section 409A of the Code, including Treas. Reg. 1.409A-1(b)(5)(v)(D), and such converted options to purchase Parent Common Stock shall be subject to the same terms and conditions (including vesting schedule, expiration date, exercise provisions and transfer restrictions) as were applicable to the corresponding Assumed Company Options immediately prior to the Effective Time.

(ii) Immediately prior to the Effective Time, (A) each Company Option then outstanding and held by a Person that is neither a Section 1.1 Consultant nor an employee of the Company as of the Effective Time, whether or not vested and exercisable under the Company Option Plan, shall (if not then fully vested and exercisable) become fully vested and exercisable, and (B) (x) each such Company Option described in clause (A) of this sentence and (y) each Company Option then outstanding and held by a Person that is an employee of the Company (other than an Assumed Company Option) (together, the Company Options described in clauses (x) and (y) of this clause (B), the "**Cash-Out Options**"), shall, by virtue of the Merger, be terminated and the holder thereof shall be entitled to receive in consideration of such termination an amount in cash with respect to each share of Company

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Common Stock subject thereto, without interest, equal to (1) the Per Share Closing Consideration less the applicable exercise price per share, (2) an amount in cash equal to the Per Share Escrow Release Amount, if any, distributed to Indemnifying Holders in the manner provided in **Article VIII** of this Agreement and the Escrow Agreement and (3) an amount of cash equal to the Per Share Expense Fund Release Amount, if any, distributed to Indemnifying Holders in the manner provided in **Article VIII** of this Agreement. Prior to the Effective Time, and subject to the review and approval of Parent, the Company shall take all actions necessary to effect the transactions anticipated by this **Section 2.6(g)(ii)** under the Company Option Plan and all Company Option agreements and any other plan or arrangement of the Company (whether written or oral, formal or informal), including delivering all notices required thereby. Upon the request of Parent, the Company shall notify the holders of Company Options, which such notice shall be in compliance with any applicable terms of the Company Option Plan and such Company Options, that such Company Options (other than the Assumed Company Options) not exercised prior to the Effective Time will be cashed-out at the Effective Time in the manner set forth in this **Section 2.6(g)(ii)**, and that the holders of such Company Options may exercise any such Company Options in compliance with the terms provided in the Company Option Plan (including by means of cashless or net exercise) and the relevant Company Option agreement governing the exercise thereof on or prior to the last date specified in the notice. Materials to be submitted to the holders of Company Options in connection with the notice required under this **Section 2.6(g)(ii)** shall be subject to review and approval by Parent.

(iii) The Company shall use its reasonable best efforts to effect the provisions set forth in **Section 2.6(g)** with respect to all Company Options, including any necessary amendments to any Company Options and the delivery of all required notices required to be delivered pursuant to such Company Options or the Company Option Plan in connection with the Agreement and the consummation of the Merger and the other transactions contemplated hereby. Any materials to be submitted to the holders of Company Options in connection with any notice or amendment required under this **Section 2.6(g)** shall be subject to review and approval by Parent, which approval shall not be unreasonably withheld or delayed.

(iv) As soon as reasonably practicable following the Effective Time, Parent shall file a registration statement on Form S-8 (or any successor or other appropriate form that Parent is eligible to use) under the Securities Act of 1933, as amended, with respect to the shares of Parent Common Stock issuable upon exercise of the Assumed Company Options, and shall use its reasonable best efforts to cause such registration statement to remain in effect for so long as the assumed Company Options remain outstanding.

(v) As soon as reasonably practicable following the Closing Date, Parent shall (or shall cause the Payment Agent) to mail or otherwise deliver (including, with respect to Cash-Out Option holders who are subject to income or employment Tax withholding by the Company or Parent, through the Company's payroll provider in accordance with the holder's prior elections with respect to receipt and direct deposit of payroll amounts) to each holder of Cash-Out Options, at the address set forth opposite each such Company Optionholder's name on the Payment Spreadsheet, an appropriate optionholder letter of transmittal; with respect to the holders of Cash-Out Options who are subject to income or employment Tax withholding by Parent or the Company and who are to receive their portion of the Aggregate Merger Consideration from the Company's payroll provider, such letter shall be in the form attached hereto as **Exhibit E-1**, and, with respect to holders of Cash-Out Options who are not subject to income or employment Tax withholding by Parent or the Company and who are to receive their portion of the Aggregate Merger Consideration from the Payment Agent such letter shall be in the form attached hereto as **Exhibit E-2** (in each case, the "**Optionholder Letter of Transmittal**"). As soon as reasonably practicable following the Closing Date, and upon receipt by Parent or the Payment Agent, as applicable, of such Optionholder Letter of Transmittal and any other documents that Parent or the

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Payment Agent may reasonably require, such holder of Cash-Out Options shall be entitled to receive from Parent or the Payment Agent, as applicable, the amount of the Closing Merger Consideration to which such holder is entitled pursuant to **Section 2.6(g)** hereof, less applicable Tax withholding, and the agreement evidencing the Cash-Out Options so surrendered shall be cancelled. No payments of any portion of the Aggregate Merger Consideration will be made until the holder of Cash-Out Options shall have delivered to Parent or the Payment Agent, as applicable, an Optionholder Letter of Transmittal and any other documents that Parent or the Payment Agent may reasonably require pursuant hereto; *provided, however*, in all cases the portion of the Closing Merger Consideration payable in respect of Cash-Out Options will be paid no later than March 15 of the year following the year in which the Merger occurs.

(h) Company Warrants.

(i) Parent shall not assume any Company Warrants in connection with the Merger and the other transactions contemplated by this Agreement. At the Effective Time, each Company Warrant that is unexpired, unexercised and outstanding immediately prior to the Effective Time shall, on the terms and subject to the conditions set forth in this Agreement, terminate in its entirety; *provided, however*, that nothing in this **Section 2.6(h)** shall prohibit a Company Warrant holder from exercising such Company Warrant prior to the Effective Time in accordance with its terms.

(ii) The Company shall use its reasonable best efforts to effect the provisions set forth in **Section 2.6(h)** with respect to all Company Warrants, including the delivery of all required notices required to be delivered pursuant to such Company Warrants in connection with the Agreement and the consummation of the Merger and the other transactions contemplated hereby. Any materials to be submitted to the holders of Company Warrants in connection with any notice or amendment required under this **Section 2.6(h)** shall be subject to review and approval by Parent, which approval shall not be unreasonably withheld or delayed.

(i) Company RSUs.

(i) Immediately prior to the Effective Time, each Company RSU then outstanding (other than the Assumed Company RSUs), shall be settled in Company Common Stock. The Company Common Stock issued upon the settlement of the Company RSUs (other than the Assumed Company RSUs) pursuant to this **Section 2.6(i)(i)** shall be subject to **Section 2.6(b)** at the Effective Time.

(ii) At the Effective Time, each Assumed Company RSU shall be assumed by Parent. Each Assumed Company RSU shall continue to have, and be subject to, the same terms and conditions set forth in the restricted stock unit agreement between the Company and the holder with regard to the Assumed Company RSU immediately prior to the Effective Time (except as otherwise agreed to in writing between Parent and the holder of the Assumed Company RSUs), except that each Company RSU will be settleable for that number of whole shares of Parent Common Stock equal to the product of the number of shares of Company Common Stock that were issuable upon vesting of such Company RSU immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of shares of Parent Common Stock. The conversion and assumption of the Company RSUs is intended to comply with the regulations and other binding guidance under Section 409A of the Code, and such converted restricted stock units settleable in Parent Common Stock shall be subject to the same terms and conditions (including vesting schedule, expiration date, purchase provisions and transfer restrictions) as were applicable to the corresponding Company RSUs immediately prior to the Effective Time (except as otherwise agreed to in writing between Parent and the holder of the Assumed Company RSUs).

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(iii) As soon as reasonably practicable following the Effective Time, Parent shall file a registration statement on Form S-8 (or any successor or other appropriate form that Parent is eligible to use) under the Securities Act of 1933, as amended, with respect to the shares of Parent Common Stock issuable upon settlement of the Assumed Company RSUs, and shall use its reasonable best efforts to cause such registration statement to remain in effect for so long as the Assumed Company RSUs remain outstanding.

**2.7 Payment of Closing Merger Consideration; Deposit of Escrow Amount.**

(a) U.S. Bank, National Association (or another bank or trust company selected by Parent and reasonably acceptable to the Company) shall serve as the payment agent (the "**Payment Agent**") for the Merger.

(b) On the Closing Date, Parent shall (i) deliver to the Payment Agent an amount of cash in immediately available funds equal to the Closing Merger Consideration to be paid out in exchange for outstanding shares of Company Capital Stock in accordance with the terms of this Agreement, and (ii) deliver to the Escrow Agent an amount of cash in immediately available funds equal to the Escrow Amount to be held by the Escrow Agent as security for the indemnification obligations under **Article VIII** and pursuant to the terms and provisions of the Escrow Agreement and distributed to the Indemnifying Holders or Parent, as the case may be, in accordance with the terms of this Agreement and the Escrow Agreement.

(c) Prior to or, as soon as reasonably practicable following the Closing Date (and in any event no later than five (5) Business Days following the Closing Date), the Company (if prior to Closing) or Parent (if after Closing) shall (or Parent shall cause the Payment Agent) to, mail a letter of transmittal, in the form attached hereto as **Exhibit E-3** (the "**Stockholder Letter of Transmittal**"), including instructions for the surrender of the certificates representing Company Capital Stock, to each Company Stockholder at the address set forth opposite each such Company Stockholder's name on the Payment Spreadsheet. Following the surrender of a stock certificate representing shares of the Company Capital Stock for cancellation to the Payment Agent, together with a Stockholder Letter of Transmittal, duly completed and validly executed in accordance with the instructions thereto, subject to the terms of **Section 2.7(d)** hereof, Parent shall cause the Payment Agent to deliver promptly (and in any event within five (5) Business Days after receipt of the documents described above), in exchange therefor, the amount of the Closing Merger Consideration to which such holder is entitled pursuant to **Section 2.6(b)** hereof, and all stock certificates so surrendered shall be cancelled. Until so surrendered, each stock certificate representing shares of Company Capital Stock outstanding after the Effective Time will be deemed from and for all corporate purposes thereafter, to evidence only the right to receive the portion of the Aggregate Merger Consideration for which such shares of Company Capital Stock shall have been so exchanged. No payments of any portion of the Aggregate Merger Consideration will be made until the holder of Company Capital Stock surrenders his, her or its stock certificate(s) pursuant hereto.

(d) If any portion of the Aggregate Merger Consideration is to be paid to a Person with a name other than that in which the Company Capital Stock certificate surrendered in exchange therefor is registered, it will be a condition of such payment that the certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the Person requesting such exchange will have paid to Parent or any agent designated by it any transfer or other taxes required by reason of the payment of any portion of the Aggregate Merger Consideration in any name other than that of the registered holder of the certificate surrendered, or established to the satisfaction of Parent or any agent designated by it that such tax has been paid or is not payable.

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(e) Notwithstanding anything to the contrary in this **Section 2.7**, neither the Payment Agent, nor the Surviving Corporation, nor any party hereto shall be liable to a holder of shares of Company Capital Stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

2.8 Withholding Taxes. Parent, the Company, the Surviving Corporation, the Payment Agent and the Escrow Agent shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement to any Person such amounts as are required to be deducted or withheld therefrom under any applicable provision of U.S. federal, state or local or non-U.S. Tax law or any applicable legal requirement, and to request and be provided any necessary and validly executed Tax forms, including valid Internal Revenue Service Form W-9 or the appropriate version of Form W-8, as applicable, and any similar information. To the extent such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

2.9 No Further Ownership Rights in Company Capital Stock. The payment of the Aggregate Merger Consideration paid in respect of the surrender for exchange of shares of Company Capital Stock in accordance with the terms hereof shall be deemed to be full satisfaction of all rights pertaining to such shares of Company Capital Stock, and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of Company Capital Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, any stock certificates representing shares of Company Capital Stock are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this **Article II**.

2.10 Lost, Stolen or Destroyed Certificates. In the event any certificates evidencing shares of Company Capital Stock shall have been lost, stolen or destroyed, the Payment Agent shall pay in exchange for such lost, stolen or destroyed certificates, upon the making of an affidavit of that fact by the holder thereof, such amount of the Aggregate Merger Consideration, if any, as may be required pursuant to **Section 2.6(b)** hereof; *provided, however*, that Parent may, in its reasonable discretion or as required by the Payment Agent and as a condition precedent to such payment, require the Company Stockholder who is the owner of such lost, stolen or destroyed certificates to either (a) deliver a bond in such amount as it may reasonably direct, if and only to the extent required by the Payment Agent, or (b) provide an indemnification agreement in a form and substance acceptable to Parent, against any claim that may be made against Parent or the Payment Agent with respect to the certificates alleged to have been lost, stolen or destroyed.

2.11 Taking of Necessary Action; Further Action. If at any time after the Effective Time, any further action is reasonably necessary or desirable to carry out the purposes of this Agreement and to vest the Surviving Corporation with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company, Parent, Merger Sub, and the officers and directors of Parent and Merger Sub are fully authorized in the name of their respective corporations or otherwise to take, and will take, all such lawful and reasonably necessary action.



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ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Subject only to such disclosure and exceptions as are set forth in the disclosure letter delivered by the Company herewith and dated as of the date hereof (the "**Company Disclosure Letter**"), the Company hereby represents and warrants to Parent and Merger Sub as follows:

3.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under Delaware Law, and has full corporate power and authority to conduct its business as presently conducted and to own, use, license and lease its Assets and Properties. The Company is duly qualified or licensed to do business and is in good standing as a foreign corporation in (a) the State of California and (b) in each other jurisdiction in which the ownership, use, licensing or leasing of its Assets and Properties, or the conduct or nature of its business, makes such qualification or licensing necessary, except, in the case of this clause (b), where the Company's failure to be so qualified or licensed would not reasonably be expected to be material to the Company. **Section 3.1** of the Company Disclosure Letter sets forth, as of the date hereof, (i) each jurisdiction where the Company is so qualified, licensed or admitted to do business, and (ii) each other state or country in which the Company owns, uses, or leases its Assets and Properties, or conducts business (other than the sale of Company Products in the Ordinary Course of Business) or has employees. The Company has made available a true, complete and correct copy of the certificate of incorporation and bylaws of the Company, as amended to date (the "**Charter Documents**"). The Company's board of directors has not approved or proposed any amendment to any of the Charter Documents, except as expressly contemplated by this Agreement.

3.2 Company Capital Structure.

(a) The authorized capital stock of the Company consists only of 47,600,000 shares of Company Common Stock, \$0.001 par value, of which 5,174,531 shares are issued and outstanding as of the date hereof, and 31,654,599 shares of Company Preferred Stock, \$0.001 par value, of which (i) 8,266,667 shares are designated Company Series A Preferred Stock, all of which are issued and outstanding as of the date hereof, (ii) 6,364,979 shares are designated Company Series B Preferred Stock, 6,348,051 of which are issued and outstanding as of the date hereof, (iii) 8,704,736 shares are designated Company Series C Preferred Stock, all of which are issued and outstanding as of the date hereof, and (v) 8,318,217 shares are designated Company Series D Preferred Stock, 7,936,508 of which are issued and outstanding as of the date hereof. Each share of Company Preferred Stock is convertible at a 1:1 ratio and there are no outstanding anti-dilution or other adjustments to the respective conversion prices of the Company Preferred Stock. As of the date hereof, the Company Capital Stock is held by the persons listed and in the amounts set forth in **Section 3.2(a)(i)** of the Company Disclosure Letter. All outstanding shares of Company Capital Stock are duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights created by statute, the Charter Documents, or any agreement to which the Company is a party or by which it is bound, and have been issued in compliance with applicable federal, state and foreign securities laws. **Section 3.2(a)(ii)** of the Company Disclosure Letter sets forth, as of the date hereof, all outstanding shares of Unvested Company Common Stock, indicating the name of the applicable Company Stockholder, the vesting schedule (including any acceleration provisions with respect thereto), and the repurchase price payable by the Company. There are no declared or accrued but unpaid dividends with respect to any shares of Company Capital Stock. The Company has no other capital stock authorized, issued or outstanding other than as set forth in this **Section 3.2**.

(b) **Section 3.2(b)(i)** of the Company Disclosure Letter sets forth, as of the date hereof, all issued and outstanding Company Warrants. Except for the Company Option Plan and the award agreements evidencing Company RSUs that were granted outside of the Company Option Plan, the Company has never adopted or maintained any other Company stock option plan or other plan providing for equity compensation (whether payable in stock, cash or other property) of any Person. The Company has not granted any options or other compensation rights to purchase or acquire Company Capital Stock other than pursuant to the Company Option Plan and the award agreements evidencing Company RSUs that were granted outside of the Company Option Plan. The Company has reserved 11,795,450 shares of Company Common Stock for issuance to employees and directors of, and consultants to, the Company

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upon the exercise of options granted and the grant of restricted stock awards and the settlement of restricted stock units under the Company Option Plan, of which (i) 9,637,284 shares are issuable, as of the date hereof, upon the exercise of outstanding, unexercised options (whether vested or unvested) granted under the Company Option Plan, (ii) 1,772,161 shares have been issued, as of the date hereof, upon the exercise of options granted under the Company Option Plan, (iii) 463,400 shares are issuable, as of the date hereof, upon the settlement of outstanding Company RSUs granted under the Company Option Plan, and (iv) 1,792,161 shares of Company Common Stock (some of which shares constitute Unvested Company Common Stock and Company RSUs that have been settled in Company Common Stock as of the date hereof) granted under the Company Option Plan are issued and outstanding on the date hereof. As of the date hereof, 320,000 shares of Company Common Stock are issuable upon the settlement of Company RSUs that were granted outside of the Company Option Plan. **Section 3.2(b)(ii)** of the Company Disclosure Letter sets forth for each outstanding Company Option, each share of Unvested Company Common Stock and each Company RSU, the name of the holder of such option, share of Unvested Common Stock or Company RSU, whether such holder is an employee of the Company or not an employee, the number of shares of Company Capital Stock issuable upon the exercise of such Company Option, vesting of Unvested Common Stock or settlement of Company RSUs, the exercise price of such Company Option, the vesting schedule for such Company Option, restricted shares or Company RSUs (including any acceleration provisions with respect thereto), including the extent unvested and vested to date, and whether such option is intended to qualify as an incentive stock option as defined in Section 422 of the Code. All Company Options, Company RSUs and shares of Unvested Company Common Stock have been issued in compliance with all applicable federal, state and foreign securities laws. Except for the Company Options, Unvested Company Common Stock and Company RSUs set forth in **Section 3.2(b)(ii)** of the Company Disclosure Letter, there are no options, warrants, calls, rights, commitments or agreements of any character, written or oral, to which the Company is a party or by which it is bound obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of the Company or obligating the Company to grant, extend, accelerate the vesting of, change the price of, otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. The forms of agreement pursuant to which such Company Options, Company RSUs and shares of Unvested Company Common Stock have been issued have been made available to Parent, and **Section 3.2(b)(ii)** of the Company Disclosure Letter indicates which holders of Company Options, Company RSUs and shares of Unvested Company Common Stock have executed which form of agreement. There are no other outstanding or authorized stock appreciation, phantom stock, profit participation or other similar equity-based rights (whether payable in stock, cash or other property) with respect to the Company. True and complete copies of all standard form agreements and all other instruments and agreements that deviate in any material respect from such form agreements relating to or issued under the Company Option Plan have been made available to Parent and such agreements and instruments have not been amended, modified or supplemented, and there is no Contract to amend, modify or supplement such agreements or instruments in any case from the form made available to Parent.

(c) Except for (i) the Company's Fourth Amended and Restated Certificate of Incorporation, as amended, (ii) that certain Third Amended and Restated Voting Agreement, dated as of September 9, 2010, by and among the Company and the other parties specified therein, and (iii) that certain Voting Agreement, dated April 22, 2010, by and between the Company and Radoslav Danilak, there are no voting trusts, proxies, or other agreements or understandings with respect to voting of the Company Capital Stock.

(d) **Section 3.2(d)** of the Company Disclosure Letter sets forth the outstanding principal, accrued interest and applicable rate of interest on all loans outstanding on the date hereof from any Company Stockholder to the Company, including any and all debt securities, whether or not convertible into shares of Company Capital Stock.

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(e) The Payment Spreadsheet, including the allocation of the Aggregate Merger Consideration set forth therein, will, when delivered at Closing, be accurate and consistent with the Company's Charter Documents in effect as of immediately prior to the Effective Time.

3.3 Subsidiaries. **Section 3.3** of the Company Disclosure Letter lists all Subsidiaries of the Company. The Company does not have, and has never had, any other Subsidiaries or affiliated companies and does not otherwise own, and has never otherwise owned, any shares of capital stock or any interest in, or control, directly or indirectly, any other Person or have any ongoing obligation to purchase any shares of capital stock or other ownership interests with respect thereto.

3.4 Directors and Officers. The names of each director and officer of the Company on the date hereof, and his or her position with the Company, as the case may be, are listed in **Section 3.4** of the Company Disclosure Letter.

3.5 Authority; Enforceability.

(a) The Company has all requisite corporate power and authority to enter into this Agreement and the other Transaction Agreements to which it is a party and, subject to obtaining the Requisite Stockholder Approval, to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, and no further action is required on the part of the Company to authorize this Agreement and the transactions contemplated hereby, subject only to receipt of the Requisite Stockholder Approval. The Requisite Stockholder Approval is the only approval of the Company Stockholders that is necessary to adopt this Agreement under applicable law, the Company's Charter Documents and any Contract to which the Company is a party. As of the date hereof, the board of directors of the Company has unanimously (i) approved and deemed advisable this Agreement, the Escrow Agreement, the Merger and the other transactions contemplated hereby and thereby, (ii) determined that this Agreement, the Merger and the other transactions contemplated hereby and thereby are in the best interests of the Company and the Company Stockholders and are on terms that are fair to the Company Stockholders and (iii) recommended that the Company Stockholders adopt this Agreement for all purposes under Delaware Law, the Charter Documents and any Contracts between or among the Company and any Company Stockholders.

(b) This Agreement, the Escrow Agreement and the agreements contemplated hereby and thereby to which the Company is or will be a party have been or will be duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute or will constitute the valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to (i) laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, the relief of debtors and enforcement of creditors' rights in general, and (ii) rules of law governing specific performance, injunctive relief, other equitable remedies and other general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

3.6 No Conflict. The execution and delivery by the Company of this Agreement does not, and the consummation of the transactions contemplated hereby will not conflict with or result in any violation of or default under (with or without notice or lapse of time, or both), require any notice under, or

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give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (any such event, a "**Conflict**") (i) any provision of the Charter Documents, (ii) any Material Contract to which the Company is a party or by which the Company or any of its Assets or Properties (whether tangible or intangible) is subject, or (iii) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any of its Assets and Properties.

3.7 Consents. Assuming that the representations and warranties of Parent in **Section 4.4** hereof are true and correct, no consent, notice, waiver, approval, order or authorization of, or registration, declaration or filing with any Governmental Authority is required by or with respect to the Company in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and (ii) the filing of the Notification and Report Forms with the United States Federal Trade Commission ("**FTC**") and the Antitrust Division of the United States Department of Justice ("**DOJ**") required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (the "**HSR Act**") and the expiration or termination of the applicable waiting period under the HSR Act and such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings as may be required under the foreign merger control regulations identified on **Section 3.7** of the Company Disclosure Letter.

### 3.8 Company Financial Statements.

(a) **Section 3.8(a)** of the Company Disclosure Letter sets forth (i) the Company's audited balance sheet as of December 31, 2009 and unaudited balance sheet as of December 31, 2010, and the related statements of income and cash flows and stockholders' equity for the twelve month periods then ended, and (ii) a balance sheet as of September 30, 2011 and the related unaudited statements of income and cash flows and stockholders' equity for the nine month period then ended (collectively, the "**Company Financial Statements**"). The Company's unaudited balance sheet as of September 30, 2011 is referred to herein as the "**Current Balance Sheet**."

(b) The Company Financial Statements (i) were derived from and are consistent in all material respects with the books and records of the Company, (ii) have been prepared in accordance with, and otherwise comply as to form with, GAAP applied on a consistent basis throughout the periods indicated and consistent with each other (except that the unaudited Company Financial Statements do not contain footnotes and other presentation items that may be required by GAAP, and are subject to normal year-end adjustments) and (iii) fairly present in all material respects, the consolidated financial condition of the Company at the dates therein indicated and the consolidated results of operations, cash flows and stockholders' equity of the Company for the periods therein specified. Since the date of the Current Balance Sheet, there has been no change in any accounting policies, principles, methods or practices, including any change with respect to reserves (whether for bad debts, contingent liabilities or otherwise), of the Company.

(c) Except for Liabilities reflected in the Current Balance Sheet, the Company has no "off balance sheet" Liability to, or any financial interest in, any third party or entities, the purpose of which is to defer, postpone, reduce or otherwise avoid or adjust the recording of debt or other Liability expenses of the Company.

(d) The Company has established guidelines and general practices for maintaining, adhering and enforcing a system of internal accounting controls appropriate for a Person of the Company's size and stage of development.

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(e) Neither the Company nor any director or officer of the Company, nor, to the Company's Knowledge, the Company's independent auditors or any current or former employee or consultant of the Company, has identified or been made aware of any fraud, whether or not material, that involves the Company's management or other current or former employees, consultants or directors of the Company who have (or had, as the case may be) a material role in the preparation of financial statements utilized by the Company, or any claim or allegation regarding any of the foregoing. No attorney representing the Company, whether or not employed by the Company, has reported to the board of directors of the Company or any committee thereof or to any director or officer of the Company evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by the Company or any of their respective officers, directors, employees or agents.

(f) **Section 3.8(f)** of the Company Disclosure Letter contains a true and correct list of all Indebtedness of the Company, including, for each item of Indebtedness for borrowed money, the name of the primary Contract governing such Indebtedness (which Contract shall have been made available to Parent) and a list of any Assets or Properties securing such Indebtedness. All Indebtedness of the Company for borrowed money may be prepaid at the Closing without penalty under the terms of the Contracts governing such Indebtedness.

3.9 No Undisclosed Liabilities. The Company does not have any Liability (whether or not required to be reflected on or reserved against in financial statements that are prepared in accordance with GAAP), except for (a) Liabilities that are reflected on or reserved against in the Current Balance Sheet (including the notes thereto), (b) Liabilities that have arisen in the Ordinary Course of Business since the date of the Current Balance Sheet and prior to the date hereof, (c) performance obligations under executory Contracts that are listed in the Company Disclosure Letter, which obligations are apparent on the face of such Contracts, (d) Liabilities and other obligations that arise (i) subsequent to the date hereof, (ii) in the Ordinary Course of Business, and (iii) other than as a result of a violation of **Section 5.1**, and (e) any Transaction Expenses.

3.10 No Changes. From the date of the Current Balance Sheet through the date hereof, (i) the Company has operated its business in the Ordinary Course of Business, (ii) no Company Material Adverse Effect has occurred and (iii) there has not been, occurred or arisen any:

(a) agreement or arrangement to enter into any Contract involving a strategic alliance, joint development or joint marketing arrangement;

(b) amendments or changes to the Charter Documents;

(c) capital expenditure or commitment by the Company to make capital expenditures in each case exceeding \$75,000 individually or \$750,000 in the aggregate;

(d) payment, discharge or satisfaction, of any material Liability (whether fixed or accrued, absolute or contingent, matured or unmatured, determined or determinable, known or unknown, or otherwise), other than in the Ordinary Course of Business;

(e) destruction of, damage to, or loss of any material assets (whether tangible or intangible), material business or Significant Customer of the Company (whether or not covered by insurance);

(f) change in accounting policies or procedures (including any change in revenue recognition, reserves for excess or obsolete inventory, doubtful accounts or other reserves, or depreciation or amortization policies or rates) by the Company other than any audit-related adjustments that Company has implemented or as required by GAAP;

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(g) change in any material Tax election, adoption or change of any Tax accounting method, entry into any Tax allocation agreement, Tax sharing agreement, Tax indemnity agreement or closing agreement in respect of Taxes, settlement or compromise of any material Tax claim or assessment, or consent to any extension or waiver of the limitation period applicable to any material Tax claim or assessment;

(h) revaluation by the Company of any of its assets (whether tangible or intangible), other than any audit-related adjustments that the Company has implemented or as required by GAAP;

(i) declaration, setting aside or payment of a dividend or other distribution (whether in cash, stock or property) in respect of any Company Capital Stock, or any split, combination or reclassification in respect of any shares of Company Capital Stock, or any issuance or authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of Company Capital Stock, or any direct or indirect repurchase, redemption, or other acquisition by the Company of any shares of Company Capital Stock (or options, warrants or other rights convertible into, exercisable or exchangeable therefor), except in accordance with the agreements evidencing Company Options, Company RSUs and Company Warrants, and except for awards of Company Options and Company RSUs set forth on **Section 3.2(b)(ii)** of the Company Disclosure Letter;

(j) increase in the salary or other compensation payable or to become payable by the Company to any of its current Employees (other than increases made in the Ordinary Course of Business with respect to employees with a base salary, following such increase, of less than \$150,000), or the declaration, payment or commitment or obligation of any kind for the payment by the Company of a severance payment, change in control payment, termination payment, bonus or other additional salary or compensation to any such Person;

(k) hiring or termination of any Employee earning more than \$150,000 per year, promotion, demotion or other change to the employment status or title of any officer of the Company or resignation or removal of any director of the Company;

(l) any termination or, other than in the Ordinary Course of Business, extension, amendment, waiver or modification of the terms, of any Material Contract;

(m) action to accelerate the vesting schedule of any Company Options, Company Warrants or Unvested Company Common Stock;

(n) except in the Ordinary Course of Business, any sale, lease, sublease or other disposition of any of the Assets and Properties of the Company, including the sale of any accounts receivable of the Company, or any creation of any Lien (other than Permitted Liens) in such assets or properties;

(o) loan by the Company to any Person (except for reasonable advances to current employees for travel and business expenses in the Ordinary Course of Business), incurring by the Company of any Indebtedness for money borrowed, guarantee by the Company of any Indebtedness for money borrowed, issuance or sale of any debt securities of the Company or guarantee of any debt securities of others;

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(p) waiver or release of any right or claim, including any write off, discount or other compromise of any material account receivable;

(q) commencement, settlement, notice or, to the Company's Knowledge, threat of, any lawsuit or proceeding or other investigation (to the Company's Knowledge) against the Company or its affairs;

(r) written notice of any claim or potential claim of ownership by any Person other than the Company of the Company Intellectual Property or of infringement by the Company of any other Person's Intellectual Property Rights;

(s) issuance or sale, or contract to issue or sell, by the Company of any shares of Company Capital Stock or securities convertible into, or exercisable or exchangeable for, shares of Company Capital Stock, or any securities, warrants, options or rights to purchase any of the foregoing, except for issuances of Company Options and or Company Capital Stock upon the exercise of Company Options, Company RSUs or Company Warrants or the conversion of the Company Preferred Stock;

(t) (i) sale of any material Company Intellectual Property Rights, or (ii) purchase of any Intellectual Property Rights (other than the assignment of Intellectual Property Rights in connection with development for the Company performed by a third Person), (iii) agreement with respect to the development of any Intellectual Property Rights with a third party outside the Ordinary Course of Business, or (iv) change in pricing or royalties set or charged by the Company to its customers or licensees or in pricing or royalties set or charged by persons who have licensed Intellectual Property Rights to the Company outside the Ordinary Course of Business; or

(u) binding written or oral agreement by the Company, or any officer or employee on behalf of the Company, to do any of the things described in the preceding clauses (a) through (t), inclusive, of this **Section 3.10** (other than negotiations with Parent and its representatives regarding the transactions contemplated by this Agreement).

### 3.11 Tax Matters.

(a) The Company has prepared and timely filed all material U.S. federal, state and local and non-U.S. returns, estimates, information statements and reports ("**Returns**") required to be filed by it and relating to any and all Taxes concerning or attributable to the Company or its operations, and such Returns are true and correct in all material respects.

(b) The Company has paid all Taxes required to be paid (whether or not shown on a Return) and has withheld or paid with respect to its Employees, stockholders and other third-parties (and timely paid over to the appropriate taxing authority) all U.S. federal and state and non-U.S. income taxes, state and local sales taxes, social security charges and similar fees, Federal Insurance Contribution Act amounts, Federal Unemployment Tax Act amounts and other Taxes required to be withheld or paid by it.

(c) The Company is not delinquent in the payment of any Tax, nor is there any Tax deficiency outstanding, assessed or proposed against the Company, nor has the Company executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax.

(d) No audit or other examination of any Return of the Company is presently in progress, nor has the Company been notified of any request for such an audit or other examination. No adjustment relating to any Return filed by the Company has been proposed by any taxing authority to the Company or any representative thereof.

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(e) No claim has ever been made by a taxing authority in a jurisdiction where the Company does not file Returns that it is or may be subject to taxation by that jurisdiction.

(f) The Company has not incurred any liability for Taxes since the date of the Current Balance Sheet other than in the Ordinary Course of Business.

(g) The Company has made available to Parent copies of all income and other material Returns for the Company filed for all taxable periods beginning on or after January 1, 2008.

(h) There are no Liens on the assets of the Company relating to or attributable to Taxes other than statutory Liens for Taxes that are not yet due and payable or the validity of which are being contested in good faith by appropriate proceedings and which have been reserved for on the appropriate financial statements of the Company in accordance with GAAP.

(i) The Company (i) has never been a member of an affiliated group (within the meaning of Section §1504(a) of the Code) filing a consolidated federal income Tax Return (other than a group the common parent of which was Company), (ii) has never been a party to any Tax sharing, indemnification or allocation agreement, nor does the Company owe any amount under such agreement, except for loan agreements, leases and other agreements entered into in the Ordinary Course of Business not primarily related to Taxes, (iii) has no liability for the Taxes of any Person (other than Company or any of its Subsidiaries) under Treas. Reg. § 1.1502-6 (or any similar provision of state, local or non-U.S. law, including any arrangement for group or consortium Tax relief within a jurisdiction or similar arrangement), as a transferee or successor, by contract or agreement, by operation of law or otherwise, other than loan agreements, leases and other agreements entered into in the Ordinary Course of Business not primarily related to Taxes and (iv) has never been a party to any joint venture, partnership or other arrangement that would be treated as a partnership for Tax purposes.

(j) The Company has never been, at any time, a "United States Real Property Holding Corporation" within the meaning of Section 897(c)(2) of the Code.

(k) The Company has not constituted either a "distributing corporation" or a "controlled corporation" in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code.

(l) The Company is not subject to Tax in any country other than its country of incorporation or formation by virtue of having a permanent establishment, place of business or a source of income in that country.

(m) The Company has not engaged in a reportable transaction under Treas. Reg. § 1.6011-4(b), including any transaction that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction, as set forth in Treas. Reg. § 1.6011-4(b)(2).

(n) The prices for any property or services (or for the use of any property) provided by or to the Company are arm's length prices for purposes of all applicable transfer pricing laws, including Treasury Regulations promulgated under Section 482 of the Code.



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(o) The Company is in compliance with all terms and conditions of any Tax exemption, Tax holiday or other Tax reduction agreement or order (each, a "**Tax Incentive**") and the consummation of the transactions contemplated by this Agreement will not have any adverse effect on the continued validity and effectiveness of any such Tax Incentive.

(p) The Company uses the accrual method of accounting for income Tax purposes.

(q) The Company will not be required to include any income or gain or exclude any deduction or loss from income for any taxable period or portion thereof after the Closing as a result of any (i) change in method of accounting made prior to the Closing under Section 481(c) of the Code, (ii) closing agreement under Section 7121 of the Code executed prior to the Closing (or in the case of each of (i) and (ii), under any similar provision of applicable law), (iii) installment sale or open transaction disposition made prior to the Closing, or (iv) prepaid amount received prior to the Closing.

(r) All outstanding Unvested Company Common Stock resulted from the early exercise of incentive stock options within the meaning of Section 422 of the Code.

3.12 Restrictions on Business Activities. There is no Contract, judgment, injunction, order or decree to which the Company is a party or otherwise binding upon the Company that has, or may reasonably be expected to have, the effect of prohibiting or impairing in any material respect any business practice of the Company, any acquisition of property (tangible or intangible) by the Company, the conduct of business by the Company, or otherwise limiting the freedom of the Company to engage in any line of business or to compete with any Person. Without limiting the generality of the foregoing, the Company has not entered into any agreement under which the Company is restricted from selling, licensing or otherwise distributing any technology or products or from providing services to customers or potential customers or any class of customers, in any geographic area, during any period of time, or in any segment of any market.

3.13 Title to Properties; Absence of Liens and Encumbrances; Condition of Equipment.

(a) The Company does not own any real property, nor has the Company ever owned any real property. **Section 3.13(a)** of the Company Disclosure Letter sets forth a list of all real property currently leased by the Company or otherwise used or occupied by the Company for the operation of its businesses (the "**Leased Real Property**").

(b) The Company has made available to Parent true, correct and complete copies of all leases, lease guaranties, subleases, agreements for the leasing, use or occupancy of, or otherwise granting a right in or relating to the Leased Real Property, including all amendments, terminations and modifications thereof (the "**Lease Agreements**"); and there are no other Lease Agreements affecting any Leased Real Property and to which Company is bound. Each Lease Agreement constitutes the entire agreement of the landlord and the tenant thereunder, and no material term or condition thereof has been modified, amended or waived except as shown in the copies of the Lease Agreements that have previously been made available by the Company to Parent. The Company has not transferred or assigned any interest in any such Lease Agreement, nor has the Company subleased or otherwise granted rights of use or occupancy of any of the premises described therein to any other Person. All Lease Agreements are valid and enforceable (subject to (i) laws of general application relating to bankruptcy, insolvency, moratorium, the relief of debtors and enforcement of creditors' rights in general, and (ii) rules of law governing specific performance, injunctive relief, other equitable remedies and other general principles of equity, regardless of whether such enforceability is considered in a proceeding at law or in equity). The Company is not in material default of any Lease Agreement, no rentals are past due, and no circumstance

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exists, which, with notice, the passage of time or both, could constitute a material default under any Lease Agreement. The Company has not received any written notice of a material default, alleged failure to perform, or any offset or counterclaim with respect to any Lease Agreement, which has not been fully remedied and withdrawn. The consummation of the transactions contemplated hereby will not affect the enforceability against any Person of any Lease Agreement or the rights of the Company or the Surviving Corporation under any Lease Agreement.

(c) The Leased Real Property and all of its operating systems are suitable for the conduct of the business in the Ordinary Course of Business. No law, ordinance, regulation or restriction is, or as of the Closing Date will be, violated by the continued occupancy, maintenance, operation or use of any Leased Real Property in its present manner. No Lease Agreement will require the Company to incur costs or expenses in excess of \$100,000 for restoration of the premises subject to such Lease Agreement upon termination of such Lease Agreement.

(d) The Company has good and valid title to, or, in the case of leased properties and assets, valid leasehold interests in, all of the personal properties and assets, used, held for use in and/or necessary for the conduct of the business of the Company as currently conducted, free and clear of any Liens, except (i) as reflected in the Current Balance Sheet, (ii) such imperfections of title and encumbrances, if any, that do not detract from the value or interfere with the present use of the property subject thereto or affected thereby, and (iii) Permitted Liens.

(e) **Section 3.13(e)(i)** of the Company Disclosure Letter lists, as of the date hereof, all fixed assets of the Company, including all material items of equipment (collectively the "**Equipment**") owned or leased by the Company, and such Equipment is (i) adequate for the conduct of the business of the Company as currently conducted, and (ii) in good operating condition, regularly and properly maintained, subject to normal wear and tear. **Section 3.13(e)(ii)** of the Company Disclosure Letter lists, as of the date hereof, all servers and computer equipment having an initial purchase price or leasehold value in excess of \$50,000 per item owned or leased by the Company.

(f) The Company has sole and exclusive ownership, free and clear of any Liens (other than Permitted Liens), of all customer lists, customer contact information, customer correspondence and customer licensing and purchasing histories relating to its current and former customers (the "**Customer Information**"). No Person other than the Company possesses any claims or rights with respect to use of the Customer Information. For purposes of this **Section 3.13(f)**, "customer" shall not, in all cases, refer to the "end user" of any Company product, but shall instead refer to a Person that purchases any Company product or service from the Company (which, for avoidance of doubt, may include distributors, resellers and similar Persons in the chain of commerce other than the product end user).

#### 3.14 Intellectual Property.

(a) **Section 3.14(a)** of the Company Disclosure Letter contains a complete and accurate list (by name and version number) of (A) all devices, processors, products, software or service offerings that have been sold, distributed, made commercially available, provided or otherwise offered for sale or supported by or for the Company within thirty six (36) months of the date hereof, and (B) all devices, processors, products, software or service offerings which the Company, as of the date hereof, plans to sell, distribute, make commercially available, provide or otherwise offer in the twelve (12) months following the date hereof, including any products or service offerings under development (collectively, "**Company Products**").

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(b) **Section 3.14(b)** of the Company Disclosure Letter lists all Registered Intellectual Property owned by, filed in the name of, or applied for, by the Company (the "**Company Registered Intellectual Property**") and lists any proceedings or actions before any court, tribunal (including the United States Patent and Trademark Office (the "**PTO**") or equivalent authority anywhere in the world) related to any of the Company Registered Intellectual Property or other Company Intellectual Property as of the date hereof. Each item of Company Registered Intellectual Property is currently in compliance with all formal legal requirements (including payment of filing, examination and maintenance fees and proofs of use). Company has not taken or failed to take any action (including failure to disclose any information) that would limit the validity, scope or enforceability of any Patents that are Company Registered Intellectual Property. All necessary documents and certificates currently due for filing as of the date hereof in connection with such Company Registered Intellectual Property have been filed with the relevant Patent, Copyright, Trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Registered Intellectual Property. There are no actions that must be taken by the Company within one hundred twenty (120) days following the date hereof, including the payment of any registration, maintenance or renewal fees or the filing of any responses to PTO office actions, documents, applications or certificates for the purposes of obtaining, maintaining, perfecting or preserving or renewing any Registered Intellectual Property. The Company has claimed "small business status" in the application for or registration of any Registered Intellectual Property in accordance with applicable laws. The Company owns, licenses or otherwise has the necessary rights to the Mask Works for all Company Products that are semiconductors.

(c) Except for pending Patent or Trademark applications, as of the date hereof, no Company Intellectual Property or Company Product is subject to any proceeding or outstanding decree, order, judgment or settlement agreement or stipulation that materially restricts the use, transfer, provision, sale or licensing thereof by the Company or may materially affect the validity, use or enforceability of such Company Intellectual Property or Company Products.

(d) In each case in which the Company has acquired or purported to acquire ownership of any Technology or Intellectual Property Right from any Person, the Company has obtained a valid and enforceable assignment sufficient to irrevocably transfer all rights in such Technology and the associated Intellectual Property Rights to the Company and all such Contracts currently in effect as of the date hereof are listed in **Section 3.14(k)(i)** of the Company Disclosure Letter.

(e) All Company Intellectual Property is, and, as of immediately following the Effective Time will be, fully transferable, alienable or licensable by Surviving Corporation and/or Parent without restriction and without payment of any kind to any third Person. Each item of Company Intellectual Property is free and clear of any Liens except for non exclusive licenses to use Company Products granted to end user customers in the ordinary course of business and consistent with past practices and Permitted Liens. No Intellectual Property Rights are owned jointly by Company and any third Person.

(f) The Company has not transferred ownership of, or granted any exclusive license of or right to use, or authorized the retention of any exclusive rights to use or joint ownership of, any Intellectual Property Rights that are or were Company Intellectual Property Rights to any other Person.

(g) All Technology that is used in or constitutes a part of any Company Product was created or developed by employees of the Company acting within the scope of their employment (or non-employees who have executed valid and enforceable assignments transferring all right, title and interest in and to such Technology and Intellectual Property Rights therein to the Company) and all Intellectual Property Rights therein are owned by the Company. No Person who has licensed any Technology or Intellectual Property Rights to the Company has ownership rights or license rights to improvements or modifications made by the Company in or to such Technology or Intellectual Property Rights.

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(h) **Section 3.14(h)** of the Company Disclosure Letter identifies, as of the date hereof, for each Company Product, all Technology and Intellectual Property Rights, other than Company Intellectual Property, that are embodied in, incorporated into, combined with or distributed in conjunction with such Company Product, and for each such item of Technology or Intellectual Property Rights, the Inbound License Agreement pursuant to which Company receives rights to such Technology or Intellectual Property Rights.

(i) All Company Intellectual Property, together with all material Technology and Intellectual Property Rights licensed to the Company under the Inbound License Agreements set forth in **Section 3.14(k)** of the Company Disclosure Letter, collectively constitute all the Technology and Intellectual Property Rights used in and/or necessary to the conduct of the business of the Company as it currently is conducted and, to the Knowledge of the Company, as proposed to be conducted, including the design, development, manufacture, use, import, sale, distribution and provision of Company Products.

(j) The operation of the business of the Company as it is currently conducted, and as proposed to be conducted by the Company, including but not limited to the design, development, use, import, branding, advertising, promotion, marketing, manufacture, sale, distribution and provision of Company Products, does not (and will not when conducted by Parent and/or Surviving Corporation in substantially the same manner following the Closing) infringe or misappropriate any Intellectual Property Right of any Person, violate any right of any Person (including any right to privacy or publicity), or constitute unfair competition or trade practices under the laws of any jurisdiction, and the Company has not received notice from any Person claiming that such operation or any act, product, Technology or service (including any Company Products) of the Company infringes or misappropriates any Intellectual Property Right of any Person, violates any right of any Person (including any right to privacy or publicity) or constitutes unfair competition or trade practices under the laws of any jurisdiction (nor does the Company have Knowledge of any basis therefor).

(k) **Section 3.14(k)(i)** of the Company Disclosure Letter lists all Contracts to which the Company is a party, as of the date hereof, that grant the Company any license, ownership rights, options to, or other rights in or to any Technology or Intellectual Property Rights owned of a third Person or under which the Company receive services related to Software or other Technology (collectively, "**Inbound Licenses**"), other than Contracts pursuant to which the Company has received a license to commercially available Software, for less than \$10,000 and which Software is not incorporated in a Company Product). **Section 3.14(k)(ii)** of the Company Disclosure Letter lists all Contracts, to which the Company is a party, as of the date hereof, under which Company grants any third Person license or other rights in or to any Technology or Intellectual Property Rights or provides any service to any third Person (collectively, "**Outbound Licenses**"; together with the Inbound Licenses, the "**IP Licenses**") other than non-exclusive end- user licenses to customers for Company Products pursuant to a Standard Form Agreement). The Company is not in material breach of, nor has the Company materially failed to perform under, any IP License and, to the Knowledge of the Company, no other party to any such IP License is in material breach thereof or has failed to perform thereunder. Following the Closing and any Follow-On Transaction, both the Parent and the Surviving Corporation will be permitted to exercise all of the Company's rights and receive all of the Company's benefits (including payments) under the terms of such IP Licenses to the same extent the Company would have been able had the transactions contemplated by this Agreement not occurred and without the payment of any additional amounts or consideration other than the ongoing fees, royalties or other payments that the Company would otherwise have been required to pay had the transactions contemplated by this Agreement not occurred.

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(l) **Section 3.14(l)** of the Company Disclosure Letter lists all Contracts between the Company and any other Person wherein or whereby the Company has agreed to, or assumed, any obligation or duty to warrant, indemnify, reimburse, hold harmless, guaranty or otherwise assume or incur any obligation or liability or provide a right of rescission with respect to the infringement or misappropriation by the Company or such other Person of the Intellectual Property Rights of any Person other than the Company, other than Contracts that conform in form and substance to the Company's standard form sales agreement (as copy of which has been made available to Parent), pursuant to which Company has sold Company Products in the Ordinary Course of Business.

(m) There are no Contracts between the Company and any other Person with respect to any Technology or Intellectual Property Rights, including under any IP License, under which there is any dispute regarding the scope of such Contract, or performance under such Contract, including with respect to any payments to be made or received by the Company thereunder.

(n) To the Knowledge of the Company, no Person is infringing or misappropriating any material Company Intellectual Property Rights.

(o) The Company has taken all steps that are reasonably required to protect the confidential information and trade secrets of the Company and Company's rights therein and to protect the confidential information and Trade Secrets provided by any other Person to the Company. All Employees of the Company have signed the Company's standard form of Invention Assignment and Confidentiality Agreement, which is attached to **Section 3.14(o)** of the Company Disclosure Letter, and such agreement includes enforceable terms pursuant to which all Technology and Intellectual Property Rights developed by such employees within the scope of their employment or other duties to Company are assigned to Company.

(p) Neither this Agreement nor the transactions contemplated by this Agreement, including the assignment to Parent or Surviving Corporation, by operation of law or otherwise, of any Contracts to which the Company is a party, or a Follow-On Transaction will result, because of any Contract to which Company is a party, in (i) either Parent or the Surviving Corporation granting to any third Person any right to or with respect to any Technology or Intellectual Property Right owned by, or licensed to, either of them, (ii) either Parent or the Surviving Corporation being bound by, or subject to, any non compete or other restriction on the operation or scope of their respective businesses, or (iii) either Parent or the Surviving Corporation being obligated to pay any royalties or other amounts to any third Person in excess of those payable by Parent or the Company, respectively, prior to the Closing.

(q) Except as set forth in **Section 3.14(q)** of the Company Disclosure Letter, the Company is not a member of, and has not actively participated in, any organization, body or group which is engaged in or which has, or is in the process of, setting, establishing or promulgating any industry or product standards or the terms under which Intellectual Property Rights will be licensed. The Company has not committed to, and is not obligated or bound to license any current or future Company Intellectual Property to any third Person.

(r) Neither any Company Product, nor any Technology offered, sold or distributed by Company, includes any Open Source Materials or is subject to the terms of any Open Source Agreement.

(s) All products including Company Products that are sold, licensed, leased or delivered by the Company to customers and all services provided by or through the Company to customers on or prior to the Closing conform in all material respects to applicable contractual

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commitments. No Company Product is or has been subject to any recall or epidemic failure. Copies of all current and prior standard form agreements for the sale of Company Products (collectively, "**Standard Form Agreements**"), including any standard terms of use for Company Products offered through the Company's Internet website, are attached to **Section 3.14(s)** of the Company Disclosure Letter, and to the Company's Knowledge, the Company is not in material breach of, nor has the Company materially failed to perform under, such agreements, and, to the Knowledge of the Company, no other party to any such agreement is in breach thereof or has failed to perform thereunder.

(t) No (i) government funding; (ii) facilities of a university, college, other educational institution or research center; or (iii) funding from any Person (other than funds received in consideration for Company Capital Stock) was used in the development of the Technology and Intellectual Property Rights owned by the Company. To the Knowledge of the Company, no current or former Employee of the Company, who was involved in, or who contributed to, the creation or development of any Company Intellectual Property, has performed services for any government, university, college or other educational institution or research center during a period of time during which such employee, consultant or independent contractor was also performing services for the Company.

(u) Neither the Company nor any other Person acting on its behalf has disclosed, delivered or licensed to any Person, agreed to disclose, deliver or license to any Person, or permitted the disclosure or delivery to any escrow agent or other Person of, any Company Source Code or the mask works for any Company Product (other than the disclosure of mask works to the manufacturers of Company Products). No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the disclosure or delivery by the Company or any Person acting on their behalf to any Person of any Company Source Code or the mask works for any Company Product (other than the disclosure of mask works to the manufacturers of Company Products). **Section 3.14(u)** of the Company Disclosure Letter identifies, as of the date hereof, each contract pursuant to which the Company has deposited, or is or may be required to deposit, with an escrow holder or any other Person, any Company Source Code or the mask works for any Company Product, and describes whether the execution of this Agreement or the consummation of the Merger or any of the other transactions contemplated by this Agreement, in and of itself, would reasonably be expected to result in the release from escrow of any Company Source Code.

(v) The Company has complied in all material respects with all applicable laws (including all laws of the U.S. and the E.U.) and its internal privacy policies relating to (i) the privacy of users of their products and services and all Internet websites owned, maintained or operated by the Company, and (ii) the collection, storage and transfer of any personally identifiable information collected by the Company or by third parties having authorized access to the records of the Company. Copies of all current and prior privacy policies of the Company, including the privacy policies included in the Company's Internet website, have been made available to Parent.

### 3.15 Agreements, Contracts and Commitments.

(a) Except as set forth in **Section 3.15(a)** of the Company Disclosure Letter (specifying the appropriate paragraph), as of the date of this Agreement, the Company is not a party to, nor is it bound by (any Contract of a nature described below to which the Company is a party or otherwise bound being referred to herein as a "**Material Contract**") and, collectively, as the "**Material Contracts**"):

(i) nor is its Subsidiary a party to or bound by, (A) any Employee Agreement required to be listed on **Section 3.23(a)** of the Company Disclosure Letter and containing a

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commitment to grant any change in control payment, severance or other termination-related payment (whether payable in securities, cash or otherwise), other than Company Options or Company RSUs, or (B) any Employee Agreement required to be listed on **Section 3.23(a)** of the Company Disclosure Letter and which cannot be terminated without cause at the discretion of the Company or its Subsidiary, as applicable;

(ii) nor is its Subsidiary a party to or bound by, any agreement, policy, past practice or plan (including any stock plan, stock appreciation rights plan or stock purchase plan or other equity compensation arrangements (whether payable in securities, cash or otherwise)) any of the benefits of which will be provided or could be increased, or the vesting of benefits of which could be accelerated, by the occurrence of any of the transactions contemplated by this Agreement, either alone or upon the occurrence of additional or subsequent events (except as required by this Agreement) or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement, either alone or upon the occurrence of additional or subsequent events;

(iii) any agreement providing for the sale or other issuance of any Company Capital Stock;

(iv) all IP Licenses;

(v) any lease of tangible personal property providing for annual payments in excess of \$50,000 individually or \$200,000 in the aggregate;

(vi) any agreement, contract or commitment relating to capital expenditures and involving future payments in excess of \$75,000 individually or \$750,000 in the aggregate;

(vii) any agreement, contract or commitment relating to the disposition or acquisition of assets or any interest in any business enterprise outside the Ordinary Course of Business;

(viii) any mortgages, indentures, guarantees, loans or credit agreements, security agreements or other agreements or instruments relating to Indebtedness, the borrowing of money, extension of credit or security interest;

(ix) any pending purchase order or contract for the purchase of materials or services by the Company involving in excess of \$75,000 individually or \$750,000 in the aggregate;

(x) any powers of attorney;

(xi) any standstill or similar Contract;

(xii) any Contracts providing for currency exchange, commodities or other similar hedging transactions;

(xiii) any Contract granting any exclusive rights, rights of first refusal or other similar rights, price protection, "most favored nation" or similar provisions, or otherwise limiting the rights of the Company to sell distribute or manufacture any products or services;

(xiv) any Tax allocation, sharing, indemnity or closing agreement or other similar Contract;

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(xv) any agreements with any Governmental Authority;

(xvi) any partnership, joint venture, strategic alliance or similar Contract;

(xvii) any Contract to which an Interested Party is a party;

(xviii) any Contract involving the settlement of litigation or other similar claims;

(xix) any dealer, distribution, joint marketing, development agreement, sales representative, original equipment manufacturer, value added, remarketer, reseller, or independent software vendor, or other agreement for marketing, sales, provision or distribution of the Company's products, technology or services; or

(xx) any other agreement, Contract or commitment, including any service, operating or management agreement or arrangement with respect to any of the Company's properties (whether leased or owned), that involves annual payments in excess of \$75,000 individually or \$750,000 in the aggregate or more and is not cancelable without penalty within thirty (30) days.

(b) The Company is in compliance in all material respects with, and has not breached, violated or defaulted under in any material respect, or received written notice that it has breached, violated or defaulted under, any of the terms or conditions of any Material Contract to which the Company is a party or by which any of its Assets and Properties are subject, nor has there occurred any event or condition that could constitute such a breach, violation or default with the lapse of time, giving of notice or both. Each Material Contract to which the Company is a party or by which any of its Assets and Properties are subject is in full force and effect, and the Company is not subject to any material default thereunder, nor is any party obligated to the Company pursuant to any such Contract subject to any material default thereunder.

(c) The Company has made available to Parent true, correct and complete copies of all Contracts listed in **Section 3.15(a)** of the Company Disclosure Letter, including all amendments, supplements, exhibits and ancillary agreements thereto.

### 3.16 Interested Party Transactions.

(a) No officer or director of the Company or Company Stockholder holding more than five percent (5%) of the outstanding Company Capital Stock calculated on a fully-diluted basis (nor, to the Company's Knowledge, any parent, sibling, descendent or spouse, of any of such Persons, or any trust, partnership, corporation or other entity in which any of such Persons has or has had an interest) (an "**Interested Party**"), has or has had, directly or indirectly, (i) an interest in any entity which furnished or sold, or furnishes or sells, services, products or technology that the Company furnishes or sells, (ii) any interest in any entity that purchases from or sells or furnishes to the Company, any goods or services, or (iii) a beneficial interest in any Contract to which the Company is a party; *provided, however*, that ownership of no more than five percent (5%) of the outstanding voting stock of a publicly traded corporation or mutual fund shall not be deemed to be an "interest in any entity" for purposes of this **Section 3.16**.

(b) All transactions pursuant to which any Interested Party has purchased any services, products, or technology from, or sold or furnished any services, products or technology to, the Company, that were either entered into after January 1, 2010 or pursuant to which there are continuing obligations to be performed or benefits to be received by the Company, have been on an arms' length basis on terms no less favorable to the Company than would be available from an unaffiliated party.



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3.17 Company Authorizations. Each material consent, license, permit, grant or other authorization (a) pursuant to which the Company currently operates or holds any interest in any of its properties, or (b) that is required for the operation of the Company's business or the holding of any such interest in the Ordinary Course of Business (collectively, the "**Company Authorizations**") has been issued or granted to the Company. The Company Authorizations are in full force and effect and constitute all Company Authorizations required to permit the Company to lawfully operate or conduct its business or hold any interest in its properties or assets.

3.18 Litigation.

(a) **Section 3.18(a)** of the Company Disclosure Letter sets forth all actions, suits, claims and proceedings of any nature pending, or to the Company's Knowledge, threatened, against the Company, its Assets and Properties or any of its directors or officers (in their capacities as such), or, to the Company's Knowledge, any of its employees or agents (in their capacities as such). There is no investigation, audit or other proceeding pending with respect to which the Company has received written notice, or, to the Company's Knowledge, threatened, against the Company, any of its Assets or Properties or any of its directors or officers (in their capacities as such) or, to the Company's Knowledge, any of its employees or agents (in their capacities as such) by or before any Governmental Authority.

(b) No claim for indemnification has been made by any director or officer of the Company or other Person entitled to indemnification by the Company.

(c) The Company has made available to Parent all responses of counsel for the Company to any requests made to the Company to provide to its independent auditors for information regarding the actions, suits, claims or proceedings set forth in **Section 3.18(a)** of the Company Disclosure Letter (together with any updates provided by such counsel).

3.19 Accounts Receivable. The Company has made available to Parent a list of all accounts receivable of the Company as of September 30, 2011, together with a range of days elapsed since invoice. All of the Company's accounts receivable arose in the Ordinary Course of Business and are carried at values determined in accordance with GAAP consistently applied. No Person has any Lien (other than Permitted Liens) on any of the Company's accounts receivable.

3.20 Minute Books. The minute books and stock record books and other similar records of the Company have been made available to Parent or its counsel prior to the execution of this Agreement, and are complete and correct in all respects. Such minute books contain a true and complete record of all material actions taken at all meetings and by all written consents in lieu of meetings of the stockholders, directors, committees of the board of directors of the Company from the date of the Company's incorporation through the date hereof.

3.21 Environmental Matters.

(a) The Company has not (i) operated any underground storage tanks at any property that the Company has at any time owned, operated, occupied or leased or (ii) released any substance that has been designated by any Governmental Authority or by applicable federal, state or local law to be radioactive, toxic, hazardous or otherwise a danger to health, reproduction or the environment, including PCBs, asbestos, petroleum, and urea-formaldehyde and all substances listed as hazardous substances

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pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, or defined as a hazardous waste pursuant to the United States Resource Conservation and Recovery Act of 1976, as amended, and the regulations promulgated pursuant to said laws, but excluding office and janitorial supplies properly and safely maintained (a "**Hazardous Material**") in amounts that would reasonably be expected to result in the Company incurring any material Liability.

(b) To the Knowledge of the Company, no Hazardous Materials are present in, on or under any property, including the land and the improvements, ground water and surface water thereof, that the Company has at any time owned, operated, occupied or leased in quantities or concentrations that would reasonably be expected to result in the Company incurring any material Liability.

(c) The Company has not transported, stored, used, manufactured, disposed of, released or exposed its employees or others to Hazardous Materials in violation of any law or in a manner that would result in material Liability to the Company, nor has the Company disposed of, transported, sold, or manufactured any product containing a Hazardous Material (any or all of the foregoing being collectively referred to herein as "**Hazardous Materials Activities**") in violation, in any material respect, of any rule, regulation, treaty or statute promulgated by any Governmental Authority to prohibit, regulate or control Hazardous Materials or any Hazardous Material Activity.

(d) The Company currently holds all environmental approvals, permits, licenses, clearances and consents necessary for the conduct of its Hazardous Material Activities as such activities and businesses are currently being conducted by the Company.

(e) The Company has not entered into any written agreement by which it has assumed the Liabilities of any other Person arising out of or relating to Hazardous Materials or the Hazardous Materials Activities of the Company or any third Person.

3.22 Brokers' and Finders' Fees. The Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions, fees related to investment banking or similar advisory services or any similar charges in connection with the Agreement or any transaction contemplated hereby, nor will Parent or the Surviving Corporation incur, directly or indirectly, any such liability based on arrangements made by or on behalf of the Company. **Section 3.22** of the Company Disclosure Letter sets forth all agreements, written or oral, with respect to such fees, if any, and true and complete copies of each such agreement have been made available to Parent.

### 3.23 Employee Benefit Plans and Compensation.

(a) **Section 3.23(a)** of the Company Disclosure Letter contains an accurate and complete list, as of the date hereof, of each Company Employee Plan and each Employee Agreement (it being understood and agreed that with respect to each offer letter and independent contractor service agreement that is an Employee Agreement, the Company shall only be required to list each of the Company's standard forms of such agreements and any such Employee Agreements that deviate in any material respect from such form agreements (other than deviations with respect to the specific financial terms of such Employee Agreement that are blank in the form agreement)), including any amendments thereto, and separately identifies each International Employee Plan. Other than the Subsidiary of the Company, there are no ERISA Affiliates. Neither the Company nor its Subsidiary has any commitment to establish, adopt or enter into any new Company Employee Plan or Employee Agreement, or to modify any Company Employee Plan or Employee Agreement (except to the extent required by law or to conform any such Company Employee Plan or Employee Agreement to the requirements of any applicable law).

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(b) The Company has made available to Parent correct and complete copies of: (i) all documents embodying each Company Employee Plan and each Employee Agreement including (without limitation) all amendments thereto and all related trust documents, administrative service agreements, group annuity contracts, group insurance contracts, and policies pertaining to fiduciary liability insurance covering the fiduciaries for each Company Employee Plan; (ii) the three (3) most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under ERISA or the Code in connection with each Company Employee Plan; (iii) if the Company Employee Plan is funded, the most recent annual and periodic accounting of Company Employee Plan assets; (iv) the most recent summary plan description together with the summary(ies) of material modifications thereto, if any, required under ERISA with respect to each Company Employee Plan; (v) the most recent IRS determination, opinion, notification and advisory letters (as applicable); (vi) all material communications to any Employee or Employees relating to any Company Employee Plan and any proposed Company Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events which would result in any material liability to the Company; (vii) all correspondence to or from any governmental agency relating to any Company Employee Plan (other than routine correspondence that is not expected to result in material liability to the Company); and (viii) the three (3) most recent plan years discrimination tests for each Company Employee Plan (as applicable).

(c) The Company and its Subsidiary have performed in all material respects all obligations required to be performed by them under each Company Employee Plan, and each Company Employee Plan has been established and maintained in all material respects in accordance with its terms and in material compliance with all applicable laws, statutes, orders, rules and regulations, including but not limited to ERISA or the Code. Any Company Employee Plan intended to be qualified under Section 401(a) of the Code and each trust intended to qualify under Section 501(a) of the Code (i) has either applied for, prior to the expiration of the requisite period under applicable Treasury Regulations or IRS pronouncements, or obtained a favorable determination, notification, advisory and/or opinion letter, as applicable, as to its qualified status from the IRS or still has a remaining period of time under applicable Treasury Regulations or IRS pronouncements in which to apply for such letter and to make any amendments necessary to obtain a favorable determination, and (ii) incorporates or has been amended to incorporate all provisions required to comply with the Tax Reform Act of 1986 and subsequent legislation. For each Company Employee Plan that is intended to be qualified under Section 401(a) of the Code there has been no event, condition or circumstance that has materially adversely affected or is likely to materially adversely affect such qualified status. No "prohibited transaction," within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Company Employee Plan. There are no audits, actions, suits, inquiries, proceedings or claims pending or, to the Knowledge of the Company, threatened (other than routine claims for benefits) with respect to or against any Company Employee Plan or against the assets of any Company Employee Plan. Each Company Employee Plan (other than the Company Option Plan and the award agreements evidencing Company RSUs that were granted outside of the Company Option Plan) can be amended, terminated or otherwise discontinued after the Effective Time in accordance with its terms, without liability to Parent, Company or its Subsidiary (other than ordinary administration expenses and the benefits earned under the terms of the Company Employee Plan through the termination date). Neither the Company nor its Subsidiary is subject to any penalty or tax with respect to any Company Employee Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code. The Company and its Subsidiary have timely made all contributions and other payments required by and due under the terms of each Company Employee Plan.

(d) Neither the Company nor its Subsidiary has ever maintained, established, sponsored, participated in, or contributed to, any (i) Pension Plan which is subject to Title IV of ERISA or

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Section 412 of the Code, (ii) Multiemployer Plan, (iii) "multiple employer plan" as defined in ERISA or the Code or (iv) a "funded welfare plan" within the meaning of Section 419 of the Code. No Company Employee Plan provides health benefits that are not fully insured through an insurance contract, other than pursuant to a health flexible spending account. No assets of the Company or its Subsidiary are allocated to or held in a "rabbi trust" or similar funding vehicle. No welfare plan is a multiple employer welfare arrangement as defined in ERISA Section 3(40).

(e) No Company Employee Plan or Employee Agreement provides, or reflects or represents any liability to provide post termination or retiree welfare benefits to any Person for any reason, except as may be required by COBRA or other applicable statute, and neither the Company nor its Subsidiary has ever represented, promised or contracted (whether in oral or written form) to any Employee (either individually or to Employees as a group) or any other Person that such Employee(s) or other Person would be provided with post termination or retiree welfare benefits, except to the extent required by statute.

(f) Neither the Company nor its Subsidiary is currently obligated to provide an Employee with any compensation or benefits pursuant to an agreement (e.g., an acquisition agreement) with a former employer of such Employee.

(g) Except as required by applicable law, the execution of this Agreement and the consummation of the transactions contemplated hereby will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Employee Plan, Employee Agreement, trust or loan that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Employee. No payment or benefit which has been, will be or may be made by the Company or its Subsidiary with respect to any "disqualified individual" (within the meaning of Section 280G(c) of the Code) will be, or could reasonably be expected to be, characterized as a "parachute payment," within the meaning of Section 280G(b)(2) of the Code ("**Section 280G Payments**"). There is no contract, agreement, plan or arrangement to which the Company or its Subsidiary is a party or by which it is bound to compensate any Employee for excise taxes paid pursuant to Section 4999 of the Code. **Section 3.23(g)** of the Company Disclosure Letter contains a list of all "Disqualified Individuals" as defined under Section 280G of the Code and the regulations thereunder.

(h) Each of the Company and its Subsidiary: (i) is in compliance in all material respects with all applicable foreign, federal, state and local laws, rules and regulations respecting employment, employment practices, terms and conditions of employment, worker classification, equal employment, employee health and safety, meal and rest periods, immigration status, and wages and hours (including overtime wages), in each case, with respect to Employees; (ii) has withheld and reported all amounts required by law or by agreement to be withheld and reported with respect to wages, salaries and other payments to Employees; (iii) is not liable for any arrears of wages, bonuses, severance pay, or any taxes or any penalty for failure to comply with any of the foregoing; and (iv) is not liable for any payment to any trust or other fund governed by or maintained by or on behalf of any governmental authority, with respect to unemployment compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice). There are no pending, or, to the Knowledge of the Company, threatened or reasonably anticipated claims or actions against the Company under any workers' compensation policy or long term disability policy. Neither the Company nor its Subsidiary has direct or indirect liability with respect to (i) any misclassification of any Person as an independent contractor rather than as an employee, (ii) any employee currently or formerly classified as exempt from overtime wages, or (iii) with respect to any employee leased from another employer, except as would not result in material harm to the Company or its Subsidiary.

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(i) No labor dispute, work stoppage or labor strike against the Company or its Subsidiary is pending or, to the Knowledge of the Company, threatened or reasonably anticipated. To the Knowledge of the Company, there are no activities or proceedings of any labor union to organize any Employees. There are no actions, suits, claims, labor disputes or grievances pending, or, to the Knowledge of the Company, reasonably anticipated or threatened relating to any labor, safety or discrimination matters involving any Employee, including, without limitation, charges of unfair labor practices or discrimination complaints, which, if adversely determined, would, individually or in the aggregate, result in any material liability to the Company. The Company has not engaged in any unfair labor practices within the meaning of the National Labor Relations Act. The Company is not presently, nor has it been in the past, a party to, or bound by, any collective bargaining agreement or union contract with respect to Employees and no collective bargaining agreement is being negotiated with respect to Employees. The Company has not taken any action which would constitute a "plant closing" or "mass layoff" within the meaning of the WARN Act or similar state or local law, issued any notification of a plant closing or mass layoff required by the WARN Act or similar state or local law, or incurred any liability or obligation under WARN or any similar state or local law that remains unsatisfied.

(j) Except as set forth on **Section 3.23(j)** of the Company Disclosure Letter, the Company is not party to any Contract, Employee Agreement or Company Employee Plan between the Company or its Subsidiary and any Employee that is a "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) subject to Section 409A of the Code. Prior to January 1, 2009, each such "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) was operated in good faith compliance with Section 409A of the Code and the guidance and regulations thereunder ("**Section 409A**"). Since January 1, 2009, each such nonqualified deferred compensation plan has been in documentary and operational compliance with Section 409A, including the final Treasury Regulations issued thereunder, except for any instances of non-compliance that can be corrected with respect to all amounts payable thereunder without liability to any Person (other than the ordinary income Taxes on such amounts that would be payable by the recipient of such amounts regardless of the applicability of Section 409A). No nonqualified deferred compensation plan that was originally exempt from application of Section 409A has been "materially modified" (within the meaning of IRS Notice 2005-1) at any time after October 3, 2004. No Company Option or other right to acquire Company Common Stock or other equity of the Company (i) has an exercise price that has been or may be less than the fair market value of the underlying equity as of the date such option or right was granted, as determined by the board of directors of the Company in good faith and in accordance with applicable Laws, (ii) has any feature for the deferral of compensation other than the deferral of recognition of income until the later of exercise or disposition of such option or rights or (iii) has been granted after December 31, 2004, with respect to any class of stock of the Company that is not "service recipient stock" (within the meaning of applicable regulations under Section 409A). No compensation shall be includable in the gross income of any Employee prior to the Effective Time as a result of the operation of Section 409A of the Code. There is no Employee Agreement or Company Employee Plan to which the Company or its Subsidiary is a party, which individually or collectively could require the Company or its Subsidiary to pay a Tax gross up payment to any Employee for Tax-related payments under Section 409A.

#### 3.24 Insurance.

(a) **Section 3.24(a)** of the Company Disclosure Letter contains a true and complete list (including the names of the insurers, the expiration dates of the policies, the annual premiums and a brief description of the interests insured thereby) of all liability, property, workers' compensation,

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directors' and officers' liability and other insurance policies currently in effect that insure any of the business, operations, directors, officers or employees of the Company or affect or relate to the ownership, use or operation of any of the Assets and Properties of the Company and that (i) have been issued to the Company or (ii) to the Company's Knowledge, have been issued to any other Person for the benefit of the Company (the "**Company Insurance Policies**"), in each case, as of the date hereof. The insurance coverage provided by the Company Insurance Policies will not terminate or lapse (pursuant to such policies' terms and conditions) solely as a result of the transactions contemplated by this Agreement. Each of the Company Insurance Policies is valid and binding and in full force and effect, all premiums due thereunder have been paid when due and none of the Company or the Person to whom such policy has been issued has received any notice of cancellation or termination in respect of any such policy or is in default thereunder, and the Company has no Knowledge of any threatened termination of, or material premium increase with respect to, any of such policies. The Company Insurance Policies are in amounts and have coverages required by any Contract to which the Company is a party or by which any of its respective Assets and Properties is bound.

(b) **Section 3.24(b)** of the Company Disclosure Letter contains a list of all claims made under any insurance policies covering the Company at any time during the two (2) years immediately preceding the date hereof; *provided, however*, that **Section 3.24(b)** shall not include any medical or dental claims history, or the claims history with respect to other policies or plans of insurance where disclosure of such history is not permitted by applicable law. The Company has not received written notice that any insurer under any Company Insurance Policy is denying, disputing or questioning liability with respect to a claim thereunder or defending under a reservation of rights clause.

### 3.25 Compliance with Laws.

(a) Neither the Company nor any of its directors, officers, affiliates, agents or employees (in their capacity as such) has violated in any material respect or is currently in default or violation in any material respect under, any foreign, federal, state or local statute, law or regulation applicable to the Company or any of its Assets and Properties, and the Company has not received any notices or of any claims of any such violation or default.

(b) The operation of the business of the Company as presently conducted, including the Company's design, development, use, import, manufacture and sale of products, technologies or services does not in any material respect constitute unfair competition or an unfair trade practice under any foreign, federal, state or local statute, law or regulation (excluding only those foreign, federal, state or local statute, law or regulations that may come into existence or changes in foreign, federal, state or local statute, law or regulations taking effect following Closing) and the Company has not received any notice, from any Person claiming that such operation or any act, product, technology or service (including products, technologies and services currently under development) of the Company constitutes unfair competition or trade practices under such foreign, federal, state or local statute, law or regulations.

3.26 Foreign Corrupt Practices Act. Neither the Company, nor to the Company's Knowledge, any agent, employee or other Person associated with or acting on behalf of the Company has, directly or indirectly, used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity, made any unlawful payment to any foreign or domestic government official or employee or to any foreign or domestic political party or campaign from corporate funds, violated any provision of the Foreign Corrupt Practices Act of 1977, as amended (the "**FCPA**"), or made any bribe, rebate, payoff, influence payment, kickback or other similar unlawful payment.

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3.27 Export Control Laws. The Company has at all times conducted its export transactions in all material respects in accordance with (y) all applicable U.S. export and re-export controls, including the United States Export Administration Act and Regulations and Foreign Assets Control Regulations and (z) all other applicable import/export controls in other countries in which the Company conducts business. Without limiting the foregoing:

(a) The Company has obtained all export licenses, license exceptions and other consents, notices, waivers, approvals, orders, authorizations, registrations, declarations and filings with any Governmental Authority required for (i) the export and re-export of products, services, software and technologies and (ii) releases of technologies and software to foreign national employees located in the United States and abroad ("**Export Approvals**").

(b) The Company is in compliance in all material respects with the terms of all applicable Export Approvals.

(c) No such Export Approvals for the transfer of export licenses to Parent or the Surviving Corporation are required, or such Export Approvals can be obtained expeditiously without material cost.

3.28 Product Warranties and Indemnities. Except for the warranties, indemnities and service level commitments contained in those Contracts set forth in **Section 3.14(I)** of the Company Disclosure Letter and warranties implied by Law, the Company has not given any warranties, indemnities or service level commitments relating to products or technology sold or services rendered by the Company.

3.29 Inventory. The Company's inventory (the "**Inventory**") is of good and merchantable quality in all material respects, and none of which is obsolete, damaged or defective, except for items which have been written off, or for which adequate reserves have been provided, in the Current Balance Sheet.

3.30 Customers. **Section 3.30** of the Company Disclosure Letter lists the customers who, in the year ended December 31, 2010 and the period ended September 30, 2011, were the twenty (20) largest sources of revenues for the Company, based on amounts paid (each, a "**Significant Customer**"). The Company has no outstanding material disputes concerning its products and/or services with any Significant Customer, and the Company does not have any Knowledge of any intent on the part of a Significant Customer to: (a) terminate any Contract between such Significant Customer and the Company, (b) refuse to pay, or otherwise seek a refund for, any amount due from such Significant Customer to the Company or its Subsidiary, (b) return products of the Company, or (c) seek the exercise of any remedy against the Company.

3.31 Suppliers. **Section 3.31** of the Company Disclosure Letter lists the suppliers who, in the year ended December 31, 2010 and the period ended September 30, 2011, were the ten (10) largest suppliers of goods and services to the Company, based on amounts paid (each, a "**Significant Supplier**"). The Company has no outstanding material disputes concerning the products and/or services provided by any Significant Supplier, and the Company has no present intention of (a) terminating any Contract with any Significant Supplier, (b) refusing to pay, or otherwise seeking a refund for, any amount due to any Significant Supplier, (c) returning any products to any Significant Supplier or (d) seeking to exercise any remedy against any Significant Supplier. The Company does not have any Knowledge (as a result of receipt of direct written notice thereof) that any Significant Supplier intends to terminate any Contract between such Significant Supplier and the Company or seek to exercise any remedy against the Company.

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ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT  
AND MERGER SUB

Parent and Merger Sub hereby represent and warrant to the Company as follows:

4.1 Organization and Good Standing. Each of Parent and Merger Sub is a corporation duly organized, validly existing and in good standing under Delaware Law, and has full corporate power and authority to conduct its business as presently conducted and to own, use and lease its Assets and Properties.

4.2 Authority; Enforceability. Each of Parent and Merger Sub has all requisite power and authority to enter into the Transaction Agreement and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent or Merger Sub and no further action is required on the part of Parent or Merger Sub to authorize this Agreement and the transactions contemplated hereby. This Agreement, the Escrow Agreement and the agreements contemplated hereby and thereby to which Parent and Merger Sub are a party, have been or will be duly executed and delivered by Parent and Merger Sub, as applicable, and, assuming the due authorization, execution and delivery by the other parties hereto and thereto, constitute or will constitute the valid and binding obligations of Parent and Merger Sub, enforceable against Parent and Merger Sub in accordance with their respective terms, subject to (i) laws of general application relating to bankruptcy, insolvency, reorganization, moratorium, the relief of debtors and enforcement of creditors' rights in general, and (ii) rules of law governing specific performance, injunctive relief, other equitable remedies and other general principles of equity (regardless of whether such enforceability is considered at law or in equity).

4.3 No Conflict. The execution and delivery by Parent and Merger Sub of this Agreement does not, and the consummation of the transactions contemplated hereby will not, give rise to a Conflict under (a) any provision of the certificate of incorporation and bylaws of Parent or Merger Sub, (b) any material Contract to which Parent or Merger Sub is a party or by which Parent or Merger Sub or any of their respective assets or properties (whether tangible or intangible) is subject, or (c) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or Merger Sub or their Assets and Properties, except in the case of (c) where such Conflict would not, individually or in the aggregate, reasonably be expected to have an effect on the legality, validity or enforceability of this Agreement.

4.4 Consents. No consent, waiver, approval, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required by or with respect to Parent or Merger Sub in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and (ii) the filing of the Notification and Report Forms with the FTC and the DOJ required by the HSR Act and the expiration or termination of the applicable waiting period under the HSR Act, and such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings as may be required under the foreign merger control regulations identified on **Section 3.7** of the Company Disclosure Letter.

4.5 Brokers' and Finders' Fees. Neither Parent nor Merger Sub has incurred, or will incur, directly or indirectly, any liability for brokerage or finders' fees or agent's commissions, fees related to investment banking or similar advisory services, or any similar charges in connection with the Agreement or any transaction contemplated hereby.



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ARTICLE V

CONDUCT OF COMPANY BUSINESS PRIOR TO THE EFFECTIVE TIME

5.1 Conduct of Business of the Company.

(a) During the period from the execution and delivery of this Agreement by each of the parties hereto and continuing until the earlier of the termination of this Agreement and the Effective Time, unless and until Parent shall otherwise consent in writing, the Company shall (i) carry on its business in the Ordinary Course of Business, (ii) pay its Liabilities and Taxes in the Ordinary Course of Business (and in any event when due, other than Taxes contested in good faith through appropriate proceedings and which have been adequately reserved for in accordance with GAAP on the appropriate financial statements and subject to **Section 5.1(b)(xix)**), (iii) pay or perform other obligations in the Ordinary Course of Business and (iv) use commercially reasonable efforts to preserve intact its present business organization, keep available the services of its present officers and key Employees and preserve its relationships with customers, suppliers, distributors, licensors, licensees, independent contractors and other Persons having business dealings with it, in the case of (i) through (iv) above with the express purpose and intent of preserving unimpaired its goodwill and ongoing businesses at the Effective Time.

(b) Except as expressly required by this Agreement, during the period from the execution and delivery of this Agreement by each of the parties hereto and continuing until the earlier of the termination of this Agreement and the Effective Time, unless and until Parent shall otherwise consent in writing, the Company shall not take (or agree, commit or otherwise undertake to take) any action that would: (i) prevent the Company from performing its obligations hereunder, or (ii) cause any condition to Parent's closing obligations set forth in **Section 7.1** or **Section 7.2** or to the Company's closing obligations set forth in **Section 7.1** or **Section 7.3** not to be satisfied at any time prior to the Effective Time. Without limiting the generality of the foregoing, during the period from the execution and delivery of this Agreement by each of the parties hereto and continuing until the earlier of the termination of this Agreement or the Effective Time, except as permitted in **Section 5.1(b)** of the Company Disclosure Letter, unless and until Parent shall otherwise consent in writing, the Company shall not:

(i) (A) make any capital expenditure in excess of \$500,000 in the aggregate in any 30-day period following the date hereof, or (B) except for commitments and transactions with respect to the purchase in the Ordinary Course of Business of materials and services for the production of Company Products, enter into any commitment or transaction, or series of related commitments or transactions, with annual obligations to the Company in excess \$800,000 in the aggregate, except, in the case of each of clauses (A) and (B), with the consent of Parent in writing (such consent not to be unreasonably withheld or delayed);

(ii) (A) other than in the Ordinary Course of Business, license any rights to any Company Intellectual Property or enter into any agreement with respect to any Company Intellectual Property with any Person or with respect to any Intellectual Property Rights of any Person, or (B) other than in the Ordinary Course of Business, enter into any agreement with respect to the development of any Intellectual Property Rights with a third Person, or (C) other than in the Ordinary Course of Business, change pricing or royalties charged by the Company to its customers or licensees, or the pricing or royalties set or charged by Persons who have licensed Intellectual Property Rights to the Company, except, in the case of each of clauses (A) and (B), with the consent of Parent in writing (such consent not to be unreasonably withheld or delayed);

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(iii) (A) purchase any third party Intellectual Property Rights (other than the assignment of Intellectual Property Rights in connection with development for the Company performed by a third Person), or (B) dispose of or sell any Company Intellectual Property;

(iv) terminate, extend (other than in the Ordinary Course of Business), or materially amend, waive or modify the terms of, any Material Contract disclosed on the Company Disclosure Letter (or agree to do so), violate the terms of any Contract disclosed on the Company Disclosure Letter, or enter into any Contract that would have been required to have been disclosed on **Section 3.13** or **Section 3.15(i), (ii), (x) – (xv), (xvii) or (xviii)** of the Company Disclosure Letter had such Contract been entered into prior to the date hereof;

(v) other than in the Ordinary Course of Business, enter into or amend, waive or modify the terms of any Contract pursuant to which any other party is granted marketing, distribution, development or similar rights of any type or scope with respect to any products or Technology of the Company;

(vi) enter into any Contract containing a restriction of the type described in **Section 3.12**;

(vii) commence or settle any litigation, other than to enforce its rights under this Agreement, without the consent of Parent (such consent not to be unreasonably withheld or delayed);

(viii) declare, set aside, or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any Company Capital Stock, or split, combine or reclassify any Company Capital Stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of Company Capital Stock, or repurchase, redeem or otherwise acquire, directly or indirectly, any shares of Company Capital Stock (or options, warrants or other rights exercisable therefor) except in accordance with the agreements evidencing (x) Company Options and Company RSUs set forth on **Section 3.2(b)(ii)** of the Company Disclosure Letter, or (y) Company Unvested Common Stock;

(ix) issue, grant, deliver or sell or authorize or propose the issuance, grant, delivery or sale of, or purchase or propose the purchase of, any shares of Company Capital Stock or any securities convertible into, or subscriptions, rights, warrants or options to acquire, any equity-based awards settled in securities, cash or other property, or other agreements or commitments of any character obligating it to issue or purchase any such shares or other convertible securities convertible into Company Capital Stock, other than (A) issuances of Company Common Stock or Company Preferred Stock pursuant to exercises of Company Options or Company Warrants or settlement of Company RSUs in accordance with their terms, (B) the conversion of Company Preferred Stock, or (C) grants of Company Options, Unvested Company Common Stock or Company RSUs to new Employees of the Company in the Ordinary Course of Business, subject to the per Employee and aggregate grant limits set forth in **Section 5.1(b)** of the Company Disclosure Letter;

(x) cause or permit any amendments to its Charter Documents, or create any Subsidiary of the Company;

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(xi) acquire or agree to acquire by merging or consolidating with, or by purchasing any assets or equity securities of, or by any other manner, any Person, or otherwise acquire or agree to acquire any assets that are material, individually or in the aggregate, to the Company's businesses;

(xii) sell, lease, license or otherwise dispose of any of its Assets and Properties with a value in excess of \$50,000, including the sale of any accounts receivable of the Company, except Assets and Properties that are not Company Intellectual Property and only in the Ordinary Course of Business, and except for licenses of Company Intellectual Property permitted by **Section 5.1(b)(ii)** hereof; or grant or otherwise create or consent to the creation of any easement, covenant, restriction, assessment or charge affecting any owned property or leased property or any part thereof; convey, assign, sublease, license or otherwise transfer all or any portion of any owned property or leased property or any interest or rights therein, other than Permitted Liens;

(xiii) incur any Indebtedness (other than trade payables in the Ordinary Course of Business) or guarantee any Indebtedness or issue or sell any debt securities or guarantee any debt securities or other obligations of others, in each case except for Indebtedness for borrowed money incurred under existing lines of credit with financial institutions;

(xiv) grant any loans to any third Person (except for advances to employees for travel and business expenses in the Ordinary Course of Business) or purchase debt securities of others or amend the terms of any outstanding loan agreement;

(xv) grant, pay or agree or commit to pay any severance, change of control or termination pay to any Employee, other than pursuant to the terms and conditions of any Company Employee Plans or Employee Agreements set forth in the Company Disclosure Letter or the Company's severance policy, if any, or practices in existence as of the date of this Agreement, a copy (or description, in the case of severance practices) of which has been made available to Parent, or adopt any new severance plan or amend or modify or alter in any respect any such severance plan, agreement or arrangement existing on the date hereof;

(xvi) adopt or amend any Company Employee Plan, enter into or amend any Employee Agreement, pay or agree to pay any special bonus or special remuneration to any director or Employee, or increase or agree to increase the salaries, wage rates, or other compensation or benefits of its Employees except (A) payments made pursuant to written agreements outstanding on the date hereof and disclosed in the Company Disclosure Letter, (B) the renewal of any of the Company's Employee-related insurance policies (subject to the consent of Parent, such consent not to be unreasonably withheld or delayed), (C) increases in compensation in the Ordinary Course of Business with respect to Employees whose annual base salary will not exceed \$150,000 following such increase, and (D) entry into offer letters and independent contractor service agreements with non-executive level Employees hired or engaged following the date hereof in the Ordinary Course of Business, which offer letters and independent contractor service agreements do not contain terms or conditions more favorable to the employee or independent contractor, as the case may be, than the terms and conditions offered by the Company to similarly situated Company Employees;

(xvii) make any representations or issue any communications to employees that would be reasonably likely to bind Parent or the Surviving Corporation and that are inconsistent with this Agreement or the transactions contemplated thereby, including any representations regarding offers of employment from Parent;

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(xviii) revalue any of its assets (whether tangible or intangible), including, without limitation, writing off notes or accounts receivable, settle, discount or compromise any accounts receivable, or reverse any reserves, other than any audit-related adjustments that the Company implements and other than as required by GAAP;

(xix) make or change any material Tax election, adopt or change any Tax accounting method, enter into any closing agreement in respect of Taxes, settle any material Tax claim or assessment, or consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment (without prior written consent of Parent which shall not be unreasonably withheld or delayed), or file any amended Return or any Return not in the Ordinary Course of Business unless such Return has been provided to Parent for review within a reasonable period prior to the due date for filing and Parent has consented to such filing;

(xx) enter into any joint venture or similar arrangement or agreement, or any non-customer related strategic alliance, joint marketing or similar arrangement or agreement;

(xxi) change the Company's accounting policies or procedures, including with respect to reserves for doubtful accounts, or payment or collection policies or practices, other than as required by GAAP;

(xxii) partially or fully accelerate or agree to accelerate any Unvested Company Common Stock or other equity-based compensation (whether payable in securities, cash or otherwise), except as specifically provided for in this Agreement or as set forth on **Section 5.1(b)** of the Company Disclosure Letter; or

(xxiii) take, or agree in writing or otherwise to take, any of the actions described in **Section 5.1(b)(i)** through **Section 5.1(b)(xxii)**, inclusive, or any other action that would (A) prevent the Company from performing its covenants hereunder, or (B) cause or result in any of its representations and warranties set forth herein being untrue or incorrect.

**5.2 Procedures for Requesting Parent Consent.** If the Company desires to take an action which would be prohibited pursuant to this **Article V** without the prior written consent of Parent, the Company may request such written consent from Parent by sending an electronic mail to the following individuals, and no such written consent shall be valid unless and until granted by one of the following individuals:

Robert Brown, VP and Treasurer  
Telephone: (408) 433-6794  
Email address: robert.brown@lsi.com

Paul Bento, VP, Law  
Telephone: (610) 712 5782  
Email address: paul.bento@lsi.com

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ARTICLE VI

ADDITIONAL AGREEMENTS

6.1 Competing Acquisition Proposals.

(a) For all purposes of and under this Agreement, the following terms shall have the following respective meanings:

"**Acquisition Proposal**" shall mean any offer, proposal or indication of interest (other than any offer, proposal or indication of interest by Parent), or any public announcement of, or a desire or intention to make, any offer, proposal or indication of interest (including any request for information from the Company or the Company Representatives), relating to, or involving, any Acquisition Transaction.

"**Acquisition Transaction**" shall mean any acquisition of all or a significant portion of the Company's businesses, properties, assets or technologies, or any amount of the Company Capital Stock (whether or not outstanding), in one or a series of related transactions, including a merger, consolidation, reorganization, purchase of stock or assets, tender or exchange offer, license or otherwise (other than issuances of Company Capital Stock pursuant to the exercise of outstanding Company Options and Company Warrants or conversion of Company Preferred Stock).

"**Company Representatives**" shall mean its directors, officers and other authorized employees, stockholders, affiliates, agents and other authorized representatives (including any investment banker or other financial advisor, attorney, accountant or other advisor engaged by the Company).

(b) The Company shall, and shall cause the Company Representatives to, immediately cease and cause to be terminated any and all existing activities, discussions or negotiations with any Persons conducted prior to or on the date of this Agreement with respect to any Acquisition Proposal or Acquisition Transaction.

(c) During the period from the execution and delivery of this Agreement by each of the parties hereto and continuing until the earlier of the termination of this Agreement and the Effective Time, the Company shall not, and shall not authorize or permit any of the Company Representatives to, directly or indirectly, (i) solicit, initiate, seek, or knowingly encourage, facilitate, support or induce (or assist in or cooperate with any Person in) the making, submission or announcement of any inquiry, expression of interest, proposal or offer that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal or Acquisition Transaction (including by way of furnishing non-public information regarding the Company or any of its Subsidiaries), (ii) enter into, participate in, maintain or continue any communications (except solely to provide written notice as to the existence of these provisions) or negotiations regarding any inquiry, expression of interest, proposal or offer that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal or Acquisition Transaction, (iii) agree to, accept, approve, endorse or recommend (or publicly propose or announce any intention or desire to agree to, accept, approve, endorse or recommend) any Acquisition Proposal or Acquisition Transaction, (iv) enter into any letter of intent or any other Contract contemplating or otherwise relating to any Acquisition Proposal or Acquisition Transaction, or (v) submit any Acquisition Proposal or Acquisition Transaction to the vote of any Company Stockholders, (vi) consummate or otherwise effect any Acquisition Transaction.

(d) The Company shall notify Parent, orally and in writing, within twenty four (24) hours of receipt by the Company and/or any Company Representatives of (i) any Acquisition Proposal,

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(ii) any inquiry, proposal or offer that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal or Acquisition Transaction, or any request for information from, or any negotiations sought to be initiated or continued with, either the Company or any Company Representative concerning an Acquisition Proposal, or (iii) any other notice that any Person is considering making an Acquisition Proposal. Such notice shall describe (A) the terms and conditions of such Acquisition Proposal, inquiry, proposal, offer, notice or request, and (B) the identity of the Person or Group (as defined in Section 13(d) of the Exchange Act) making any such Acquisition Proposal, inquiry, proposal, offer, notice or request. The Company shall keep Parent fully informed of the status and details of, and any modification to, any such Acquisition Proposal, inquiry, proposal or offer and any correspondence or communications related thereto and shall provide to Parent a true, correct and complete copy of such Acquisition Proposal, inquiry, proposal or offer and any amendments, correspondence and communications related thereto, if it is in writing, or a reasonable written summary thereof, if it is not in writing.

(e) The Company shall provide Parent with 48 hours prior notice (or such lesser prior notice as is provided to the members of the board of directors of the Company) of any meeting of the board of directors of the Company at which the board of directors of the Company is reasonably expected to discuss any Acquisition Proposal.

(f) The Company shall be deemed to have breached the terms of this **Section 6.1** if any Company Representatives shall take any action, whether in his or her capacity as such or in any other capacity, that is prohibited by this **Section 6.1**.

(g) The parties hereto agree that irreparable damage would occur in the event that the provisions of this **Section 6.1** were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed by the parties hereto that Parent shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this **Section 6.1** and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which Parent may be entitled at law or in equity.

#### 6.2 Company Stockholder Approval.

(a) Immediately after the execution and delivery of this Agreement, the Company shall use its reasonable best efforts to obtain a fully executed copy of the Written Consent from a sufficient number of Company Stockholders to constitute the Requisite Stockholder Approval. The Company's obligation to use its reasonable best efforts to obtain the Requisite Stockholder Approval shall not be limited or otherwise affected by the commencement, disclosure, announcement or submission to the Company of any Acquisition Proposal. The Company's materials or documents to be submitted to the Company Stockholders in connection with the Company's efforts to obtain the Requisite Stockholder Approval shall be subject to advance review and approval by Parent. Immediately upon receipt of a fully executed Written Consent, the Company shall deliver such fully executed Written Consent to Parent.

(b) Within five (5) Business Days after the date hereof, the Company shall deliver to the Company Stockholders that did not execute the Written Consent notice of the approval by the Written Consent of the Merger, this Agreement and the transactions contemplated hereby pursuant to, and in accordance with, the applicable provisions of Delaware Law, California Law (to the extent applicable) and the Charter Documents, and which notice shall include the notice to stockholders required by Section 262 of Delaware Law and, if applicable, Section 1301 of California Law, of the approval of the Merger and that appraisal rights will be available.

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(c) The Company's board of directors shall unanimously recommend that the Company Stockholders vote in favor of the adoption of this Agreement and waive any and all appraisal and dissenters' rights that may be available under applicable Law, and neither the Company's board of directors nor any committee thereof shall withhold, withdraw, amend or modify, or propose or resolve to withhold, withdraw, amend or modify the unanimous recommendation of the Company's board of directors that the Company Stockholders vote in favor of the adoption of this Agreement and waive any and all appraisal and dissenters' rights that may be available under applicable Law. Any information statement or other disclosure document distributed to the Company Stockholders in connection with the transactions contemplated hereby shall include a statement to the effect that the Company's board of directors has unanimously recommended that the Company Stockholders vote in favor of the adoption of this Agreement and waive any and all appraisal and dissenters' rights that may be available under applicable law.

6.3 Section 280G Payments. As soon as reasonably practicable after the execution of this Agreement, the Company shall submit to the Company Stockholders for approval or disapproval (in a manner satisfactory to Parent), by such number of Company Stockholders as is required by the terms of Section 280G(b)(5)(B) of the Code, any Section 280G Payments (which initial determination shall be made by the Company and shall be subject to review and approval by Parent), such that, if approved, such Section 280G Payments shall not be deemed to be Section 280G Payments. Prior to the Effective Time the Company shall deliver to Parent evidence satisfactory to Parent that (a) a Company Stockholder vote was solicited in conformance with Section 280G of the Code and the regulations promulgated thereunder and the requisite Company Stockholder approval was obtained with respect to any Section 280G Payments that were subject to the Company Stockholder vote, or (b) that the Company Stockholder approval of Section 280G Payments was not obtained and as a consequence, that such payments and/or benefits shall not be made or provided to the extent they would cause any amounts to constitute Section 280G Payments, pursuant to the waivers of those payments and/or benefits, which were executed by the affected individuals prior to the Company Stockholder vote.

6.4 Reasonable Best Efforts.

(a) Subject to the terms and conditions set forth in this Agreement, each of the parties hereto shall use its reasonable best efforts to take promptly, or cause to be taken promptly, all actions, and to do promptly, or cause to be done promptly, all things necessary, proper or advisable under and in compliance with applicable laws and regulations to consummate and make effective the transactions contemplated hereby, to cause all conditions to the obligations of the other parties hereto to effect the Merger to occur, to obtain all necessary waivers, consents, approvals and other documents required to be delivered hereunder and to effect all necessary registrations and filings and to remove any injunctions or other impediments or delays, legal or otherwise, in order to consummate and make effective the transactions contemplated by this Agreement for the purposes of securing to the parties hereto the benefits contemplated by this Agreement.

(b) Notwithstanding the foregoing or anything to the contrary set forth in this Agreement, Parent shall not be required to agree to (and the Company shall not be permitted to agree to, without the prior consent of Parent, which may be withheld in Parent's sole discretion) (A) any license, sale or other disposition or holding separate (through establishment of a trust or otherwise) of any shares of capital stock of or any business, assets or properties of Parent, its subsidiaries or affiliates or of the Company, (B) the imposition of any limitation on the ability of Parent, its subsidiaries or affiliates or the Company to conduct their respective business or own any capital stock or assets or to acquire, hold or exercise full rights of ownership of their respective businesses and, in the case of Parent, the business of the Company, or (C) the imposition of any impediment on Parent, its subsidiaries or affiliates or the

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Company under any statute, rule, regulation, executive order, decree, order or other legal restraint governing competition, monopolies or restrictive trade practices (any such action described in (A), (B) or (C), an "**Action of Divestiture**").

#### 6.5 Regulatory Approvals.

(a) In furtherance and not in limitation of the terms of **Section 6.4**, each of the Company, any of its Subsidiaries and Parent shall promptly execute and file, or join in the execution and filing of, any application, notification or other document that may be necessary in order to obtain the authorization, approval or consent of any Governmental Authority, whether federal, state, local or foreign, that may be reasonably required, or that Parent may reasonably request, in connection with the consummation of the transactions contemplated hereby. Each of the Company and Parent shall use its reasonable best efforts to obtain all such authorizations, approvals and consents. To the extent permitted by applicable Law, each of the Company and Parent shall promptly inform the other of any material communication between the Company or Parent (as applicable) and any Governmental Authority regarding the transactions contemplated hereby. If the Company or Parent or any Affiliate thereof shall receive any formal or informal request for supplemental information or documentary material from any Governmental Authority with respect to the transactions contemplated hereby, then the Company or Parent (as applicable) shall make, or cause to be made, as soon as reasonably practicable, a response in compliance with such request; provided, however, that the Company or Parent (as applicable) shall provide the other with a reasonable opportunity to review such response prior to submission. Each of the Company and Parent shall direct, in its sole discretion, the making of such response, but shall consider in good faith the views of the other. Without limiting the generality or effect of the foregoing, each of the Company and Parent shall, (x) as soon as practicable (and in any event within five (5) Business Days of the date hereof), make any initial filings required under the HSR Act and (y) as soon as practicable, make any initial filings required under any other antitrust laws, in each case in connection with the Merger and the other transactions contemplated by this Agreement. To the extent permitted by applicable law, the parties hereto (other than the Stockholder Representative) shall consult and cooperate with one another, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to any antitrust laws. Each of the Company and Parent shall use its reasonable best efforts to take such actions as may be required to cause the expiration of the notice periods under any applicable antitrust laws with respect to the transactions contemplated by this Agreement as promptly as possible after the execution of this Agreement.

(b) Each of the Company and Parent shall promptly execute and file, or join in the execution and filing of, any other application, notification or other document that may be necessary in order to obtain the authorization, approval or consent of any Governmental Authority, whether federal, state, local or foreign, that may be reasonably required, or that Parent may reasonably request, in connection with the consummation of the transactions contemplated hereby. Each of the Company and Parent shall use commercially reasonable efforts to obtain all such authorizations, approvals and consents. Each of the Company and Parent shall promptly inform the other of any material communication between the Company or Parent (as applicable) and any Governmental Authority regarding the transactions contemplated hereby. If the Company or Parent or any affiliate thereof shall receive any formal or informal request for supplemental information or documentary material from any Governmental Authority with respect to the transactions contemplated hereby, then the Company or Parent (as applicable) shall make, or cause to be made, as soon as reasonably practicable, a response in compliance with such request. Each of the Company and Parent shall direct, in its sole discretion, the making of such response, but shall consider in good faith the views of the other.



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(c) Notwithstanding the foregoing or anything to the contrary set forth in this Agreement, Parent shall not be required to agree to (and the Company shall not be permitted to agree to, without the prior consent of Parent, which may be withheld in Parent's sole discretion) any Action of Divestiture.

**6.6 Contract Consents and Notices.**

(a) The Company shall use commercially reasonable efforts to obtain all necessary consents, waivers and approvals of any parties to any Contract as are required thereunder in connection with the Merger or for any such Contracts to remain in full force and effect, including all necessary consents, waivers and approvals of any parties to any Contracts listed on **Section 7.2(f)(i)** of the Company Disclosure Letter and all necessary consents, waivers and approvals of any parties to any Contracts listed on **Section 3.6** of the Company Disclosure Letter, in each case as are required thereunder in connection with the Merger or for any such Contracts to remain in full force and effect, so as to preserve all rights of, and benefits to, the Company under such Contracts from and after the Effective Time. Such consents, waivers and approvals shall be in a form acceptable to Parent. In the event that the other parties to any such Contract, including a lessor or licensor of any Leased Real Property, conditions its grant of a consent, waiver or approval (including by threatening to exercise a "recapture" or other termination right) upon the payment of a consent fee, "profit sharing" payment or other consideration, including increased rent payments or other payments under the Contract, the Company shall be responsible for making all payments required to obtain such consent, waiver or approval and shall reflect such payment or consideration on the Statement of Transaction Expenses. In the event the Merger does not close for any reason, Parent shall not have any liability to the Company, the stockholders of the Company or any other Person for any costs, claims, liabilities or damages resulting from the Company seeking to obtain such consents, waivers and approvals.

(b) The Company shall provide all necessary notices to any parties to any Contracts listed on **Section 3.6** of the Company Disclosure Letter as are required thereunder in connection with the Merger or for any such Contracts to remain in full force and effect, so as to preserve all rights of, and benefits to, the Company under such Contracts from and after the Effective Time. Such notices shall be in a form acceptable to Parent. The Company shall be responsible for making all payments required in connection with such notices. In the event the Merger does not close for any reason, Parent shall not have any liability to the Company, the stockholders of the Company or any other Person for any costs, claims, liabilities or damages arising from the provision of such notices.

**6.7 Notification of Certain Matters.** The Company shall give prompt notice to Parent of (a) the occurrence or non occurrence of any event, the occurrence or non occurrence of which would reasonably be expected to result in any of the conditions to closing set forth in **Article VII** not being satisfied at or prior to the Effective Time, and (b) any failure of the Company to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder. The delivery of any notice pursuant to this **Section 6.7** shall not (i) limit or otherwise affect any remedies otherwise available to Parent, or (ii) constitute an acknowledgment or admission of a breach of this Agreement. No disclosure by the Company pursuant to this **Section 6.7** shall affect or be deemed to modify, amend or supplement any representation or warranty set forth herein, the Company Disclosure Letter or the conditions to the obligations of the parties to consummate the transactions contemplated hereby in accordance with the terms and conditions hereof, or limit any right to indemnification provided herein.

**6.8 Access to Information.** During the period commencing on the date hereof and ending on at the earlier to occur of (a) the Effective Time and (b) the termination of this Agreement, the Company shall afford Parent and its accountants, counsel and other representatives, reasonable access during

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Company's normal business hours and in a manner so as not to interfere with the normal business operations of the Company to (i) all of the Company's properties, books, Contracts, commitments and records, (ii) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable law) of the Company as Parent may reasonably request, and (iii) all employees of the Company as identified by Parent. The Company shall provide to Parent and its accountants, counsel and other representatives copies of internal financial statements (including Tax Returns and supporting documentation) promptly upon request. No information or knowledge obtained in any investigation pursuant to this **Section 6.8** shall affect or be deemed to modify, amend or supplement any representation or warranty set forth herein, the Company Disclosure Letter or the conditions to the obligations of the parties to consummate the transactions contemplated hereby in accordance with the terms and conditions hereof, or limit any right to indemnification provided herein.

6.9 Payment Spreadsheet. At least three (3) Business Days prior to the Closing Date, the Company shall deliver a Payment Spreadsheet (the "**Payment Spreadsheet**"), in form reasonably acceptable to Parent, which Payment Spreadsheet shall be certified as complete and correct by the Chief Executive Officer, the Chief Financial Officer and/or the Chief Operating Officer of the Company for and on behalf of the Company as of the Closing, setting forth:

(a) a calculation of (i) the Aggregate Merger Consideration, the Closing Merger Consideration and the Per Share Closing Consideration, including, in each case, each component thereof, (ii) the Exchange Ratio and (iii) the Escrow Amount;

(b) for each holder of Company Common Stock (after giving effect to the issuance of shares of Company Common Stock upon the full conversion of all shares of Company Preferred Stock and the full exercise of all Company Options (other than Cash-Out Options and Assumed Company Options) and any Company Warrants that are exercised prior to Closing and the full settlement of all Company RSUs (other than Assumed Company RSUs) or Cash-Out Options, (i) such holder's address on the books and records of the Company, (ii) a denotation of whether such holder is an employee of the Company, (iii) if applicable, the aggregate number, and the class and series, of all shares of Company Common Stock held by such holder (including the respective certificate numbers) as of immediately prior to the Effective Time, (iv) the date of acquisition of all such shares of Company Common Stock and such holder's cost basis therein; (v) a denotation of whether any such shares of Company Common Stock constitute Unvested Company Common Stock, (vi) the aggregate Per Share Closing Consideration to be paid to such holder in cash in respect of all such holder's shares of Company Common Stock and Cash-Out Options (other than Unvested Company Common Stock), (vii) if applicable, the aggregate number of shares of Company Common Stock issuable upon the exercise of such holder's Cash-Out Options, (viii) if applicable, the per share exercise price of each of such holder's Cash-Out Options, (ix) the aggregate number of shares of Parent Common Stock to be issued to such holder in exchange for all such holder's shares of Unvested Company Common Stock, (x) such holder's Pro Rata Portion of the Escrow Fund, and (xi) such other information relevant thereto as Parent may reasonably request; and

(c) for each Assumed Company Option, (i) the address of the holder of such Assumed Company Option on the books and records of the Company, (ii) the aggregate number of shares of Parent Common Stock issuable upon the exercise of such Assumed Company Option, (iii) the per share exercise price of such Assumed Company Option, and (iv) such other information relevant thereto as Parent may reasonably request; and

(d) for each Assumed Company RSU, (i) the address of the holder of such Assumed Company RSU on the books and records of the Company, (ii) the aggregate number of shares of Parent Common Stock issuable upon the settlement of such Assumed Company RSU, and (iii) such other information relevant thereto as Parent may reasonably request.

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#### 6.10 Transaction Expenses.

(a) If the Merger is not consummated, all Transaction Expenses shall be the obligation of the respective party incurring such fees and expenses. If the Merger is consummated, all Transaction Expenses incurred by the Company (whether for and behalf of the Company or any of its directors, officers or other employees, stockholders or other affiliates) shall be deducted from the Aggregate Merger Consideration payable by Parent in connection with the Merger.

(b) At least three (3) Business Days prior to the Closing Date, the Company shall deliver to Parent a statement of the Transaction Expenses as of the Closing Date, which shall set forth detail of both the previously paid and currently unpaid Transaction Expenses of the Company, as well as the Transaction Expenses that have been incurred or are expected to be incurred by the Company in connection with this Agreement and the transactions contemplated hereby, all in form reasonably satisfactory to Parent and certified as true and correct by the Company's Chief Financial Officer and/or Chief Operating Officer (the "**Statement of Transaction Expenses**").

#### 6.11 Employment Arrangements.

(a) Parent will offer "at will" employment by Parent and/or the Surviving Corporation (which at will employment may be for a transitional period) to those employees of the Company prior to the Closing that Parent shall determine in its sole discretion, to be effective as of the Closing Date, upon proof of citizenship or appropriate employment authorization from the U.S. Immigration and Naturalization Service or the U.S. Department of State evidencing a right to work in the United States and upon execution of an Employment, Proprietary Information and Inventions Assignment Agreement in Parent's standard form attached hereto as **Exhibit F**. Such "at will" employment arrangements will (i) be set forth in offer letters (each, an "**Offer Letter**") which shall include such requirements as Parent shall reasonably determine, (ii) have terms, including the base salary, performance bonus, equity grant and benefits, commensurate in the aggregate with their position within Parent and/or the Surviving Corporation, and (iii) supersede any prior employment agreements and other arrangements with such employee in effect prior to the Closing Date (except with respect to the change of control agreements set forth on **Section 6.11(a)** of the Company Disclosure Letter, which shall continue in effect as modified by the Offer Letters). Notwithstanding anything in this **Section 6.11(a)** to the contrary, the Offer Letters shall not be deemed to supersede, and the Surviving Corporation shall honor all obligations under, the bonus plans, agreements and practices set forth on **Section 6.11(a)** of the Company Disclosure Letter, to the extent the terms and conditions required for payment of such amounts are satisfied. Each employee of the Company who becomes an employee of Parent or the Surviving Corporation as of the Closing Date shall be referred to hereafter as a "**Continuing Employee**." The Company shall use its best efforts to obtain a valid general release of claims and separation agreement from each Company employee who will not be a Continuing Employee. Notwithstanding anything in this **Section 6.11(a)** to the contrary, following the Closing Date, each Continuing Employee shall be provided with (i) a rate of base salary or wages as set forth in his or her Offer Letter and that is not less favorable than the rate of base salary or wages paid by the Company to such Continuing Employee immediately prior to the Effective Time and (ii) other benefits that, in Parent's discretion, are substantially similar in the aggregate to the benefits provided by Parent to its employees generally (excluding the Continuing Employees) who are similarly situated to such Continuing Employees.

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(b) Effective no later than the day immediately preceding the Closing Date, the Company and its Subsidiary, as applicable, shall each terminate any and all group severance, separation or salary continuation plans, programs or arrangements (other than the change of control agreements set forth on **Section 6.11(a)** of the Company Disclosure Letter) and any and all plans intended to include a Code Section 401(k) arrangement (unless Parent provides written notice to the Company that such 401(k) plans shall not be terminated) (collectively, "**Terminated Company Employee Plans**"). Unless Parent provides such written notice to the Company, no later than five (5) Business Days prior to the Closing Date, the Company shall provide Parent with evidence that such Terminated Company Employee Plan(s) have been terminated (with such termination to be effective no later than the day immediately preceding the Closing Date) pursuant to resolutions of the Company's board of directors. The form and substance of such resolutions shall be subject to review and approval of Parent. The Company also shall take such other actions in furtherance of terminating such Terminated Company Employee Plan(s) as Parent may reasonably require.

(c) As promptly as reasonably practicable after the Effective Time, Parent shall enroll the Continuing Employees in Parent's employee benefit plans for which such employees are eligible (the "**Parent Plans**"), and Parent shall recognize the prior service with the Company of each of the Continuing Employees for purposes of eligibility to participate and vesting (but not benefit accruals) under Parent's 401(k) plan and for levels of benefits under Parent's vacation policy, if any. This **Section 6.11(c)** shall not operate to (a) duplicate any benefit provided to any Continuing Employee or to fund any such benefit, (b) require Parent to continue to maintain any severance plan or other employee benefit plan in effect following the Effective Time for Parent's employees, including the Continuing Employees, or (c) be construed to mean the employment of the Continuing Employees is not terminable by Parent at will at any time, with or without cause, for any reason or no reason. Each applicable Parent Plan shall waive, to the extent permitted by applicable law and the relevant insurance carriers, eligibility waiting periods, evidence of insurability requirements and pre-existing condition limitations. To the extent permitted by applicable law and the relevant insurance carriers and to the extent applicable in the plan year that contains the Closing Date, the Continuing Employees shall be given credit under the applicable Parent Plan for amounts paid during the calendar year in which the Closing Date occurs under a corresponding benefit plan of the Company for purposes of applying deductibles, co-payments and out of pocket maximums, as though such amounts had been paid in accordance with the terms and conditions of the Parent Plan.

(d) As soon as reasonably practicable after the Effective Time, Parent shall issue options to purchase Parent Common Stock or restricted stock units settleable in Parent Common Stock to the persons and in the amounts set forth on **Section 6.11(d)** of the Company Disclosure Letter.

(e) Nothing contained herein shall be construed as requiring Parent or any of its subsidiaries to implement, amend or continue any specific Company or Parent benefit plan or arrangement, or to continue the employment of any specific person. No provision of this Agreement shall be construed to create any right to any compensation or benefits on the part of any Continuing Employee or other future, present or former employee of Parent, Company or their respective subsidiaries. Nothing in this **Section 6.11** or elsewhere in this Agreement shall be deemed to make any employee of the parties or their respective subsidiaries a third party beneficiary of this Agreement, including this **Section 6.11** or any rights relating hereto.

**6.12 Cancellation of Corporate Credit Card Accounts; Bank Signatories.** Effective no later than the Closing Date, the Company shall terminate any and all corporate credit card accounts and shall provide Parent with evidence that such corporate credit card accounts have been terminated. The Company's board of directors shall also adopt resolutions, effective at the Closing, that authorize

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individuals to be designated prior to the Closing by Parent to be the authorized signatories for all Company bank accounts and any loans or credit agreements or other agreements relating to the borrowing of money or extension of credit, in replacement of such individuals who are currently authorized signatories to such bank accounts. The form and substance of such resolutions shall be subject to review and reasonable approval of Parent.

6.13 Protection of Intellectual Property.

(a) During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Effective Time, the Company shall use its reasonable best efforts to (i) to maintain and preserve the Company Registered Intellectual Property, including the payment of any registration, maintenance, renewal fees, annuity fees and Taxes or the filing of any documents, applications or certificates related thereto, (ii) to promptly respond and prepare to respond to all requests, related to the Company Registered Intellectual Property, received from Governmental or Regulatory Authorities and (iii) where commercially reasonable to do so, register or file for applications for Registered Intellectual Property.

(b) The Company shall use its reasonable best efforts to cause each of the inventors listed on the Company's pending provisional and regular Patent applications to execute, prior to the Closing, to the extent not previously executed and delivered to the Company, an Assignment of Patent Application which validly sells, assigns and transfers to the Company all right, title and interest in and all improvements and inventions disclosed in, applications based upon, and Patents (including foreign Patents) granted on the information in the particular Patent application.

(c) At the Closing, the Company shall notify Parent of all material actions which must be taken within the ninety (90) days following the Closing Date and which are necessary to maintain, preserve or renew the Company Registered Intellectual Property, including the payment of any registration, maintenance, renewal fees, annuity fees and Taxes or the filing of any documents, applications or certificates related thereto.

6.14 Directors' and Officers' Indemnification.

(a) For a period of six (6) years following the Effective Time, the Surviving Corporation shall (and Parent shall cause the Surviving Corporation to) cause the certificate of incorporation and bylaws of the Surviving Corporation to contain provisions with respect to indemnification and exculpation from liability that are at least as favorable to the beneficiaries thereof as the indemnification and exculpation from liability provisions set forth in the certificate of incorporation and bylaws of the Company immediately prior to the Effective Time.

(b) For a period of six years after the Closing (the "**D&O Tail Period**"), Parent shall, or shall cause the Company to, maintain director and officer liability insurance which insurance shall provide coverage for the individuals who were officers and directors of the Company prior to Closing comparable to, and as to scope of coverage and amount, no less favorable than, the policy or policies maintained by the Company immediately prior to the Closing for the benefit of such individuals. Prior to the Closing Date, Parent shall deliver to the Seller reasonable evidence of the continuance as aforesaid of such coverages. The Company shall have the right prior to the Closing to purchase, for an aggregate amount not to exceed 200% of the current annual premium, a fully-paid "tail" policy for the D&O Tail Period on terms and scope with respect to such coverage, and in amount, not less favorable than the policy or policies maintained by the Company immediately prior to the Closing for the benefit of such individuals in effect on the date hereof with respect to matters existing or occurring prior to the

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Effective Time. If such fully-paid "tail" policy has been obtained by the Company prior to the Closing Date, it shall be deemed to satisfy all obligations to obtain insurance pursuant to this **Section 6.14** and Parent and the Surviving Corporation shall use their reasonable best efforts to cause such policy to be maintained in full force and effect, for its full term, and to honor all of its obligations thereunder.

(c) In the event that Parent, the Company or any of their respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any Person, then and in either such case, proper provision shall be made so that the successors and assigns of Parent or the Company, as the case may be, shall assume the obligations set forth in this **Section 6.14**. The provisions of this **Section 6.14** are intended to be for the benefit of, and will be enforceable by, each indemnified party or insured Person, his or her heirs and his or her representatives, and are in addition to, and not in substitution for, any other right to indemnification or contribution that any such Person may have by contract or otherwise.

6.15 Public Announcements. None of Parent, Merger Sub, or the Company will issue any press release or make any public announcement or disclosure relating to this Agreement, the Merger or the other transactions contemplated by this Agreement without the prior written approval of, in the case of Parent and Merger Sub, the Company, and in the case of the Company, Parent; provided that each party may issue any such press release or make such public announcement it believes in good faith is required to be made by applicable Law or any applicable rule or regulation promulgated by any applicable securities exchange after consultation with legal counsel, in which case the disclosing party will use its commercially reasonable efforts to advise and consult with the other parties regarding any such press release or other announcement prior to making any such disclosure.

6.16 Debt Repayment. Prior to the Effective Time, the Company shall have (a) repaid and discharged all of the Company's Indebtedness for borrowed money (including all interest accrued thereon and all fees, charges or premiums associated therewith), (b) caused all commitments related to such Indebtedness to be terminated, and (c) caused all Liens in or upon any of the Assets or Properties of the Company arising from or in connection with such Indebtedness to be forever satisfied, released and discharged. The Company shall have provided Parent with executed payoff letters, in form and substance reasonably satisfactory to Parent, in respect of all Indebtedness of the Company under that certain Loan and Security Agreement dated November 28, 2007 with Comerica Bank, and executed Lien release documents, in form and substance reasonably satisfactory to Parent, with respect to all Liens in or upon the Assets or Properties of the Company arising from or in connection with such Indebtedness.

6.17 Further Assurances. Each party hereto, at the request of another party hereto, shall execute and deliver such other certificates, instruments, agreements and other documents, and do and perform such other acts and things, as may be reasonably necessary for purposes of effecting completely the consummation of Merger and the other transactions contemplated hereby.

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ARTICLE VII

CONDITIONS TO THE MERGER

7.1 Conditions to Obligations of Each Party. The respective obligations of the Company and Parent to consummate the transactions contemplated hereby shall be subject to the satisfaction, at or prior to the Effective Time, of the following conditions:

(a) No Prohibitive Laws. No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of making the Merger or any other transaction contemplated hereby illegal or otherwise prohibiting the consummation of the Merger or any other transaction contemplated hereby.

(b) No Prohibitive Orders. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other similar legal restraint that has the effect of prohibiting the consummation of the Merger and the other transactions contemplated hereby shall be in effect.

(c) Requisite Governmental Approval. The waiting period (and any extension thereof) under the HSR Act relating to the Merger shall have expired or early termination of such waiting period shall have been granted without any condition or requirement requiring or calling for any Action of Divestiture.

(d) Requisite Stockholder Approval. The Company shall have obtained the Requisite Stockholder Approval.

7.2 Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to consummate the transactions contemplated hereby shall be subject to the satisfaction (subject to the exception set forth on **Section 7.2** of the Company Disclosure Letter), at or prior to the Effective Time, of each of the following conditions, any of which may be waived, in writing, exclusively by Parent:

(a) Representations and Warranties. The representations and warranties of the Company set forth in this Agreement (considered in the aggregate) (x) shall have been true and correct in all material respects as of the date of this Agreement and (y) shall be true and correct in all material respects on and as of the Closing Date with the same force and effect as if made on and as of the Closing Date (other than the representations and warranties as of a specified date, which shall be true and correct as of such date).

(b) Covenants. The Company shall have performed and complied in all material respects with the covenants and obligations under this Agreement required to be performed and complied with by the Company prior to or as of the Closing.

(c) No Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any change, event, violation, circumstance or effect of any character that has had or is reasonably likely to have a Company Material Adverse Effect.

(d) No Litigation. There shall be no Governmental Authority or other third party action, suit, claim or proceeding of any nature pending, or overtly threatened, against Parent, Merger Sub, the Company, any of their respective Assets and Properties or any of their respective directors or officers (in their capacities as such) arising out of, or related to, the Merger.

(e) Appraisal Rights. Company Stockholders holding no more than five percent (5%) of the Fully Diluted Shares shall continue to have a right to exercise appraisal, dissenters' or similar rights under applicable law with respect to their Company Capital Stock by virtue of the Merger.

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(f) Third Party Contract Matters. The Company shall have received all consents, waivers, approvals and assignments listed on **Section 7.2(f)** of the Company Disclosure Letter, and Parent shall have received reasonably satisfactory written evidence thereof.

(g) Employee Matters.

(i) The Company shall have received a written resignation from each of the directors and officers of the Company from their positions as directors and officers of the Company effective as of the Effective Time.

(ii) (w) Each of (A) the Offer Letters with the Key Employees listed on **Section 7.2(g)(ii)(1)** of the Company Disclosure Letter and (B) the Non-Competition Agreements with the Specified Key Employees listed on **Section 7.2(g)(ii)(2)** of the Company Disclosure Letter, executed and delivered concurrently with the execution of this Agreement shall be in full force and effect, (x) each Key Employee listed on **Section 7.2(g)(ii)(1)** of the Company Disclosure Letter who did not execute and deliver an Offer Letter concurrently with the execution of this Agreement shall have executed and delivered an Offer Letter (in the form set forth in **Section 7.2(g)(ii)(3)** of the Company Disclosure Letter) after the date hereof and such Offer Letter shall be in full force and effect, (y) each Specified Key Employee listed on **Section 7.2(g)(ii)(2)** of the Company Disclosure Letter who did not execute and deliver a Non-Competition Agreement concurrently with the execution of this Agreement shall have executed and delivered a Non-Competition Agreement after the date hereof and such Non-Competition Agreement shall be in full force and effect, and (z) no Key Employee shall have notified Parent or the Company of such individual's intention of leaving the employ of Parent or the Surviving Corporation following the Effective Time.

(h) Section 280G Payments. With respect to any 280G Payment, the Company Stockholders shall have either approved, pursuant to the method provided for in the regulations promulgated under Section 280G of the Code, any such 280G Payments, or shall have disapproved such 280G Payments, and, as a consequence, no 280G Payments shall be paid or provided for in any manner and Parent and its Subsidiaries shall not have any liabilities (or lose any available deductions) with respect to any 280G Payments.

(i) Closing Deliveries.

(i) Payment Spreadsheet. Parent shall have received the Payment Spreadsheet.

(ii) Statement of Transaction Expenses. Parent shall have received the Statement of Transaction Expenses.

(iii) Closing Certificate. Parent shall have received a certificate, validly executed by the Chief Executive Officer of the Company for and on behalf of the Company, certifying as to the matters set forth in **Section 7.2(a)**, **Section 7.2(b)** and **Section 7.2(c)** (the "**Closing Certificate**").

(iv) Secretary's Certificate. Parent shall have received a certificate, validly executed by the Secretary of the Company for and on behalf of the Company, certifying as to (i) the terms and effectiveness of the Charter Documents, and (ii) the valid adoption of resolutions of the board of directors of the Company and the Company Stockholders approving and adopting this Agreement, Escrow Agreement, the Merger and the consummation of the transactions contemplated hereby.



(v) Good Standing Certificate. Parent shall have received a certificate of good standing for the Company from the Secretary of State of the State of Delaware, dated within a reasonable period prior to Closing.

(vi) FIRPTA Certificate. Parent shall have received from the Company a properly executed statement, in a form and substance reasonably acceptable to Parent, for purposes of satisfying Parent's obligations under Treas. Reg. §1.1445-2(c)(3).

(vii) Audited Financial Statements. Parent shall have received a true and correct copy of the Company's audited balance sheet as of December 31, 2010, and the related statements of income and cash flows and stockholders' equity for the twelve month period then ended, together with the report of the Company's auditor thereon.

**7.3 Conditions to Obligations of the Company**. The obligations of the Company to consummate the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Effective Time of each of the following conditions, any of which may be waived, in writing, exclusively by the Company:

(a) Representations and Warranties. The representations and warranties of Parent and Merger Sub set forth in this Agreement (other than the representations and warranties as of a specified date, which shall be true and correct as of such date) (x) shall have been true and correct as of the date of this Agreement and (y) shall be true and correct on and as of the Closing Date with the same force and effect as if made on and as of the Closing Date, except to the extent that the failure of any such representations and warranties to be true and correct does not have, and would not be reasonably expected to have, individually or in the aggregate, a Parent Material Adverse Effect.

(b) Covenants. Parent and Merger Sub shall have performed and complied in all material respects with the covenants and obligations under this Agreement required to be performed and complied with by Parent prior to or as of the Closing.

(c) Closing Certificate. The Company shall have received a certificate, validly executed by an authorized officer of Parent for and on behalf of Parent, certifying as to the matters set forth in **Section 7.3(a)** and **Section 7.3(b)**.

## ARTICLE VIII

### SURVIVAL; INDEMNIFICATION; ESCROW FUND; ESCROW AGENT; STOCKHOLDER REPRESENTATIVE

#### 8.1 Survival.

(a) Notwithstanding any right of Parent (whether or not exercised) to investigate the affairs of the Company (whether pursuant to **Section 6.8** or otherwise) or a waiver or non-assertion by Parent and Merger Sub of any closing condition set forth in **Article VII** or any termination right set forth in **Article IX**, each party shall have the right to rely fully upon the representations and warranties of the other party or parties hereto set forth in this Agreement, the Escrow Agreement and the certificates and other instruments delivered in connection herewith or therewith.

(b) The representations and warranties of the Company set forth in this Agreement, or in any certificate or other instrument delivered pursuant to this Agreement, shall survive until

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11:59 p.m. (California time) on the twelve (12) month anniversary of the Closing Date (the "**Survival Date**"); *provided, however*, that the representations and warranties of the Company set forth in **Section 3.2(a), (b) and (e)** (Company Capital Structure) (the "**Special Representations**") shall survive the consummation of the Merger and continue until the expiration of the applicable statute of limitations (including extensions thereof). The representations and warranties of Parent and Merger Sub contained in this Agreement or in any certificate delivered pursuant to this Agreement shall terminate at the Effective Time. Parent and the Company expressly agree pursuant to this **Section 8.1** to shorten the statutes of limitations applicable to all claims and causes of action as provided herein. Notwithstanding the foregoing or anything to the contrary set forth in this Agreement, claims arising out of fraud, intentional breach or intentional misrepresentation shall expire at the time of expiration of the statute of limitations for such claims of fraud, intentional breach or intentional misrepresentation, as the case may be.

#### 8.2 Indemnification.

(a) The Indemnifying Holders (the "**Indemnifying Parties**") shall severally (and not jointly) indemnify and hold Parent, Merger Sub, the Surviving Corporation and their respective officers, directors, employees, agents and affiliates, including the Surviving Corporation (collectively, the "**Indemnified Parties**"), harmless from and against any and all Losses (as defined below) paid, sustained or incurred by the Indemnified Parties, or any of them, directly or indirectly, arising out of, in connection with or as a result of:

(i) any failure of any representation or warranty of the Company set forth in this Agreement (as qualified by the Company Disclosure Letter) or in the Closing Certificate delivered by the Company pursuant to this Agreement (other than the Special Representations) to be true and correct as of the date hereof and as of the Effective Time as if made on and as of the Effective Time (other than representations and warranties as of a specified date, the failure of which to be true and correct shall be measured as of such date), other than as set forth in **Section 8.2(a)(i)** of the Company Disclosure Letter;

(ii) any failure of any Special Representations set forth in this Agreement (as qualified by the Company Disclosure Letter) or in the Closing Certificate delivered by the Company pursuant to this Agreement with respect to the Special Representations to be true and correct as of the date hereof and as of the Effective Time as if made on and as of the Effective Time (other than representations and warranties as of a specified date, the failure of which to be true and correct shall be measured as of such date);

(iii) any failure by the Company to perform or comply with any covenant applicable to it set forth in this Agreement or in any certificate delivered by the Company pursuant to this Agreement;

(iv) any failure of the Payment Spreadsheet to be true and correct in any respect;

(v) any Transaction Expenses that are not reflected in the Statement of Transaction Expenses;

(vi) any Dissenting Share Payments; and

(vii) any fraud, intentional breach or intentional misrepresentation committed by the Company or any Company Representatives in connection with this Agreement, the Merger or any other transactions contemplated hereby.

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(b) For all purposes of and under this Agreement, "**Loss**" and collectively, "**Losses**", shall mean all losses, liabilities, damages, fees, fines, Taxes, penalties, deficiencies (including lost profits and diminution in value), fees and expenses, including interest thereon, reasonable expenses of investigation, court costs, reasonable fees and expenses of attorneys, accountants and other experts and other expenses of any claim, default or assessment (such fees and expenses to include all fees and expenses, including fees and expenses of attorneys, incurred in connection with (x) the investigation or defense of any third party claim and (y) asserting or disputing any right under this Agreement against any party hereto or otherwise); *provided*, that in each case "Losses" shall (i) exclude speculative, special, exemplary or punitive damages unless awarded to a third party in connection with a third party claim, (ii) shall be calculated net of any amounts actually recovered by the Indemnified Party under applicable insurance policies in excess of the sum of (A) reasonable out-of-pocket costs and expenses relating to collecting under such policies, (B) any deductible associated therewith to the extent paid and (C) any increase in premiums resulting from such claims (it being agreed and understood that no Indemnified Party shall have any obligation to seek recovery under such insurance coverage prior to making any claim for indemnification under this **Article VIII**). If the Indemnified Party receives any amounts under applicable insurance policies or from any other Person alleged to be responsible for any Losses, subsequent to an indemnification payment by the Indemnifying Party, then such Indemnified Party shall promptly reimburse the Indemnifying Parties for any such payment made in an amount equal to the lesser of (x) the amount of such indemnification payment and (y) the amount actually received by the Indemnified Party under applicable insurance policies in respect of such claim in excess of the sum of (A) reasonable out-of-pocket costs and expenses relating to collecting under such policies, (B) any deductible associated therewith to the extent paid and (C) any increase in premiums resulting from such claims. The Indemnified Parties shall not use "multiple of profits" or "multiple of cash flow" or any similar valuation methodology in calculating the amount of any Losses in the nature of "lost profits" or "diminution in value".

(c) For the purpose of this **Article VIII** only, solely when determining the amount of Losses suffered by an Indemnified Party as a result of any breach, inaccuracy or failure, any representation or warranty given or made by the Company that is qualified in scope as to materiality or Material Adverse Effect or any similar qualification shall be deemed to be made or given without such qualification.

(d) If the Closing occurs, the Indemnifying Parties shall not have any right of contribution from, and may not seek indemnification or advancement of expenses from, the Company, Parent, or the Surviving Corporation to the extent of any Loss claimed by an Indemnified Party.

### 8.3 Limitations on Indemnification.

(a) Nothing in this **Article VIII** shall limit the liability of the Company for any breach of any representation, warranty or covenant set forth in this Agreement if the Merger and other transactions contemplated by this Agreement are not consummated.

(b) The Escrow Amount shall be held as the Indemnified Parties' security for the Indemnifying Parties' indemnification obligations under **Section 8.2(a)**. If the Merger is consummated, funds held in the Escrow Fund shall be the Indemnified Parties' sole and exclusive security for indemnification claims under **Section 8.2(a)** (other than **Section 8.2(a)(ii)** and **Section 8.2(a)(vii)**) and recovery of funds held in the Escrow Fund shall be the Indemnified Parties' sole and exclusive remedy under this Agreement for indemnification claims under **Section 8.2(a)** (other than **Section 8.2(a)(ii)** and **Section 8.2(a)(vii)**); *provided, however*, that notwithstanding the foregoing or anything to the contrary set forth herein, (i) the foregoing limitations shall not apply to claims for indemnification under **Section**

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**8.2(a)(ii)** or **Section 8.2(a)(vii)** and (ii) in the event of fraud, intentional breach or intentional misrepresentation, the foregoing limitations shall not apply to claims under applicable law arising out of fraud, intentional breach or intentional misrepresentation against any Person engaged in such fraud, intentional breach or intentional misrepresentation.

(c) The liability of each Indemnifying Holder for any indemnification claims under **Section 8.2(a)(ii)** or **Section 8.2(a)(vii)** shall be limited to a dollar amount equal to such Indemnifying Holder's Pro Rata Portion of the Aggregate Merger Consideration; *provided, however*, that (i) no Indemnifying Holder shall have any liability for indemnification claims under **Section 8.2(a)(ii)** or **Section 8.2(a)(vii)** unless and until the funds held in the Escrow Fund have been released to the Indemnifying Parties or Parent (as applicable) or otherwise allocated to any previous indemnification claims by any Indemnified Parties, (ii) in the event of fraud, intentional breach or intentional or knowing misrepresentation, the foregoing limitations shall not apply to claims under applicable law arising out of fraud, intentional breach or intentional misrepresentation against any Person engaged in such fraud, intentional breach or intentional misrepresentation.

(d) If the Merger is consummated, the Indemnified Parties may not recover pursuant to the indemnity set forth in **Section 8.2(a)(i)** unless and until Losses in excess of an amount equal to 0.5% of the product of (x) the quotient of (A) the Aggregate Merger Consideration divided by (B) Fully Diluted Shares times (y) the aggregate number of Cash-Out Capital Shares, in the aggregate (the "**Threshold**") have been paid, sustained or incurred by the Indemnified Parties, in which case Parent shall be entitled to recover pursuant to the indemnity set forth in **Section 8.2(a)(i)** all such Losses (including the amount of the Threshold); *provided, however*, that notwithstanding the foregoing or anything to the contrary set forth herein, (i) the foregoing Threshold limitation shall not apply to claims for indemnification under **Section 8.2(a)(ii)** through **Section 8.2(a)(vii)**, inclusive, and (ii) in the event of fraud, intentional breach or intentional or knowing misrepresentation, the foregoing Threshold limitation shall not apply to claims under applicable law arising out of fraud, intentional breach or intentional misrepresentation against any Person engaged in such fraud, intentional breach or knowing misrepresentation.

(e) It is understood that nothing in this Agreement shall eliminate the ability of any party hereto to apply for equitable remedies to enforce the other parties' obligations under this Agreement.

(f) Notwithstanding anything to the contrary in this Agreement, the parties hereto agree and acknowledge that any Indemnified Party may bring a claim for indemnification for any Loss under this **Article VIII** notwithstanding the fact that any Indemnified Party had knowledge of the breach, event or circumstance giving rise to such Loss prior to the Closing or waived any condition to the Closing related thereto.

#### 8.4 Indemnification Claims.

(a) Parent shall give prompt notice of any claim for indemnification under **Section 8.2** by delivering a Claim Certificate (as defined below) to the Stockholder Representative, with a copy to the Escrow Agent, for any claim for indemnification, at any time prior to 11:59 p.m. California time on the last day of the Escrow Period. For all purposes of and under this Agreement, the term "**Claim Certificate**" shall mean a certificate signed by any officer of Parent: (i) stating that an Indemnified Party has paid, sustained or incurred Losses, or reasonably anticipates that it will pay, sustain or incur Losses, (ii) specifying in reasonable detail the individual items of Loss included in the amount so stated (and the method of computation of each such item of Loss, if applicable), the date each such item of Loss was

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paid, sustained or incurred, accrued, or the basis for such reasonably anticipated Loss(es), (iii) a brief description in reasonable detail (to the extent available to Parent) of the facts, circumstances or events giving rise to each item of Loss based on Parent's good faith belief thereof, including the identity and address of any third-party claimant and copies of any formal demand or complaint relating thereto, (iv) the basis for indemnification under **Section 8.2** to which such item of Loss is related (including, if applicable, the specific nature of the misrepresentation, breach of warranty or covenant) and (v) calculation of the Losses to the extent known, including the availability of recoveries for insurance or from other third parties to the Indemnified Party arising therefrom. Following the delivery of a Claim Certificate, the Stockholder Representative and its representatives and agents shall be given reasonable access to the books and records of the Surviving Corporation and access to such personnel or representatives of the Surviving Corporation and Parent (limited to those personnel or representatives who were formerly Employees of the Company), including but not limited to the individuals responsible for the matters that are subject of the Claim Certificate, solely for the purposes of investigating or resolving any disputes or responding to any matters or inquiries raised in the Claim Certificate.

(b) Subject to **Section 8.1**, no delay in providing a Claim Certificate in accordance with the terms hereof shall affect an Indemnified Party's rights hereunder, unless (and then only to the extent that) the Stockholder Representative or any other applicable Indemnifying Parties are materially prejudiced thereby.

(c) If the Stockholder Representative shall not object in writing pursuant to **Section 8.4(e)** to any individual items of Loss paid, sustained or incurred by an Indemnified Party and set forth in a Claim Certificate delivered by Parent pursuant to **Section 8.4(a)** within thirty (30) calendar days after the Stockholder Representative's receipt of such Claim Certificate, the Stockholder Representative shall be conclusively deemed to have acknowledged and irrevocably consented, for and on behalf of the Indemnifying Parties, that the Indemnified Parties are entitled to the full amount of such Losses as and when such Losses are actually paid, sustained or incurred. Upon receipt of any Claim Certificate, the Escrow Agent shall not release any portion of the Escrow Amount to Parent or any other Indemnified Party or Parties pursuant to this Agreement unless and until (i) the Escrow Agent shall have received written authorization from the Stockholder Representative to release any portion of the Escrow Amount, or (ii) the Stockholder Representative shall have failed to object in writing pursuant to **Section 8.4(e)** to any individual items of Loss paid, sustained or incurred by an Indemnified Party and set forth in such Claim Certificate within thirty (30) calendar days after the Stockholder Representative's receipt of such Claim Certificate.

(d) In the event that the Escrow Agent shall receive written authorization from the Stockholder Representative to release to Parent or any other Indemnified Party or Parties any portion of the Escrow Amount pursuant to **Section 8.4(c)**, the Escrow Agent shall release such portion of the Escrow Amount in accordance with such written instructions. In the event that the Stockholder Representative shall have failed to object in writing pursuant to **Section 8.4(e)** to any individual items of Loss paid, sustained or incurred by an Indemnified Party and set forth in a Claim Certificate relating to a claim for indemnification pursuant to **Section 8.2** within thirty (30) calendar days after the Stockholder Representative's receipt of such Claim Certificate, the Escrow Agent shall promptly release to Parent or any other Indemnified Party or Parties (as instructed by Parent in writing, with a copy to the Stockholder Representative) out of the Escrow Account an amount of cash equal to the amount of all such items of Loss with respect to which the Stockholder Representative has not objected in writing pursuant to **Section 8.4(e)** as and when such Losses are actually paid, sustained or incurred. Cash released to Parent or any other Indemnified Party or Parties pursuant to the preceding sentence shall be deemed to reduce each Indemnifying Party's interest in the Escrow Fund in accordance with his, her or its Pro Rata Portion of the Escrow Fund.

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(e) In the event that the Stockholder Representative shall seek to contest any individual items of Loss set forth in a Claim Certificate received from Parent pursuant to **Section 8.4(a)**, the Stockholder Representative shall notify Parent in writing, within thirty (30) calendar days after receipt of such Claim Certificate, of the Stockholder's Representative's objection. Upon Parent's receipt of a written notice of objection from the Stockholder Representative pursuant to the preceding sentence, Parent and the Stockholder Representative shall attempt in good faith to agree upon the rights of the respective parties with respect to the disputed items of Loss. If the Stockholder Representative and Parent should so agree, a memorandum setting forth the agreement reached by the parties with respect to such disputed items of Loss shall be prepared and signed by both parties and, in the case of a claim against the Escrow Fund, shall be furnished to the Escrow Agent. The Escrow Agent shall be entitled to rely on any such memorandum and make distributions from the Escrow Fund, in accordance with the instructions set forth in any such memorandum.

(f) If within ninety (90) calendar days after the Stockholder Representative's receipt of such Claim Certificate, and after good faith negotiations, the parties are unable to agree on the rights of the respective parties with respect to any disputed items of Loss set forth in a Claim Certificate, either Parent or the Stockholder Representative may bring suit in the Delaware Court of Chancery within the State of Delaware (or, if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter, any court of the United States located in the State of Delaware) to resolve the matter. The decision of the trial court as to the validity and amount of any claim in such Claim Certificate shall be nonappealable, binding and conclusive upon the parties to this Agreement, and the Escrow Agent shall be entitled to act in accordance with such decision, and the Escrow Agent shall distribute the Escrow Amount in accordance therewith. Judgment upon any award rendered by the trial court may be entered in any court having jurisdiction.

#### 8.5 Escrow Arrangements.

(a) Escrow Fund. The Escrow Amount shall constitute an escrow fund (the "**Escrow Fund**") to be governed by the terms set forth herein and in the Escrow Agreement. The Escrow Fund shall be available to compensate the Indemnified Parties for any indemnification claims arising under **Section 8.2**.

(b) Escrow Periods; Distribution of Escrow Funds upon Termination of Escrow Period. The period during which claims for indemnification for Losses may be made against the Escrow Fund shall commence at the Effective Time and terminate on the date that is twelve (12) months following the Closing Date (the "**Escrow Period**"). Notwithstanding anything to the contrary contained in this Agreement, at the conclusion of the Escrow Period, such portion of the Escrow Fund as is certified by Parent in good faith to be the maximum reasonable estimate of Losses expected to be incurred as a result of any unresolved or unsatisfied claims for indemnification for Losses specified in any Claim Certificate delivered in accordance with the terms hereof prior to expiration of the Escrow Period shall remain in the Escrow Fund until such claims have been finally and fully resolved or satisfied. The remainder, if any, of the Escrow Fund shall be paid (i) to the Indemnifying Holders in respect of such holders' shares of Company Capital Stock and Cash-Out Options (to the extent the payment in respect of the Cash-Out Options is not subject to income or employment tax withholding) promptly (and in any event within five (5) Business Days) after the expiration of the Escrow Period, and (ii) to Parent for payment to the Indemnifying Holders in respect of such holders' shares of Cash-Out Options (to the extent such payments are subject to employment or income tax withholding) promptly (and in any event no later than the next scheduled payroll period) after the expiration of the Escrow Period, and Parent and the Stockholder Representative shall give the Escrow Agent written instructions to that effect. After the expiration of the Escrow Period, upon resolution of a pending claim for Losses, the portion of the Escrow

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Fund remaining, if any, after such Losses have been satisfied, shall be returned (i) to the Indemnifying Holders in respect of such holders' shares of Company Capital Stock and Cash-Out Options (to the extent the payment in respect of the Cash-Out Options is not subject to income or employment tax withholding) promptly (and in any event within five (5) Business Days) after the final resolution of the underlying claim, and (ii) to Parent for payment to the Indemnifying Holders in respect of such holders' shares of Cash-Out Options (to the extent such payments are subject to employment or income tax withholding) promptly (and in any event no later than the next scheduled payroll period) after the final resolution of the underlying claim.

**8.6 Third Party Claims.** In the event Parent becomes aware of a third party claim which Parent reasonably believes may result in a demand against the Escrow Fund or for other indemnification pursuant to this **Article VIII**, Parent shall notify the Stockholder Representative of such third party claim if such claim occurs during the Escrow Period, or each of the Indemnifying Parties that Parent (or any other Indemnified Parties) may bring a claim against if such third party claim occurs after the Escrow Period. Parent shall have the right in its sole discretion to conduct the defense of, and to settle, any such claim; *provided, however*, that except with the consent of the Stockholder Representative, no settlement of any such claim with third party claimants shall be determinative of the amount of Losses relating to such matter. In the event that the Stockholder Representative has consented to any such settlement, the amount of such settlement shall be conclusively and irrebuttably presumed to be reasonable, and the Stockholder Representative shall not make, and the courts shall have no power or authority to hear, any objection under any provision of this **Article VIII** to the amount of any claim by Parent against the Escrow Fund with respect to the amount of Losses incurred by Parent in such settlement. The Stockholder Representative and any other Indemnifying Party against whom any Parent Indemnified Party has brought a claim for indemnification arising out of such third party claim (after the Escrow Period) shall be entitled on behalf of the Indemnifying Parties, at its sole option and expense (or, in the case of the Stockholder Representative, at the expense of the Indemnifying Holders), to participate in, but not to determine or conduct, the defense of such claim. If Parent does not elect to proceed with the defense of any such third party claim, the Stockholder Representative may proceed with the defense of such third party claim; *provided, however*, that the Stockholder Representative may not settle, adjust or compromise any such third party claim without the prior written consent of Parent (which consent may not be unreasonably withheld or delayed), unless such settlement, adjustment or compromise: (i) involves the payment of monetary damages in an amount less than or equal to the amount of Losses for which the Indemnifying Parties are potentially liable under this **Article VIII** in connection with such third party claim; (ii) includes a complete and unconditional release of the Indemnified Parties in respect of the third party claim, (iii) involves no admission of wrongdoing by the Indemnified Parties, and (iv) excludes any injunctive or non-monetary relief applicable to the Indemnified Parties.

#### **8.7 Stockholder Representative.**

(a) Each of the Indemnifying Parties hereby appoints Shareholder Representative Services LLC as its agent and attorney in fact as the Stockholder Representative for and on behalf of the Indemnifying Holder to take all actions required or permitted by this Agreement or the Escrow Agreement, including without limitation to give and receive notices and communications, to authorize payment to Parent from the Escrow Fund in satisfaction of claims by Parent, to object to such payments, to agree to, negotiate, enter into settlements and compromises of, and demand resolution and comply with orders of courts with respect to such claims, and to take all other actions that are either (i) necessary or appropriate in the judgment of either of the Stockholder Representative for the accomplishment of the foregoing or (ii) specifically mandated by the terms of this Agreement. Such agency may be changed by the Indemnifying Holders from time to time upon not less than thirty (30) days prior written notice to Parent and the Stockholder Representative; *provided, however*, that the Stockholder Representative may

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not be removed unless holders of at least two-thirds (2/3) of the interest of the Escrow Fund agree to such removal and to the identity of the substituted agent. A vacancy in the position of Stockholder Representative may be filled by the holders of a majority in interest of the Escrow Fund. No bond shall be required of the Stockholder Representative, and the Stockholder Representative shall not receive any compensation for its services other than compensation pursuant to the terms of that certain Stockholder Representative Agreement entered into between the Stockholder Representative, the Company and certain of the Indemnifying Holders on the date hereof. Notices or communications to or from the Stockholder Representative shall constitute notice to or from the Indemnifying Holders. The Stockholder Representative shall be permitted to communicate with the Indemnifying Holders, including in electronic form.

(b) The Stockholder Representative shall not be liable for any act done or omitted hereunder as Stockholder Representative while acting in good faith, and any act done or omitted to be done pursuant to the advice of legal counsel shall be conclusive evidence of such good faith. The Indemnifying Holders shall indemnify the Stockholder Representative and hold harmless the Stockholder Representative against any loss, liability or expense arising out of or in connection with the acceptance or administration of the Stockholder Representative's duties hereunder ("**Representative Losses**"), including the reasonable fees and expenses of any legal counsel retained by the Stockholder Representative, in each case as such Representative Losses are suffered or incurred; *provided*, that in the event a court of competent jurisdiction determines, in a final, non-appealable order, that a Representative Loss or any portion thereof was primarily caused by the gross negligence or willful misconduct of the Stockholder Representative, then the Stockholder Representative will reimburse the Indemnifying Holders the amount of such indemnified Representative Loss attributable to such gross negligence or willful misconduct. If not paid directly to the Stockholder Representative by the Indemnifying Holders, any such losses, liabilities or expenses may be recovered by the Stockholder Representative from (i) the funds in the Expense Fund, or (ii) the amounts in the Escrow Fund otherwise distributable to the Indemnifying Holders pursuant to the terms and conditions hereof and the Escrow Agreement as of the time of distribution in accordance with written instructions delivered by the Stockholder Representative to the Escrow Agent; *provided*, that while this subsection allows the Stockholder Representative to seek payment from the Expense Fund and the Escrow Fund, such option shall not relieve the Indemnifying Holders of their obligation to promptly pay such Representative Losses as such Representative Losses are suffered or incurred, nor does it prevent the Stockholder Representative from seeking any remedies available to it at law or otherwise.

(c) A decision, act, consent or instruction of the Stockholder Representative shall constitute a decision of the Indemnifying Holders and shall be final, binding and conclusive upon the Indemnifying Holders; and the Escrow Agent and Parent may rely upon any such decision, act, consent or instruction of the Stockholder Representative as being the decision, act, consent or instruction of the Indemnifying Holders. The Escrow Agent and Parent are hereby relieved from any liability to any Person for any acts done by them in accordance with such decision, act, consent or instruction of the Stockholder Representative.

(d) Upon the Closing, Parent shall wire, or cause to be wired, to the Stockholder Representative an aggregate amount equal to four hundred thousand dollars (\$400,000) (the "**Expense Fund**"), which shall be held by the Stockholder Representative as agent and for the benefit of the Indemnifying Holders in a segregated client account and shall be used for the purposes of paying directly, or reimbursing the Stockholder Representative for, any third party expenses pursuant to this Agreement or the Escrow Agreement. The Stockholder Representative will hold these funds separate from its corporate funds, will not use these funds for its operating expenses or any other corporate purposes and will not voluntarily make these funds available to its creditors in the event of bankruptcy. The Indemnifying



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Holders shall not receive interest or other earnings on the Expense Fund and the Indemnifying Holders irrevocably transfer and assign to the Stockholder Representative any ownership right that they may have in any interest that may accrue on funds held in the Expense Fund. The Indemnifying Holders acknowledge that the Stockholder Representative is not providing any investment supervision, recommendations or advice. The Stockholder Representative shall have no responsibility or liability for any loss of principal of the Expense Fund other than as a result of its gross negligence or willful misconduct. As soon as practicable following the release in full of the Escrow Fund under the terms set forth in this Agreement and the Escrow Agreement, the Stockholder Representative shall deliver the balance of the Expense Fund to the Escrow Agent for distribution to the Indemnifying Holders or Parent, as the case may be. For tax purposes, the Expense Fund shall be treated as having been received and voluntarily set aside by the Indemnifying Holders at the time of Closing.

## ARTICLE IX

### TERMINATION, AMENDMENT AND WAIVER

9.1 Termination. Except as provided in **Section 9.2**, this Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing:

(a) by mutual agreement of the Company and Parent;

(b) by Parent or the Company if the Closing Date shall not have occurred by March 31, 2012; *provided, however*, that the right to terminate this Agreement under this **Section 9.1(b)** shall not be available to any party whose action or failure to act has been a principal cause of or resulted in the failure of the Effective Time to occur on or before such date and such action or failure to act constitutes a breach of this Agreement;

(c) by Parent if the Written Consent is not delivered by the Requisite Stockholder Approval within two (2) hours following the exchange of signature pages by Parent, Merger Sub, the Company and the Stockholder Representative;

(d) by Parent or the Company if: (i) there shall be a final non-appealable order of a federal or state court in effect preventing consummation of the Merger, or (ii) there shall be any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Closing by any Governmental Authority that would make consummation of the Merger illegal;

(e) by Parent if (i) it is not in material breach of its obligations under this Agreement and (ii) there has been a breach of any representation, warranty, covenant or agreement of the Company set forth in this Agreement such that if not cured on or prior to the Closing Date the conditions set forth in **Section 7.2(a)** or **Section 7.2(b)** would not be satisfied, and such breach has not been cured within twenty (20) Business Days after written notice thereof to the Company; *provided, however*, that no cure period shall be required for a breach which by its nature cannot be cured;

(f) by the Company if (i) it is not in material breach of its obligations under this Agreement and (ii) there has been a breach of any representation, warranty, covenant or agreement of Parent or Merger Sub set forth in this Agreement such that if not cured on or prior to the Closing Date the conditions set forth in **Section 7.3(a)** or **Section 7.3(b)** would not be satisfied, and such breach has not been cured within twenty (20) Business Days after written notice thereof to Parent; *provided, however*, that no cure period shall be required for a breach which by its nature cannot be cured; or

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(g) by Parent, if a Company Material Adverse Effect has occurred after the date of this Agreement such that if not cured on or prior to the Closing Date the conditions set forth in **Section 7.2(c)** would not be satisfied, and such breach has not been cured within twenty (20) Business Days after written notice thereof to Parent; *provided, however*, that no cure period shall be required for a breach which by its nature cannot be cured.

9.2 Effect of Termination. In the event of termination of this Agreement as provided in **Section 9.1**, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Parent, Merger Sub, the Company, or their respective officers, directors or stockholders, if applicable; *provided, however*, that each party hereto shall remain liable for any willful or intentional breaches of this Agreement prior to its termination; and *provided further, however*, that, the provisions of **Section 6.10** (Transaction Expenses), **Section 6.15** (Public Announcements), this **Section 9.2**, **Article X** and the applicable definitions set forth in **Article I** shall remain in full force and effect and survive any termination of this Agreement pursuant to the terms of this **Article IX**.

9.3 Amendment. This Agreement may be amended by the parties hereto at any time by execution of an instrument in writing signed on behalf of Parent, the Stockholder Representative and the Company.

9.4 Extension; Waiver. At any time prior to the Closing, Parent, on the one hand, and the Company, on the other hand, may, to the extent legally allowed, (a) extend the time for the performance of any of the obligations of the other party hereto, (b) waive any inaccuracies in the representations and warranties made to such party set forth herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions for the benefit of such party set forth herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

## ARTICLE X

### GENERAL PROVISIONS

10.1 Notices. All notices and other communications hereunder shall be in writing and shall be deemed delivered and effective upon the earliest of (a) personal delivery, (b) electronic confirmation of a facsimile transmission received in its entirety at the applicable facsimile number indicated below with a confirmatory copy sent for overnight delivery the next Business Day by recognized overnight commercial courier service (such as Federal Express), with all charges prepaid or charged to the sender's account, to the applicable address set forth below or (c) delivery by recognized overnight courier service, with all charges prepaid or charged to the sender's account, to the applicable address set forth below or at such other address as shall be specified in writing in accordance with this paragraph:

- (a) if to Parent or the Company (following the Closing), to:
  - LSI Corporation
  - 1621 Barber Lane
  - Milpitas, California 95035
  - Attention: Bryon Look, Executive VP, Chief Financial Officer and Chief Administrative Officer
  - Telephone No.: (408) 433-8000
  - Facsimile No.: (408) 433-7306

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with a copy to:

Wilson Sonsini Goodrich & Rosati  
Professional Corporation  
One Market Street, Spear Tower Suite 3300  
San Francisco, California 94105  
Attention: Michael S. Ringler  
Telephone No.: (415) 947-2000  
Facsimile No.: (415) 947-2099

(b) if to the Company (prior to the Closing) to:

SandForce, Inc.  
691 South Milpitas Boulevard, Suite 100  
Milpitas, California 95035  
Attention: Michael Raam  
Telephone No.: (408) 372-9000  
Facsimile No.: (408) 372-9001

with a copy to:

Kaye Scholer LLP  
Two Palo Alto Square, Suite 400  
3000 El Camino Real  
Palo Alto, California 94306  
Attention: Diane Holt Frackle  
Telephone No.: (650) 319-4518  
Facsimile No.: (650) 319-4918

(c) If to the Stockholder Representative, to:

Shareholder Representative Services LLC  
601 Montgomery Street, Suite 2020  
San Francisco, California 94111  
Attention: Managing Director  
Email: deals@shareholderrep.com  
Telephone No.: (415) 367-9400  
Facsimile No.: (415) 962-4147

in all cases, with a copy to (which shall not constitute notice):

Kaye Scholer LLP  
Two Palo Alto Square, Suite 400  
3000 El Camino Real  
Palo Alto, California 94306  
Attention: Diane Holt Frackle  
Telephone No.: (650) 319-4518  
Facsimile No.: (650) 319-4918

10.2 Waiver. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. Following

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the Closing, any such waiver of any Indemnifying Party may be given by the Stockholder Representative. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by applicable law or otherwise afforded, will be cumulative and not alternative.

10.3 Confidentiality. Each of the parties hereto hereby agrees that the information obtained in any investigation pursuant to **Section 6.8**, or pursuant to the negotiation and execution of this Agreement or the effectuation of the transactions contemplated hereby, shall be governed by the terms of the Letter Agreement dated September 29, 2010 (the "**Non-Disclosure Agreement**") between the Company and Parent.

10.4 Entire Agreement. This Agreement, the Exhibits hereto, the Company Disclosure Letter, the Non-Disclosure Agreement, the Escrow Agreement and the documents and instruments and other agreements among the parties hereto referenced herein constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings both written and oral, among the parties with respect to the subject matter hereof.

10.5 No Third Party Beneficiaries. Except for the provisions of **Article VIII** relating to Indemnified Parties and the provisions of **Section 6.14** relating to the indemnification, exculpation, insurance and related matters set forth therein of certain Persons during the D&O Tail Period, this Agreement, the Exhibits hereto, the Company Disclosure Letter, the Non-Disclosure Agreement, and the documents and instruments and other agreements among the parties hereto referenced herein are not intended to confer upon any other Person any rights or remedies hereunder.

10.6 Assignment. This Agreement, the Exhibits hereto, the Company Disclosure Letter, the Non-Disclosure Agreement, and the documents and instruments and other agreements among the parties hereto referenced herein shall not be assigned by any of the parties hereto, by operation of law or otherwise, without the prior written consent of the other parties hereto, except that Parent may assign its rights and delegate its obligations hereunder to its affiliates as long as Parent remains fully liable for all of Parent's obligations hereunder. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

10.7 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

10.8 Other Remedies. Any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

10.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

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10.10 Choice of Jurisdiction and Venue. Each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue in the Delaware Court of Chancery within the State of Delaware (or, if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter, any court of the United States located in the State of Delaware) in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Delaware for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction, venue and such process. Each party agrees not to commence any legal proceedings related hereto except in such courts.

10.11 Waiver Of Jury Trial. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AND ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF ANY PARTY HERETO IN NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.

10.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

10.13 Waiver of Conflict. Each of the parties hereto acknowledges and agrees, on its own behalf and on behalf of its directors, members, partners, officers, employees, and Affiliates that the Company is the client of each of Kaye Scholer LLP and DLA Piper US LLP (each a "**Law Firm**"). After the Closing, it is possible that Law Firm will represent the Company Stockholders, holders of Company Options, Company Warrantholders, the Stockholder Representative and their respective Affiliates (individually and collectively, the "**Seller Group**") in connection with matters related to this Agreement or the Escrow Agreement, including, without limitation, matters related to the Escrow Amount and any claims related thereto pursuant to this Agreement. Parent, the Company and the Surviving Corporation, hereby agree that each Law Firm (or any successor) may represent the Seller Group in the future in connection with matters related to this Agreement or the Escrow Agreement and any claims that may be made thereunder pursuant to this Agreement. Each Law Firm (or any successor) may serve as counsel to Seller Group or any director, member, partner, officer, employee, representative, or Affiliate of the Seller Group, in connection with any litigation, claim or obligation arising out of or relating to this Agreement or the Escrow Agreement or the transactions contemplated by this Agreement or the Escrow Agreement and each of the parties hereto hereby consents thereto and waives any conflict of interest arising therefrom and each of such parties shall cause any Affiliate thereof to consent to waive any conflict of interest arising from such representation. Each of the parties hereto acknowledges that such consent and waiver is voluntary, has been carefully considered and the parties have consulted with counsel or been advised they should do so in connection with this waiver and consent.

10.14 Company Disclosure Letter. An exception or disclosure made in the Company Disclosure Letter with regard to a representation or warranty shall be deemed made with respect to any other representation or warranty by such party if and solely to the extent that it is readily apparent on the face of such exception or disclosure (without further inquiry or reference to any document(s) referenced therein or other extrinsic evidence) to a reasonable Person reviewing such Company Disclosure Letter that such exception or disclosure applies to such other representation or warranty.

*[Remainder of page intentionally left blank.]*

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IN WITNESS WHEREOF, Parent, Merger Sub, the Company and the Stockholder Representative have caused this Agreement to be signed, all as of the date first written above.

**LSI CORPORATION**

By: /s/ Jeff Richardson  
Name: Jeff Richardson  
Title: Executive Vice President and Chief Operating Officer

**AUTOBAHN ACQUISITION CORPORATION**

By: /s/ Paul Bento  
Name: Paul Bento  
Title: President

**SANDFORCE, INC.**

By: /s/ Farboud Michael Raam  
Name: Farboud Michael Raam  
Title: CEO

**SHAREHOLDER REPRESENTATIVE SERVICES LLC, solely in its capacity as Stockholder Representative**

By: /s/ Mark B. Vogel  
Name: Mark B. Vogel  
Title: Managing Director

**AGREEMENT AND PLAN OF MERGER**

**LSI CORPORATION**  
**2003 EQUITY INCENTIVE PLAN**

SECTION 1  
BACKGROUND AND PURPOSE

1.1 Background and Effective Date. The Plan permits the grant of Nonqualified Stock Options, Stock Appreciation Rights, Incentive Stock Options, Restricted Stock and Restricted Stock Units. The Plan was last amended on April 6, 2011.

1.2 Purpose of the Plan. The Plan is intended to attract, motivate, and retain employees of the Company and its Affiliates and Directors of the Company. The Plan also is designed to encourage stock ownership by Participants, thereby aligning their interests with those of the Company's stockholders and to permit the payment of compensation that qualifies as performance-based compensation under Section 162(m) of the Code.

SECTION 2  
DEFINITIONS

The following words and phrases shall have the following meanings:

2.1 "1934 Act" means the Securities Exchange Act of 1934. Reference to a specific section of the 1934 Act or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.2 "Affiliate" means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

2.3 "Award" means, individually or collectively, a grant under the Plan of a Nonqualified Stock Option, an Incentive Stock Option, a Stock Appreciation Right, Restricted Stock and/or Restricted Stock Units.

2.4 "Award Agreement" means a written or electronic agreement setting forth the terms and conditions applicable to an Award.

2.5 "Board" or "Board of Directors" means the Board of Directors of the Company.

2.6 "Cash Flow" means, as to any Performance Period, the Company's or a business unit's sum of Profit plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses.

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2.7 "Change in Control" means the occurrence of any of the following events:

(a) Change in Ownership of the Company. A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires beneficial ownership of stock of the Company that, together with other stock beneficially owned by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, however, that for purposes of this clause (a), the acquisition of beneficial ownership of additional stock by any one Person, who is considered to beneficially own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control; or

(b) Change in Effective Control of the Company. A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; provided, however, that for purposes of this clause (b), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(c) Change in Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this clause (c), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in clause (c)(B)(3); provided, however, for purposes of this clause (c), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2.7, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction shall not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

2.8 "Code" means the Internal Revenue Code of 1986. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation



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promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.9 "Committee" means the committee appointed by the Board to administer the Plan.

2.10 "Company" means LSI Corporation, a Delaware corporation, or any successor thereto.

2.11 "Determination Date" means the latest possible date that will not jeopardize the qualification of an Award as "performance-based compensation" under Section 162(m) of the Code.

2.12 "Director" means any individual who is a member of the Board of Directors of the Company.

2.13 "Disability" means a permanent and total disability determined in accordance with uniform and nondiscriminatory standards adopted by the Committee, in its discretion, from time to time.

2.14 "Earnings Per Share" means, as to any Performance Period, the Company's earnings per share, determined in accordance with GAAP or such other basis determined by the Committee.

2.15 "Effective Date" means the most recent date on which the Plan was approved or amended by the stockholders of the Company.

2.16 "Employee" means, any employee of the Company or of an Affiliate.

2.17 "Exchange/Repricing Program" means a program established by the Committee under which outstanding Awards are (a) amended to provide for a lower Exercise Price or (b) surrendered or cancelled in exchange for (i) Awards with a lower Exercise Price, (ii) a different type of Award, (iii) cash, or (iv) a combination of (i), (ii) and/or (iii). Notwithstanding the preceding, the term Exchange/Repricing Program does not include any action described in Sections 4.3, 9 or 10.5.

2.18 "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option or SAR.

2.19 "Fair Market Value" means the closing price per Share on the New York Stock Exchange on the relevant date, or if the New York Stock Exchange was not open for trading on such date, the closing price per Share on the nearest day on which the New York Stock Exchange was open for trading before the relevant date, in either case, as reported by *The Wall Street Journal* or such other service selected in the discretion of the Committee. Notwithstanding the preceding, for federal, state, and local income tax reporting purposes, fair market value shall be determined by the Committee in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

2.20 "Fiscal Year" means the fiscal year of the Company.

2.21 "GAAP" means generally accepted accounting principles in the United States.

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2.22 "Grant Date" means, with respect to an Award, the date that the Award was granted. The Grant Date shall be no earlier than the date the Award is approved by the Committee.

2.23 "Incentive Stock Option" means an Option to purchase Shares that is designated as an Incentive Stock Option and as intended to meet the requirements of Section 422 of the Code.

2.24 "Nonemployee Director" means a Director who is an employee of neither the Company nor of any Affiliate.

2.25 "Nonqualified Stock Option" means an option to purchase Shares that is not intended to be an Incentive Stock Option.

2.26 "Operating Income" means as to any Performance Period, the Company's operating income, determined in accordance with GAAP or such other basis determined by the Committee.

2.27 "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

2.28 "Participant" means an Employee or Nonemployee Director who has an outstanding Award.

2.29 "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to an Award. As determined by the Committee, the Performance Goal(s) for any Award may provide for a targeted level or levels of achievement using one or more of the following measures: (a) Cash Flow, (b) Earnings Per Share, (c) Operating Income, (d) Profit, (e) Return on Capital (f) Return on Equity, (g) Return on Sales, (h) Revenue and (i) Total Shareholder Return. Performance Goals may differ from Participant to Participant, Performance Period to Performance Period and from Award to Award. Any criteria used may be measured, as applicable, (i) in absolute terms, (ii) in relative terms (including, but not limited to, passage of time and/or against another company or companies), (iii) on a per-share basis, (iv) against the performance of the Company as a whole or a segment of the Company and/or (v) on a pre-tax or after-tax basis. Prior to the Determination Date, the Committee may determine that any element(s) normally included in or excluded from the applicable measures shall be included in or excluded from the calculation of any Performance Goal with respect to any Participants, whether or not such determinations result in any Performance Goal being measured on a basis other than GAAP.

2.30 "Performance Period" means the period, determined by the Committee in its sole discretion, during which any Performance Goals specified by the Committee with respect to an Award are to be measured.

2.31 "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. As provided in Section 6, such restrictions may be based on the passage of time, the achievement of specified levels of performance, or the occurrence of other events or conditions, as determined by the Committee, in its discretion.

2.32 "Plan" means the LSI Corporation 2003 Equity Incentive Plan.

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- 2.33 "Profit" means as to any Performance Period, the Company's income, determined in accordance with GAAP or such other basis determined by the Committee.
- 2.34 "Restricted Stock" means Shares granted to a Participant pursuant to Section 6.
- 2.35 "Restricted Stock Unit" or "RSU" means an Award granted to a Participant pursuant to Section 7.
- 2.36 "Retirement" means a Termination of Service occurring on or after the earlier of (a) age sixty-five (65), or (b) age fifty-five (55) and the completion of ten (10) years of service with the Company or an Affiliate.
- 2.37 "Return on Capital" means, as to any Performance Period, Profit divided by average invested capital.
- 2.38 "Return on Equity" means as to any Performance Period, the percentage equal to the Company's Profit divided by average shareholders' equity, determined in accordance with GAAP or such other basis determined by the Committee.
- 2.39 "Return on Sales" means, as to any Performance Period, the percentage equal to Profit, divided by the Revenue.
- 2.40 "Revenue" means as to any Performance Period, the Company's revenues determined in accordance with GAAP or such other basis determined by the Committee.
- 2.41 "Rule 16b-3" means Rule 16b-3 promulgated under the 1934 Act, and any future regulation amending, supplementing or superseding such regulation.
- 2.42 "Section 16 Person" means a person who, with respect to Shares, is subject to Section 16 of the 1934 Act.
- 2.43 "Section 409A" means Section 409A of the Code, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.
- 2.44 "Shares" means shares of common stock of the Company.
- 2.45 "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, that pursuant to Section 8 is designated as an SAR.
- 2.46 "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company as the corporation at the top of the chain, but only if each of the corporations below the Company (other than the last corporation in the unbroken chain) then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain, or if Section 424(f) of the Code is modified after the date hereof, a "subsidiary corporation" as defined in Section 424(f) of the Code.

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2.47 "Tax Obligations" means tax and social insurance liability obligations and requirements in connection with Awards, including, without limitation, (a) all federal, state, and local taxes (including the Participant's FICA obligation) that are required to be withheld by the Company or the employing Affiliate, (b) the Participant's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax liability, if any, associated with the grant or vesting of an Award, the exercise of an option or a Stock Appreciation Right or the sale of Shares or, and (c) any other Company (or employing Affiliate) taxes the responsibility for which the Participant has agreed to bear with respect to such Award (or exercise thereof or issuance of Shares thereunder).

2.48 "Termination of Service" means (a) in the case of an Employee, a cessation of the employee-employer relationship between the Employee and the Company or an Affiliate for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability, Retirement, or the disaffiliation of an Affiliate, but excluding any such termination where there is a simultaneous reemployment by the Company or an Affiliate; and (b) in the case of a Nonemployee Director, a cessation of the Director's service on the Board for any reason, including, but not by way of limitation, a termination by resignation, death, Disability, Retirement or non-reelection to the Board.

2.49 "Total Shareholder Return" means as to any Performance Period, the total return (based on change in share price and taking into account reinvestment of any dividends) of a Share.

### SECTION 3 ADMINISTRATION

3.1 The Committee. The Plan shall be administered by the Committee. The Committee shall consist of two (2) or more Nonemployee Directors. Unless otherwise determined by the Board, the "Committee" shall mean the Compensation Committee of the Board.

3.2 Authority of the Committee. The Committee shall have all powers and discretion necessary or desirable to administer the Plan and to control its operation, including, but not limited to, the power to (a) determine which Employees and Directors shall be granted Awards, (b) prescribe the terms and conditions of the Awards, (c) interpret the Plan and the Awards, (d) adopt such procedures and subplans as are necessary or desirable to permit participation in the Plan by Employees and Directors who are foreign nationals or employed outside of the United States, (e) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith and (f) interpret, amend or revoke any such rules. Notwithstanding any contrary provision of the Plan, the Committee shall not have the authority to implement an Exchange/Repricing Program without the approval of the Company's stockholders.

3.3 Delegation by the Committee. The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or any part of its authority, discretion and powers under the Plan to one or more Directors or employees of the Company; provided, however, that the Committee may not delegate its authority, discretion and powers with respect to the granting, amending or interpreting of Awards granted to Section 16 Persons.

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3.4 Decisions Binding. All determinations and decisions made by the Committee, the Board, and any delegate of the Committee shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

SECTION 4  
SHARES SUBJECT TO THE PLAN

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3, the total number of Shares available for grant under the Plan on or after the Effective Date shall be 45,000,000, no more than 30,000,000 of which may be used for Awards of Restricted Stock or Restricted Stock Units. Shares granted under the Plan may be either authorized but unissued Shares or treasury Shares.

4.2 Lapsed Awards. If an Award, including an Award granted prior to the Effective Date, expires, terminates, is canceled or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock or Restricted Stock Units, is forfeited or repurchased by the Company, the unpurchased Shares (or for Awards other than Options and Stock Appreciation Rights, the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). If Shares subject to an Award of Restricted Stock or Restricted Stock Units become available again under the Plan pursuant to the preceding sentence, then those Shares will also become available for Awards of Restricted Stock or Restricted Stock Units. Upon exercise of a Stock Appreciation Right settled in Shares, the total number of Shares subject to the portion of the Award so exercised, whether or not actually issued pursuant to such exercise, will cease to be available under the Plan. Shares that have actually been issued under the Plan pursuant to any Award will not be returned to the Plan and will not become available for future Awards; provided, however, that if unvested Shares of Restricted Stock or Restricted Stock Units are repurchased by the Company or are forfeited, such Shares will become available for future Awards. Shares used to pay the taxes associated with, and/or Exercise Price of, an Award will not become available for future Awards. To the extent an Award is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing provisions of this Section 4.2, and subject to adjustment provided in Section 4.3, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will be 45,000,000 Shares.

4.3 Adjustments in Awards and Authorized Shares. In the event of any dividend (excluding any cash dividend other than an extraordinary dividend) or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall appropriately adjust the number and class of Shares that may be made subject to Awards, the number, class, and price of Shares (or other property or cash) subject to outstanding Awards, and the numerical limits of Sections 5.1, 6.1, 7.1, and 8.1. Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number.

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SECTION 5  
STOCK OPTIONS

5.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Employees or Directors at any time and from time to time as determined by the Committee in its sole discretion. The Committee, in its sole discretion, shall determine the number of Shares subject to each Option, provided that during any Fiscal Year, no Participant shall be granted Options covering more than 4,000,000 Shares. The Committee may grant Incentive Stock Options, Nonqualified Stock Options, or a combination thereof.

5.2 Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the expiration date of the Option, the number of Shares to which the Option pertains, any conditions to exercise of the Option, and such other terms and conditions as the Committee, in its discretion, shall determine. The Award Agreement shall also specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

5.3 Exercise Price. Subject to the provisions of this Section 5.3, the Exercise Price for each Option shall be determined by the Committee in its sole discretion.

5.3.1 Nonqualified Stock Options. In the case of a Nonqualified Stock Option, the Exercise Price shall be not less than the Fair Market Value of a Share on the Grant Date.

5.3.2 Incentive Stock Options. In the case of an Incentive Stock Option, the Exercise Price shall be not less than the Fair Market Value of a Share on the Grant Date; provided, however, that if on the Grant Date, the Employee (together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code) owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the Exercise Price shall be not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the Grant Date.

5.3.3 Substitute Options. Notwithstanding the provisions of Sections 5.3.1 and 5.3.2, in the event that the Company or an Affiliate consummates a transaction described in Section 424(a) of the Code (e.g., the acquisition of property or stock from an unrelated corporation), persons who become Employees or Nonemployee Directors on account of such transaction may be granted Options in substitution for options granted by their former employer. If such substitute Options are granted, the Committee, in its sole discretion and consistent with Section 424(a) of the Code, may determine that such substitute Options shall have an Exercise Price less than the Fair Market Value of a Share on the Grant Date.

5.4 Expiration of Options.

5.4.1 Expiration Dates. Each Option shall terminate no later than the first to occur of the following events:

- (a) The date for termination of the Option set forth in the Award Agreement; or
- (b) The expiration of seven (7) years from the Grant Date.

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5.4.2 Committee Discretion. Subject to the limits of Sections 5.4.1, the Committee, in its sole discretion, (a) shall provide in each Award Agreement when each Option expires and becomes unexercisable, and (b) may, after an Option is granted, extend the maximum term of the Option (subject to Section 5.8.4 regarding Incentive Stock Options).

5.5 Exercisability of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall determine in its sole discretion. After an Option is granted, the Committee, in its sole discretion, may accelerate the exercisability of the Option.

5.6 Payment. Options shall be exercised by the Participant's delivery of a notice of exercise to the Company (or its designee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by, or irrevocably committing to arrangements acceptable to the Company providing for, full payment for the Shares and following such procedure as the Company may specify from time to time. The notice shall be given in the form and manner specified by the Company from time to time.

Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full in cash or its equivalent. The Committee, in its sole discretion, also may permit exercise (a) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price, or (b) by any other means which the Committee, in its sole discretion, determines to both provide legal consideration for the Shares, and to be consistent with the purposes of the Plan. As soon as practicable after receipt of a notice of exercise and full payment for the Shares purchased, the Company shall deliver to the Participant (which may be by deposit in an account maintained for the Participant at the Company's designated broker), the Shares purchased.

5.7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option as it may deem advisable, including, but not limited to, restrictions related to applicable securities laws in the U.S. or any other country, the requirements of any national securities exchange or system upon which Shares are then listed or traded, or any blue sky or state securities laws.

#### 5.8 Certain Additional Provisions for Incentive Stock Options.

5.8.1 Exercisability. The aggregate Fair Market Value (determined on the Grant Date(s)) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Employee during any calendar year (under all plans of the Company and its Subsidiaries) shall not exceed \$100,000.

5.8.2 Termination of Service. No Incentive Stock Option may be exercised more than three (3) months after the Participant's Termination of Service for any reason other than Disability or death, unless (a) the Participant dies during such three-month period, and (b) the Award Agreement or the Committee permits later exercise. No Incentive Stock Option may be exercised more than one (1) year after the Participant's Termination of Service on account of Disability, unless (a) the Participant dies during such one-year period, and (b) the Award Agreement or the Committee permit later exercise.

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5.8.3 Eligible Grantees. Incentive Stock Options may be granted only to persons who are employees of the Company or a Subsidiary on the Grant Date.

5.8.4 Expiration. No Incentive Stock Option may be exercised after the expiration of seven (7) years from the Grant Date; provided, however, that if the Option is granted to an Employee who, together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code, owns stock possessing more than 10% of the total combined voting power of all classes of the stock of the Company or any of its Subsidiaries, the Option may not be exercised after the expiration of five (5) years from the Grant Date.

## SECTION 6 RESTRICTED STOCK

6.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock to Employees and Directors in such amounts as the Committee, in its sole discretion, shall determine. The Committee, in its sole discretion, shall determine the number of Shares to be granted to each Participant as Restricted Stock, provided that during any Fiscal Year, the sum of the number of Restricted Stock Units and Shares of Restricted Stock granted to any one Participant shall not exceed 1,000,000.

6.2 Restricted Stock Agreement. Each Award of Restricted Stock shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine. Unless the Committee determines otherwise, shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

6.3 Transferability. Except as provided in this Section 6 or Section 10.5, shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

6.4 Other Restrictions. The Committee, in its sole discretion, may impose such restrictions on shares of Restricted Stock as it may deem advisable or appropriate, in accordance with this Section 6.4.

6.4.1 General Restrictions. The Committee may set restrictions based upon continued employment or service with the Company and/or its affiliates, the achievement of specific performance objectives (Company-wide, divisional, or individual), applicable federal, state or country securities laws, or any other basis determined by the Committee in its discretion.

6.4.2 Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as "performance-based compensation" under Section 162(m) of the Code, the Committee, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Committee on or before the Determination Date. In granting Restricted Stock that is intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or desirable to enable qualification of the Restricted Stock as "performance-based compensation" under Section 162(m) of the Code (e.g., in determining the Performance Goals



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and certifying in writing whether the applicable Performance Goals have been achieved after the completion of the applicable Performance Period).

6.4.3 Legend on Certificates. The Committee, in its discretion, may legend the certificates representing Restricted Stock to give appropriate notice of the restrictions thereon.

6.5 Removal of Restrictions. Except as otherwise provided in this Section 6, the Shares covered by a Restricted Stock Award shall be released from escrow as soon as practicable after the last day of the Period of Restriction. The Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends placed under Section 6.4.3 on certificates representing the Restricted Stock for which the Period of Restriction has lapsed removed from his or her Share certificate, and the Shares shall be transferable by the Participant free of any restriction under the Plan. The Committee (in its discretion) may establish procedures regarding the release of Shares from escrow and the removal of legends, as necessary or desirable to minimize administrative burdens on the Company.

6.6 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock may exercise full voting rights with respect to those Shares, unless the Committee determines otherwise.

6.7 Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, those Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

6.8 Return of Restricted Stock to Company. On the date set forth in the Award Agreement, and subject to Section 4.2, any Restricted Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

## SECTION 7 RESTRICTED STOCK UNITS

7.1 Grant of Restricted Stock Units. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock Units to Employees and Directors in such amounts as the Committee, in its sole discretion, shall determine. The Committee, in its sole discretion, shall determine the number of Restricted Stock Units to be granted to each Participant, provided that during any Fiscal Year, the sum of the number of Restricted Stock Units and Shares of Restricted Stock granted to any one Participant shall not exceed 1,000,000.

7.2 Value of RSUs. Each Restricted Stock Unit shall represent the right to receive one Share (or the equivalent value thereof) on such date as is specified in the Award Agreement if the conditions specified in the Award Agreement are met.

7.3 Restricted Stock Unit Agreement. Each Restricted Stock Unit Award shall be evidenced by an Award Agreement that shall specify the date or dates on which the Restricted Stock Units

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granted shall become payable, the number of Restricted Stock Units granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

7.4 Transferability. Except as provided in this Section 7 or Section 10.5, Restricted Stock Units may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

7.5 Other Restrictions. The Committee, in its sole discretion, may impose such restrictions on Restricted Stock Units as it may deem advisable or appropriate.

7.5.1 General Restrictions. The Committee may set restrictions based upon continued employment or service with the Company or its Affiliates, the achievement of specific performance objectives (Company-wide, divisional, or individual), applicable federal or state securities laws, or any other basis determined by the Committee in its discretion.

7.5.2 Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock Units as "performance-based compensation" under Section 162(m) of the Code, the Committee, in its discretion, may set performance objectives based upon the achievement of Performance Goals. The Performance Goals shall be set by the Committee on or before the Determination Date. In granting Restricted Stock Units that are intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or desirable to enable qualification of the Restricted Stock Units as "performance-based compensation" under Section 162(m) of the Code (e.g., in determining the Performance Goals and certifying in writing whether the applicable Performance Goals have been achieved after the completion of the applicable Performance Period).

7.6 Earning Restricted Stock Units. After any applicable Performance Period and vesting period have ended and such Restricted Stock Units have otherwise become payable, the holder of Restricted Stock Units shall be entitled to receive a payout of the number of Restricted Stock Units earned by the Participant. After the grant of a Restricted Stock Unit, the Committee, in its sole discretion, may reduce or waive any performance objectives for such Restricted Stock Unit.

7.7 Form and Timing of Payment. Except as otherwise provided in this Section 7, or as may be required to comply with or avoid additional taxation to the Participant under Section 409A, payment of earned Restricted Stock Units shall be made as soon as practicable after vesting (subject to any deferral permitted under Section 10.1). The Committee, in its sole discretion, may pay such earned Restricted Stock Units in cash, Shares, or a combination thereof.

## SECTION 8 STOCK APPRECIATION RIGHTS

8.1 Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Employees and Directors at any time and from time to time as shall be determined by the Committee, in its sole discretion.

8.1.1 Number of Shares. The Committee, in its sole discretion, shall determine the number of SARs granted to any Participant, provided that during any Fiscal Year, no Participant shall be granted SARs covering more than a total of 4,000,000 Shares.

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8.1.2 Exercise Price and Other Terms. The Committee, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of SARs. The Exercise Price of each SAR shall be determined by the Committee in its discretion but shall not be less than the Fair Market Value of a Share on the Grant Date.

8.2 SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

8.3 Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Committee, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, Section 5.4 also shall apply to SARs.

8.4 Payment of SAR Amount. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (a) The Fair Market Value of a Share on the date of exercise (or, if so specified in the Award Agreement, on the date immediately preceding the date of exercise) minus the Exercise Price; times
- (b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equal Fair Market Value on the date of exercise, or in some combination thereof. The Company shall make such payment as soon as administratively practicable following the SAR exercise.

## SECTION 9 CHANGE IN CONTROL

9.1 Change in Control. In the event of a merger or Change in Control, each outstanding Award will be treated as the Committee determines, which may include that each Award will be assumed or an equivalent option or right substituted by the successor corporation or a parent or subsidiary of the successor corporation (the "Successor Corporation"). The Committee will not be required to treat all Awards similarly in the transaction.

9.1.1 In the event that the Successor Corporation does not assume or substitute for a Participant's Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights that are part of the Award, including Shares as to which the Award would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units that are part of the Award will lapse, and, if the Award has performance-based vesting, all Performance Goals or other performance-based vesting criteria will be deemed achieved at target levels and all other terms and conditions will be deemed met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted for in the event of a merger or Change in Control, the Committee will notify the Participant in writing or electronically (which notice may be in the form of a notice on the Company's Intranet or notice to any e-mail or postal address maintained by the Company's Stock Administration Department for the Participant) that the Option or Stock Appreciation Right will be fully vested and exercisable for a period of time

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determined by the Committee in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

9.1.2 For the purposes of this Section 9.1, an Award will be considered assumed if, following the merger or Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the merger or Change in Control:

(a) the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares);

(b) in the case of (i) an Option, (ii) a Stock Appreciation Right upon the exercise of which the Committee determines to pay cash, or (iii) a Restricted Stock Unit which the Committee can determine to pay in cash, the fair market value of the consideration received in the merger or Change in Control by the holder of a Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); or

(c) in the case of (i) an Option, (ii) a Stock Appreciation Right, or (iii) a Restricted Stock Unit, the common stock of the Successor Corporation equal in fair market value to the per share consideration received by holders of Common Stock in the merger or Change in Control.

9.2 Impact on Performance Goals. Notwithstanding anything in this Section 9.1 to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more Performance Goals will not be considered assumed if the Company or its successor modifies any of such Performance Goals without the Participant's consent; provided, however, a non-substantive modification to such Performance Goals only to reflect the Successor Corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

## SECTION 10 MISCELLANEOUS

10.1 Deferrals. The Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion.

10.2 No Effect on Employment or Service. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Affiliates (or between Affiliates) shall not be deemed a Termination of Service. Employment with the Company and its Affiliates is on an at-will basis only except as may be provided by contract or applicable law.

10.3 Participation. No Employee or Director shall have the right to be selected to receive an Award, or, having been so selected, to be selected to receive a future Award.

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10.4 Successors. All obligations of the Company under the Plan with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

10.5 Limited Transferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant. Notwithstanding the foregoing, the Committee, in its sole discretion, may determine that a Participant may, in a manner specified by the Committee, (a) transfer an Award to a Participant's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights, and (b) transfer an Award by bona fide gift and not for any consideration, to (i) a member or members of the Participant's immediate family, (ii) a trust established for the exclusive benefit of the Participant and/or member(s) of the Participant's immediate family, (iii) a partnership, limited liability company or other entity whose only partners or members are the Participant and/or member(s) of the Participant's immediate family, or (iv) a foundation in which the Participant and/or member(s) of the Participant's immediate family control the management of the foundation's assets. The transferability provisions provided in the preceding sentence shall be effective only if expressly determined by the Committee and any transfer shall be made in accordance with such procedures as the Committee may specify from time to time.

10.6 Beneficiary Designations. Notwithstanding any contrary provisions of Section 10.5, the Committee, in its sole discretion, may determine that a Participant may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Committee. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Award Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate. The provisions of this Section 10.6 shall be effective only if expressly determined by the Committee.

10.7 No Rights as Stockholder. Except to the limited extent provided in Sections 6.6 and 6.7, no Participant or beneficiary shall have any of the rights or privileges of a stockholder of the Company with respect to any Shares issuable pursuant to an Award, unless and until such Shares shall have been issued, recorded on the records of the Company or its transfer agent or registrar, and delivered to the Participant, or beneficiary, or its nominee.

#### SECTION 11 AMENDMENT, TERMINATION, AND DURATION

11.1 Duration of the Plan. The Plan shall remain effective until no further Shares are available for distribution pursuant to Awards. However, without further stockholder approval, no Incentive Stock Option may be granted under the Plan after the date that is ten (10) years from the Effective Date.

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11.2 Amendment, Suspension, or Termination. Notwithstanding Section 11.1, the Board, in its sole discretion, may amend, suspend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension, or termination of the Plan shall not, without the consent of a Participant, alter or impair any rights or obligations under any Award theretofore granted to such Participant. No Award may be granted during any period of suspension or after termination of the Plan.

## SECTION 12 TAX WITHHOLDING

12.1 Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award or the exercise or vesting of an Award or at such earlier time as any Tax Obligations are due, the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy all Tax Obligations with respect to such Award.

12.2 Withholding Arrangements. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy Tax Obligations, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares, or (b) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld or remitted. The amount of the Tax Obligations shall be deemed to include any amount which the Committee agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant or the Company, as applicable, with respect to the Award on the date that the amount of tax or social insurance liability to be withheld or remitted is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date that the Tax Obligations are required to be withheld.

## SECTION 13 LEGAL CONSTRUCTION

13.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

13.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

13.3 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

13.4 Section 409A. Unless otherwise specifically determined by the Committee, the Committee shall comply with Section 409A in establishing the rules and procedures applicable to deferrals in accordance with Section 10.1 and in taking or permitting such other actions under the terms of the Plan that otherwise would result in a deferral of compensation subject to Section 409A. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Section

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409A, unless otherwise specifically determined by the Committee by reference to Section 409A, the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A.

13.5 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware.

13.6 Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

13.7 Inability to Obtain Authority. The Company will not be required to issue Shares or permit the exercise of Awards pursuant to the Plan, and shall have no liability for its failure so to do, at any time when (a) those Shares or the Shares subject to those Awards are not listed on all stock exchanges on which Shares of the same class are then listed; (b) any registration or other qualification of the Shares under any state, federal or foreign law or under the rules or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee will, in its absolute discretion, deem necessary or advisable, has not been obtained; or (c) any approval or other clearance from any state, federal or foreign governmental agency, which the Committee will, in its absolute discretion, determine to be necessary or advisable has not been obtained.

13.8 Provisions Applicable to Options Held by Employees of a Subsidiary in China. Notwithstanding any contrary provision in the Plan or any Award Agreement for an Option, in the event of a Participant's Termination of Service by reason of death or Disability, if the Participant is employed by a Subsidiary in China, then the Option shall remain exercisable until the earlier of the original expiration date of the Option and six months following the date of the Termination of Service.

**LSI CORPORATION**  
**NONQUALIFIED STOCK OPTION AGREEMENT**

On the grant date (the "Grant Date") shown on the attached Notice of Grant of Stock Option (the "Notice of Grant"), LSI Corporation granted you a Nonqualified Stock Option under the LSI Corporation 2003 Equity Incentive Plan (the "Plan") covering the number of shares of LSI common stock indicated on the Notice of Grant. The Notice of Grant and this agreement collectively are referred to as the "Agreement". Capitalized terms that are not defined in this agreement or the Notice of Grant have the same meaning as in the Plan.

**1. Grant of Option.** LSI has granted you a nonqualified stock option to purchase, on the terms set forth in this Agreement and the Plan, all or any part of the Number of Shares shown on the Notice of Grant. The option is a separate incentive in connection with your employment and is not in lieu of any salary or other compensation for your services. The option is not an incentive stock option as defined in Section 422 of the Internal Revenue Code.

**2. Exercise Price.** The price per Share at which you can purchase LSI common stock under this option (the "Exercise Price") is the Exercise Price shown on the Notice of Grant.

**3. When the Option Becomes Exercisable.** Except as otherwise provided in this Agreement, the option becomes exercisable with respect to the numbers of Shares and on the dates shown on the Notice of Grant. You may not exercise any portion of your option that is not exercisable. Your right to exercise the option will terminate on the Expiration Date shown on the Notice of Grant or earlier if provided in this Agreement or in the Plan.

**4. Effect of Your Termination of Service.**

(a) **Termination of Employment.** Except as provided in paragraph 4(b) or 4(c), if you have a Termination of Service for any reason, your right to exercise any portion of your option that is exercisable when your employment ends will terminate 90 days after the date of your Termination of Service or, if earlier, the Expiration Date shown on the Notice of Grant.

(b) **Death or Disability.** If you have a Termination of Service because you die or become totally disabled, any portion of your option that was exercisable on the date of your Termination of Service will remain exercisable until the earlier of 12 months (6 months if you are employed by a Subsidiary in China) from that date and the Expiration Date shown on the Notice of Grant.

(c) **Discharge for Misconduct.** If you have a Termination of Service because of your Misconduct (as defined below), your right to exercise this option will terminate immediately when your employment ends. "Misconduct" means (i) willful breach or neglect of duty; (ii) failure or refusal to work or to comply with LSI's rules, policies, or practices; (iii) dishonesty; (iv) insubordination; (v) being under the influence of drugs (except to the extent medically prescribed) while on duty or on LSI premises (or those of an Affiliate); (vi) conduct endangering, or likely to endanger the health or safety of another employee, any other person or the property of LSI or an Affiliate; (vii) your violation of LSI's *Standards of Business Conduct*, or (viii) conviction of, or plea of *nolo contendere* to, a felony.

(d) A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by LSI or the Affiliate employing you will not be deemed a Termination of Service.



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**5. Who Can Exercise the Option.** Except as otherwise determined by the Committee in its sole discretion, during your lifetime, only you can exercise your option.

**6. Your Option is Not Transferable.** Except as otherwise provided in this Agreement, you may not sell, transfer, pledge, assign, hypothecate or otherwise dispose of your option or your rights under this Agreement (whether by operation of law or otherwise) and your option shall not be subject to sale under execution, attachment or similar process. Upon any attempt to sell, transfer, pledge, assign, hypothecate or otherwise dispose of your option, or of any rights under this Agreement, or upon any attempted sale under any execution, attachment or similar process, your option will terminate immediately.

**7. Exercise Procedure.** To exercise this option, you must give notice of exercise and pay the exercise price in such form and at such, time, place and/or manner as LSI may designate. When LSI deems it necessary or desirable for regulatory reasons, LSI may require that when you exercise this option, you must simultaneously sell the shares you purchase.

**8. Tax Withholding and Payment Obligations.** If LSI determines that it and/or an Affiliate will withhold or collect any Tax Obligations as a result of your option, you must make arrangements satisfactory to LSI to satisfy all withholding and/or collection requirements and you may not exercise this option until you do so. You acknowledge that you have the ultimate liability for any and all Tax Obligations imposed on you and that LSI and any Affiliate that employs you (a) make no representations or undertaking regarding treatment of those Tax Obligations; and (b) do not commit to take any action to reduce or eliminate your liability for Tax Obligations. To the maximum extent permitted by law, LSI and any Affiliate that employs you have the right to retain without notice from salary or other amounts payable to you, amounts sufficient to satisfy any Tax Obligations that LSI determines has not or cannot be satisfied through other means. By [signing the Notice of Grant] [accepting this Award], you expressly consent to any additional cash withholding under this paragraph 8.

**9. Agreement Not To Solicit LSI Employees.** You agree that, without LSI's prior written consent, you will not solicit (or induce or encourage others to solicit) any employee of LSI or any Subsidiary to leave their employment with LSI or any Subsidiary. This agreement applies both while you are employed by LSI or any Subsidiary and for a period of 12 months after your employment with LSI or any Subsidiary ends, and is in addition to your separately enforceable obligations under existing intellectual property and non-disclosure agreements, and under common law. You and LSI agree that the precise amount of damages LSI will experience if you violate your agreement in the first sentence of this paragraph 9 would be impracticable or extremely difficult to calculate or prove, and that \$125,000 (the "Liquidated Damages") constitutes a best estimate of those damages for each employee solicited or induced. You agree that, if you violate your agreement in the first sentence of this paragraph 9, for each employee solicited or induced, at LSI's election: (i) you will pay the Liquidated Damages amount to LSI within 45 days of LSI's written request; or (ii) LSI may cancel any unexercised portion of this Option and/or any other options to purchase LSI Shares you hold, and you will pay to LSI any remaining portion of the Liquidated Damages amount within 45 days of LSI's written request. The value of any options that LSI so cancels may not exceed the Liquidated Damages amount multiplied by the number of employees solicited or induced. LSI will calculate that value on the cancellation date using the valuation methodology it then uses for financial reporting purposes.

**10. Suspension of Exercisability.**

(a) If at any time LSI determines that the listing, registration or qualification of the Shares upon any securities exchange or under any state, federal or foreign law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of Shares hereunder, this option may not be exercised, in whole or in part, unless and until such listing, registration,

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qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to LSI. LSI shall make reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority.

(b) LSI may designate times when you cannot exercise this option in connection with corporate events such as a stock split, reverse stock split, reclassification, spin-off, merger or change-in-control transaction. If the option is scheduled to expire during one of those periods, you will need to exercise the option before that period begins.

11. **No Rights of Stockholder.** You will not have any of the rights of a stockholder of LSI in respect of any of the Shares issuable upon exercise of this option until those Shares are delivered to you or deposited in your account at LSI's designated broker.

12. **No Effect on Employment or Future Awards.**

(a) Your employment with LSI or one of its Affiliates is on an at-will basis only, subject to applicable law and the terms of any employment agreement you may have with LSI or an Affiliate. Nothing in this Agreement or the Plan is intended to give you any right to continue to be employed by LSI or any Affiliate or to interfere with or restrict in any way the right of LSI or the Affiliate to terminate your employment at any time for any reason whatsoever, with or without good cause.

(b) LSI does not intend by granting this option to you to confer upon you the right to be selected to receive any future Award under the Plan.

13. **Address for Notices.** Any notice to be given to LSI under this Agreement must be in writing and addressed to LSI Corporation, Attn: Stock Administration Department, Mailstop D-206, 1621 Barber Lane, Milpitas, CA 95035, or such other address as LSI may designate in writing.

14. **Maximum Term of Option.** Notwithstanding any other provision of this Agreement, this option is not exercisable after the Expiration Date.

15. **Plan Governs.** In the event of a conflict between this Agreement and the Plan, the Plan will govern.

16. **Captions.** The captions in this Agreement are for convenience only and are not to serve as a basis for the interpretation or construction of this Agreement.

17. **Agreement Severable.** If any provision in this Agreement is held invalid or unenforceable, that invalidity or unenforceability will not be construed to have any effect on the remaining provisions of this Agreement.

18. **Modifications.** This Agreement constitutes the entire understanding of the parties on the subjects covered. Modifications to this Agreement can be made only in writing by an authorized officer of LSI.

19. **Governing Law.** This Agreement is governed by the laws of the state of Delaware, United States, without regard to principles of conflict of laws.

20. **Electronic Delivery.** LSI may, in its sole discretion, deliver any documents related to this Award, including materials relating to its Annual Meeting of Stockholders, by electronic means or request

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your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and agree to participate in the Plan through any on-line or electronic system established and maintained by LSI or another third party designated by LSI.

21. **Committee Actions.** All actions taken and all interpretations and determinations made by the Board or its delegate will be final and binding on you, LSI and all other interested persons. No member of the Board and no delegate will have any personal liability for any action, determination or interpretation made with respect to the Plan or this Agreement.

Paragraphs 22 through 24 below apply only if you are employed by a subsidiary of LSI outside the United States.

22. **Acknowledgment and Waiver.** By [signing the Notice of Grant] [accepting this Award], you agree that:

- (a) Your participation in the Plan is voluntary.
- (b) Your option is not part of your normal or expected compensation or salary for any purpose, including, but not limited to, calculating any termination, severance, resignation, redundancy, or end of service payments, bonuses, long-service awards, pension or retirement benefits, or similar payments, except as may be specifically provided for by the applicable plan or agreement.
- (c) The future value of the Shares subject to your option is unknown and cannot be predicted. It is possible that you will not make any money from this option.
- (d) This option does not create an employment relationship between you and any entity.
- (e) You have no right to make a claim of entitlement to compensation or damages because of the expiration or termination this option, or any diminution in value of the option, or Shares purchased under the Plan. If it should be determined that you did acquire any such rights, you irrevocably agree to release LSI and its Affiliates, officers and employees from any such claim to the extent permitted by applicable law.

23. **Data Privacy.**

- (a) **You understand that LSI may hold certain personal information about you, including but not limited to your name, home address and telephone number, date of birth, social security number or other identification number, salary, nationality, job title, any shares or directorships held in LSI, details of all options or any other entitlements to shares awarded, canceled, purchased, or outstanding in your favor, for the purpose of implementing, administering and managing the Plan ("Personal Data");**
- (b) **You consent to the collection, use, processing, and transfer, in electronic or other form, of Personal Data by LSI and its Affiliates for the exclusive purpose of implementing, administering or managing your participation in the Plan and to the extent required in connection with LSI's financial reporting.**

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- (c) **You understand that Personal Data may be transferred to any third parties assisting LSI in the administration of the Plan or involved in LSI's financial reporting.**
  - (d) **You understand that the recipients of Personal Data may be located outside your country of residence, and that the recipient's country may have different data privacy laws and protections than your country of residence.**
  - (e) **You authorize the recipients to receive, possess, use, retain and transfer the Personal Data, in electronic or other form, for the purposes of implementing, administering or managing your participation in the Plan, including any transfer of Personal Data as may be required for the administration of the Plan and/or any subsequent transfer of Shares to your account at a brokerage firm and in connection with LSI's financial reporting.**
  - (f) **You understand that Personal Data will be held only as long as necessary to implement, administer or manage your participation in the Plan.**
  - (g) **You understand that you may, at any time, review the Personal Data, require any necessary amendments to Personal Data or withdraw the consents herein in writing by contacting LSI.**
  - (h) **You understand that withdrawing your consent may affect your ability to participate in the Plan.**

24. **Translation.** If this Agreement or any other document related to the Plan is translated into a language other than English, and if the translated version is different from the English language version, the English language version will take precedence.

[Insert the remainder of the document for options awarded to the ELT and the Corporate Controller:] 25. **Acceptance of LSI Policy on Recoupment of Compensation.** By [signing the Notice of Grant] [accepting this Award], you agree to comply with the LSI Policy on Recoupment of Compensation attached hereto.

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LSI Corporation

Policy on Recoupment of Compensation

Last revised: February 10, 2010

**Policy Statement**

Each "covered individual" must, if requested by the Compensation Committee, repay or return "covered payments" in the event that the company issues a material restatement of its financial statements, where the restatement is caused, in whole or in part, by such individual's intentional misconduct.

**Definitions**

"covered individual" means each member of the company's executive leadership team, as well as the company's corporate controller.

"covered payments" means cash bonuses paid after the date of adoption of this policy and stock options, restricted stock units and any other equity-based awards granted under any stock-based plan maintained by the company.

"covered period" means the period beginning on the day the financial statements that must be restated, or financial results for the latest period covered by such financial statement, are first made public, whether by press release or filing with the Securities and Exchange Commission, and ending on the date that the restated financial statements are first filed with the Securities and Exchange Commission.

**Additional Terms**

The Committee anticipates determining the amount that it will recoup in accordance with the following principles:

- Cash bonuses: The portion of any bonus previously paid to a covered individual that would not have been paid if the company's financial results had been as reported in the restatement, excluding the amount of taxes the Committee believes to be payable by the covered individual in connection with the bonus, will be subject to recoupment. Bonuses shall not be subject to recoupment if they were paid more than five years prior to the date on which the company determined that it would be necessary or appropriate to restate its financial statements.
- Stock options and stock appreciation rights:
  - Any awards outstanding at the time the Board or a committee of the Board determines that a restatement is necessary or appropriate, as well as any awards granted after such time but before a determination is made as to

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- whether the covered individual's intentional wrongdoing contributed to the need to restate the financial statements, will be canceled.
- The net amount realized from any award exercised during the covered period will be subject to recoupment. The net amount will be determined as the amount receivable by the covered individual upon exercise of the award, less applicable commissions and fees and the amount of taxes the Committee believes to be payable by the covered individual in connection with the exercise of the award.
  - If the covered individual retains any shares after exercising a stock option during the covered period, the Committee may require those shares to be returned. In determining the number of shares it will require to be returned, the Committee may take into account its estimate of the covered individual's tax liability in connection with the award and the company's tax withholding in connection with the award.
  - Restricted stock units and similar awards:
    - Any awards outstanding at the time the Board or a committee of the Board determines that a restatement is necessary or appropriate, as well as any awards granted after such time but before a determination is made as to whether the covered individual's intentional wrongdoing contributed to the need to restate the financial statements, will be canceled.
    - For any awards that vested during the covered period:
      - If the covered individual still holds any of the vested shares, those shares will be subject to recoupment.
      - If the shares were sold, the proceeds of the sale, net of commissions and fees, will be subject to recoupment.
      - In determining the amounts subject to recoupment under the two preceding bullets, the Committee may take into account its estimate of the covered individual's tax liability in connection with the award and the company's tax withholding in connection with the award.
  - If the company pays dividends on its common stock, the Committee may seek additional recoupment based on the dividends paid or payable during the covered period.
  - If cash is to be recouped, the Committee may require the payment of interest on the amount thereof from the date the cash was originally paid to or received by the covered individual until the date of repayment.
  - The Committee will have discretion to determine a different amount to be recouped if believes it to be appropriate under the circumstances.
  - Recoupment will not be required if the restatement occurred following a change in control of LSI.

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**Notice of Grant of  
Restricted Stock Unit Award  
Under the  
LSI Corporation 2003 Equity Incentive Plan**

**LSI CORPORATION**  
ID: 94-2712976  
1621 BARBER LANE  
MILPITAS, CALIFORNIA 95035

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**GRANTEE NAME**  
**Address**  
**Address**

**Award Number:**  
**Grant Date:**  
**Number of Restricted  
Stock Units:**

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On the grant date shown above, LSI Corporation granted you the number of restricted stock units shown above under the LSI Corporation 2003 Equity Incentive Plan. If and when it vests, each restricted stock unit entitles you to receive one share of LSI common stock. We typically will withhold some of the shares you would receive when the restricted stock units vest to satisfy applicable tax or similar withholding obligations.

All or a portion of your Award may vest on April 1, 2015 if you have not incurred a Termination of Service prior to that date. Annex A describes how we will determine the portion of your Award, if any, that will vest on that date.

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By your signature below, you agree that this award is governed by this Notice of Grant, the attached Restricted Stock Unit Agreement and the LSI Corporation 2003 Equity Incentive Plan. You acknowledge that you have received, read and understand this Notice of Grant, the attached agreement and the plan. You agree to accept as binding all decisions or interpretations of the Board of Directors of LSI or its delegate regarding any questions relating to the plan, this Notice of Grant or the attached agreement.

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GRANTEE NAME  
Date:

In order for your award to vest on the date set forth in the notice of grant, each of the following conditions must be satisfied:

1. You must not have incurred a Termination of Service before that date.
2. LSI's Revenue Growth must be equal to or better than the Revenue Growth of at least 50% of the Peers.
3. The Compensation Committee of LSI's Board of Directors must certify in writing (as contemplated by Section 162(m) of the Internal Revenue Code) that the condition in paragraph 2 was satisfied.

If these conditions are satisfied, then the full number of Restricted Stock Units shown in the notice of grant shall vest; *provided, however*, that the Compensation Committee may, in its sole and absolute discretion, on or before the vesting date set forth in the notice of grant, reduce the number of Restricted Stock Units that so vest. The Compensation Committee currently intends to reduce the number of Restricted Stock Units that vest using the following methodology:

1. If LSI's Adjusted Operating Income Growth is not equal to or better than the Adjusted Operating Income Growth of at least 50% of the Peers, then no Restricted Stock Units will vest.
2. If LSI's Adjusted Operating Income Growth is equal to or better than the Adjusted Operating Income Growth of at least 35% of the Peers, then the number of Restricted Stock Units that vest will be reduced to the number obtained by multiplying your Target Award by the percentage determined in accordance with the table below.

<b>If LSI's Adjusted Operating Income Growth is equal to or better than the Adjusted Operating Income Growth of this percentage of the Peers</b>	<b>Then we will multiply your Target Award by the following percentage to determine how many Restricted Stock Units vest:</b>
35 <sup>th</sup>	50
60 <sup>th</sup>	100
75 <sup>th</sup>	200

The determination of the Compensation Committee will be final and binding. Any Restricted Stock Units that do not vest will be cancelled. When calculating the performance tests and the number of Restricted Stock Units that vest, we will use the following concepts:

1. No additional Restricted Stock Units will vest if LSI's Adjusted Operating Income Growth is greater than the Adjusted Operating Income Growth of more than 75% of the Peers.



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2. For purposes of determining the percentage of the Peers that LSI has outperformed on Adjusted Operating Income Growth, we will look at the percentage of the Peer just below LSI and the Peer just above LSI and take the average of the two.
  3. For purposes of determining how many Restricted Stock Units vest, we will use a sliding scale for performance between the levels listed in the table. For example, if LSI's performance is better than 57% of the Peers, then the payout will be 85% of your Target Award (i.e., you'll get 50% for exceeding 50% of the Peers, plus 35%, which is 70% of the difference between the payout at 50% performance and 60% performance).
  4. No adjustments to the performance tests will be made if a Peer acquires or disposes of a business or assets.
  5. If, on or before December 31, 2014, LSI disposes of one or more businesses that, in the aggregate, accounted for more than \$25 million of LSI's Revenue in the fiscal year(s) preceding the fiscal year in which the disposition(s) occurred, then the Revenue from the business(es) disposed of will be excluded from the calculation of Revenue for all periods.
  6. If, on or before December 31, 2014, LSI acquires one or more businesses that, in the aggregate account for more than 10% of LSI's revenue in 2014, then the Compensation Committee will have the discretion to reduce the number of Restricted Stock Units that vest (or make no adjustment) as it deems appropriate in its sole discretion to reflect the acquisition(s) and may consult with the Audit Committee in making any such determination.
  7. For Peers with a December 31 fiscal quarter end, we will use Revenue and Adjusted Operating Income for the 12 months ending December 31 of the relevant year. For Peers with a fiscal quarter that ends on a date other than December 31, we will use Revenue and Adjusted Operating Income for the 12 months ending on the last day of the fiscal quarter ending immediately before December 31 in the relevant year.
  8. To compute Revenue and Adjusted Operating Income, we will use information filed by LSI and the Peers with the U.S. Securities and Exchange Commission in reports on Form 10-Q and Form 10-K.
  9. No fractions of an RSU will vest. If the number of RSUs that would vest is not a whole number, then the number of RSUs that vest will be rounded down to the next whole number.
  10. If a Change in Control occurs and the successor entity assumes this Award, the performance tests in this Award will be deemed met at a level that would result in the payout of your Target Award and your Target Award will vest on the date set forth in the Notice of Grant if you have not incurred a Termination of Service prior to that date.
  11. In the event of any changes in applicable accounting authority, the Compensation Committee will have the discretion to make changes or adjustments it deems appropriate to the performance tests in this Award, or the calculation of those tests, to maintain the original intent of this Award.

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Capitalized terms in this Annex A have the following meanings:

"Adjusted Operating Income" means a company's operating income, determined in accordance with US GAAP, excluding the impact of stock-based compensation, amortization of intangibles and restructuring charges.

"Adjusted Operating Income Growth" means the percentage change in a company's Adjusted Operating Income from 2011 to 2014 (i.e., (2014 Adjusted Operating Income – 2011 Adjusted Operating Income) / 2011 Adjusted Operating Income).

"Peers" means those companies identified on Schedule 1 hereto. If a Peer is acquired or discontinues business operations or does not file financial statements with the SEC prior to the Vesting Date for any relevant period, then that company will not be considered a Peer and will be excluded from the calculations for all periods.

"Target Award" means one half (50%) of the number of Restricted Stock Units indicated in the Notice of Grant.

"Revenue" means revenue determined in accordance with US GAAP.

"Revenue Growth" means the percentage change in a company's Revenue from 2011 to 2014 (i.e., (2014 Revenue – 2011 Revenue) / 2011 Revenue).

**Peer Group**

Advanced Micro Devices, Inc.  
Altera Corporation  
Analog Devices, Inc.  
Atmel Corporation  
Avago Technologies Limited  
Broadcom Corporation  
Cypress Semiconductor Corporation  
Fairchild Semiconductor International, Inc.  
International Rectifier Corporation  
Intersil Corporation

KLA-Tencor Corporation  
Lam Research Corporation  
Linear Technology Corporation  
Marvell Technology Group Ltd.  
MEMC Electronic Materials, Inc.  
NVIDIA Corporation  
ON Semiconductor Corporation  
PMC-Sierra, Inc.  
Xilinx, Inc.

## LSI CORPORATION SUBSIDIARIES

<b>Entity Name</b>	<b>State/Country of Formation</b>
LSI (Spain) Technology Development S.L	Spain
LSI (Thai) Ltd.	Thailand
LSI China Technology (Shanghai) Co. Ltd.	China
LSI China Trading (Shanghai) Co. Ltd.	China
LSI Corporation of Canada, Company	Canada
LSI India Research & Development Private Limited	India
LSI International LLC	Delaware
LSI International Research LLC	Russia
LSI Investments Pte. Ltd.	Singapore
LSI Logic AB	Sweden
LSI Logic Asia, Inc.	Delaware
LSI Logic Europe Limited	United Kingdom
LSI Logic GmbH	Germany
LSI Logic HK Holdings	Cayman Islands
LSI Logic Hong Kong Ltd.	Hong Kong
LSI Logic Hungary LLC	Hungary
LSI Logic International Services, Inc.	California
LSI Logic K.K.	Japan
LSI Logic Malta Ltd.	Malta
LSI Logic Netherlands B.V.	Netherlands
LSI Logic s.r.l.	Italy
LSI Logic SAS	France
LSI Logic Singapore Pte Ltd.	Singapore
LSI Management Services Corporation	Delaware
LSI Storage Cyprus Limited	Cyprus
LSI Storage Ireland Limited	Ireland
LSI Technologies Israel Ltd.	Israel
LSI Technology (Beijing) Company Ltd.	China
LSI Technology (Ireland) Limited	Ireland
LSI Technology (Singapore) Pte. Ltd.	Singapore
LSI Technology (Mauritius)	Mauritius
SandForce, Inc.	Delaware
Silicon Manufacturing Partners Pte Ltd. (SMP)*	Singapore
SubLSI (Korea) Co., Ltd.	Korea
Agere Systems Inc.	Delaware
Agere Systems Nederland B.V.	Netherlands

\* 51% LSI Technology (Singapore) Pte Ltd.; 49% GLOBAL FOUNDRIES

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-83963, No. 333-86028, No. 333-38466, No. 333-51834, No. 333-107976, No. 333-142039) and Form S-8 (No. 2-86474, No. 2-91907, No. 2-98732, No. 33-6188, No. 33-6203, No. 33-13265, No. 33-17720, No. 33-30385, No. 33-30386, No. 33-36249, No. 33-41999, No. 33-42000, No. 33-53054, No. 33-66548, No. 33-66546, No. 33-55633, No. 33-55697, No. 33-59981, No. 33-59987, No. 333-34285, No. 333-57563, No. 333-81437, No. 333-90951, No. 333-43306, No. 333-52050, No. 333-53584, No. 333-66238, No. 333-69380, No. 333-96543, No. 333-96549, No. 333-106205, No. 333-106206, No. 333-142038, No. 333-151311, No. 333-167210 and No. 333-179076) of LSI Corporation of our report dated February 29, 2012 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 29, 2012

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, LSI Corporation, a Delaware corporation (hereinafter referred to as the "Company"), proposes to file with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, an Annual Report on Form 10-K for the fiscal year ended December 31, 2011; and

WHEREAS, the undersigned is a Director of the Company;

NOW, THEREFORE, the undersigned hereby constitutes and appoints Abhijit Y. Talwalkar and Bryon Look and each of them, as attorneys for and in the name, place and stead of the undersigned, and in the capacity of the undersigned as a Director of the Company, to execute and file such Form 10-K and any amendments or supplements thereto on behalf of the undersigned, hereby giving and granting to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully, to all intents and purposes, as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney this 10<sup>th</sup> day of February 2012.

By: <u>/s/ Charles A. Haggerty</u> Name: Charles A. Haggerty Title: Director	By: <u>/s/ Charles C. Pope</u> Name: Charles C. Pope Title: Director
By: <u>/s/ Richard S. Hill</u> Name: Richard S. Hill Title: Director	By: <u>/s/ Gregorio Reyes</u> Name: Gregorio Reyes Title: Director
By: <u>/s/ John H.F. Miner</u> Name: John H.F. Miner Title: Director	By: <u>/s/ Michael G. Strachan</u> Name: Michael G. Strachan Title: Director
By: <u>/s/ Arun Netravali</u> Name: Arun Netravali Title: Director	By: <u>/s/ Susan Whitney</u> Name: Susan Whitney Title: Director

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AS ADOPTED PURSUANT TO  
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Abhijit Y. Talwalkar, certify that:

1. I have reviewed this Annual Report on Form 10-K of LSI Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

By:           /s/ ABHIJIT Y. TALWALKAR            
Name: Abhijit Y. Talwalkar  
Title: President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
AS ADOPTED PURSUANT TO  
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryon Look, certify that:

1. I have reviewed this Annual Report on Form 10-K of LSI Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

By:           /s/ BRYON LOOK            
Name: Bryon Look  
Title: Executive Vice President, Chief Financial Officer and Chief Administrative Officer



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Abhijit Y. Talwalkar, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of LSI Corporation on Form 10-K for the year ended December 31, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of LSI Corporation.

By:           /s/ ABHIJIT Y. TALWALKAR          

Name:                   Abhijit Y. Talwalkar  
Title:                   President and Chief Executive Officer

Date: February 29, 2012

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryon Look, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of LSI Corporation on Form 10-K for the year ended December 31, 2011, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of LSI Corporation.

By: /s/ BRYON LOOK

Name: Bryon Look

Title: Executive Vice President, Chief Financial Officer and Chief Administrative Officer

Date: February 29, 2012