LSI LOGIC CORP
Form DEF 14A
March 30, 2007

Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

LSI LOGIC CORPORATION

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

---

2) Aggregate number of securities to which transaction applies:

---

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

4) Proposed maximum aggregate value of transaction:

---

5) Total fee paid:

---

o Fee paid previously with preliminary materials.

---

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

LSI LOGIC CORPORATION

Notice of Annual Meeting of Stockholders
May 10, 2007

To the Stockholders:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of LSI Logic Corporation (the Company), a Delaware corporation, will be held on Thursday, May 10, 2007, at 9:00 a.m. local time, at the Company s headquarters located at 1621 Barber Lane, Milpitas, California 95035, for the following purposes:

1. To elect nine directors to serve for the ensuing year and until their successors are elected.

2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for its 2007 fiscal year.

3. To consider and vote upon a stockholder proposal, if properly presented.

4. To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on March 13, 2007, are entitled to notice of and to vote at the meeting.

All stockholders are cordially invited to attend the meeting in person. However, to assure your representation at the meeting, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose, or you may vote by Internet or telephone. Any stockholder attending the meeting may vote in person even if he or she returned a proxy card.

Sincerely,

/s/ Andrew S. Hughes

Andrew S. Hughes
Vice President, General Counsel & Corporate Secretary

Milpitas, California
March 30, 2007

YOUR VOTE IS IMPORTANT

In order to assure your representation at the meeting, you are requested to mark, sign, and date the enclosed proxy card as promptly as possible and return it in the enclosed envelope (to which no postage need be affixed if mailed in the United States), or vote by Internet or telephone.

TABLE OF CONTENTS

Table of Contents

LSI LOGIC CORPORATION

PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The enclosed proxy is solicited on behalf of LSI Logic Corporation (referred to as LSI or the Company), a Delaware corporation, for use at the Annual Meeting of Stockholders (the Annual Meeting) to be held on Thursday, May 10, 2007, at 9:00 a.m., local time, or at any adjournment(s) thereof, for the purposes set forth in this proxy statement and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the Company s principal executive office, located at 1621 Barber Lane, Milpitas, California 95035. The Company s telephone number is 1-408-433-8000.

These proxy solicitation materials were mailed on or about March 30, 2007, to all stockholders entitled to vote at the Annual Meeting.

Record Date; Shares Outstanding

Stockholders of record at the close of business on the record date of March 13, 2007 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 404,586,683 shares of the Company s common stock, $0.01 par value, were issued and outstanding. On the Record Date, the closing price of the Company s common stock on the New York Stock Exchange was $9.77 per share.

How to Vote

Stockholders may vote by attending the meeting and voting in person, by mailing the proxy card in the postage prepaid envelope provided by the Company, by telephone using the toll free telephone number 1-800-690-6903, or by Internet using the Internet voting site www.proxyvote.com. Stockholders will be asked to enter the 12-digit control number located on their proxy cards to proceed with voting by telephone or by Internet.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Corporate Secretary of the Company at the Company s principal executive offices a written notice of revocation or a duly executed proxy bearing a later date, or by attending the meeting and voting in person.

Voting and Solicitation

On all matters other than the election of directors, each share has one vote. See Election of Directors Required Vote. The cost of soliciting proxies will be borne by the Company. The Company has retained the services of Georgeson & Company, Inc. to aid in the solicitation of proxies from brokers, bank nominees and other institutional owners. The Company estimates that it will pay Georgeson & Company, Inc. a fee not to exceed $10,000 for its services and will reimburse it for certain out-of-pocket expenses estimated to be $10,000. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may be solicited by some of the Company s directors, officers and regular employees, without additional compensation, personally or by telephone.

Householding

In an effort to reduce printing costs and postage fees, the Company has adopted a practice approved by the Securities and Exchange Commission (SEC) called householding. Under this practice, stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of the Company s proxy materials at that address, unless one or more of these stockholders notifies the

Table of Contents

Company that they wish to continue receiving individual copies. Stockholders who participate in householding will continue to receive separate proxy cards.

If you share an address with another stockholder and received only one set of proxy materials and would like to request a separate copy of these materials and/or future proxy materials, please send your request to: LSI Logic Corporation, 1621 Barber Lane, MS AD-115, Milpitas, California 95035, Attn: Investor Relations or call 1-408-954-4710, or you may visit the Company s website at www.lsi.com. You may also contact the Company if you received multiple copies of the proxy materials and would prefer to receive a single copy in the future.

Quorum; Abstentions; Broker Non-Votes

The required quorum for the transaction of business at the Annual Meeting is a majority of the votes eligible to be cast by holders of shares of common stock issued and outstanding on the Record Date. Shares that are voted For, Against or Withheld From a matter are treated as being present at the Annual Meeting for purposes of establishing a quorum and are also treated as votes cast at the Annual Meeting with respect to that matter (the Votes Cast).

The Company intends to count abstentions for purposes of determining both the presence and absence of a quorum and the total number of Votes Cast with respect to any matter (other than the election of directors). Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be considered to be Votes Cast with respect to the particular proposal on which the broker has expressly not voted. Accordingly, broker non-votes will not affect the outcome of the voting on a proposal that requires a majority of the Votes Cast (such as the ratification of the appointment of the independent registered public accounting firm).

Table of Contents

PROPOSAL ONE

ELECTION OF DIRECTORS

Nominees

A Board of nine directors is to be elected at the Annual Meeting. All directors are elected annually and serve until the next annual meeting or until their successors have been duly elected and qualified.

As of the mailing date of this proxy statement, the following are directors of the Company: Timothy Y. Chen, Malcolm R. Currie, Charles A. Haggerty, James H. Keyes, John H.F. Miner, R. Douglas Norby, Matthew J. O Rourke, Gregorio Reyes and Abhijit Y. Talwalkar. The Company entered into a merger agreement with Agere Systems, Inc. (Agere) in December 2006. Pursuant to the terms and subject to the conditions set forth in the merger agreement, LSI has agreed to acquire Agere pursuant to a merger. The completion of the proposed merger with Agere is subject to various customary conditions, including (i) obtaining the approval of the LSI and Agere stockholders, (ii) subject to certain exceptions, the accuracy of the representations and warranties of each party, and (iii) performance in all material respects by each party of its obligations under the merger agreement. Subject to the satisfaction or waiver of the conditions to completion of the merger, the merger is expected to be completed on April 2, 2007. Effective upon completion of our proposed merger with Agere, our Board of Directors will continue to consist of nine members, six of whom will be designated by LSI and three of whom will be designated by Agere. The Agere designees, who are directors of Agere as of the mailing date of this proxy statement, are Richard S. Hill, Michael J. Mancuso and Arun Netravali. The Agere nominees own stock and stock options of Agere as of the Record Date that will convert into LSI stock and stock options, subject to the completion of the proposed merger. Further information is set forth in Security Ownership. The LSI designees are Charles A. Haggerty, James H. Keyes, John H.F. Miner, Matthew J. O Rourke, Gregorio Reyes and Abhijit Y. Talwalkar.

Effective as of the completion of the proposed merger with Agere, Dr. Currie, Mr. Norby and Mr. Chen are expected to resign from the Board of Directors and will not stand for re-election.

The Nominating and Corporate Governance Committee selected and the Board of Directors accepted the nine nominees named below for election to the Board at the Annual Meeting, subject to completion of the proposed merger. All nominees are expected to be directors of the Company as of the date of the Annual Meeting (assuming completion of our proposed merger with Agere).

The Board of Directors expects all nominees named below to be available to serve as directors if elected. If any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for a nominee designated by the current Board of Directors to fill the vacancy. If additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them in accordance with cumulative voting so as to elect as many of the nominees listed below as possible. In such event, the proxy holders will determine the specific nominees for whom to vote.

Table of Contents

The names of the nominees for election to the Board of Directors, and the experience and background of each, are set forth below. Ages are as of December 31, 2006.

Name of Nominee	Age	Principal Occupation	Director Since
Charles A. Haggerty	65	Retired Chairman and Chief Executive Officer, Western Digital Corporation; President and Chief Executive Officer, LeConte Associates	2006
Richard S. Hill	54	Chief Executive Officer and Director of Novellus, Inc.	2007*
James H. Keyes	66	Chairman of the Board of Directors of the Company; Retired Chairman, Johnson Controls, Inc.	1983
Michael J. Mancuso	64	Retired Chief Financial Officer, General Dynamics	2007*
John H.F. Miner	51	Retired President, Intel Capital	2006
Arun Netravali	60	Managing Partner, OmniCapital Group LLC	2007*
Matthew J. O Rourke	68	Consultant; Retired Partner, PricewaterhouseCoopers LLP	1999
Gregorio Reyes	65	Management Consultant; Former Chairman and Chief Executive Officer, Sunward Technologies, Inc.	2001
Abhijit Y. Talwalkar	42	President, Chief Executive Officer and a Director of the Company	2005

* Anticipated to be appointed on April 2, 2007, subject to completion of the proposed merger between the Company and Agere.

There are no family relationships between or among any directors or executive officers of the Company.

Mr. Haggerty has served as President and Chief Executive Officer of LeConte Associates, a consulting and investment firm, since January 2000. From 1993 to 2000, Mr. Haggerty was Chairman, President and Chief Executive Officer of Western Digital Corporation, a maker of hard drives for digital information storage. Previously he was with IBM Corporation, where he served in various general management roles including marketing, product development and operations capacities during a 28-year career. He serves on the boards of Beckman Coulter, Inc., Deluxe Corporation, Imation Corporation and Pentair, Inc. Mr. Haggerty also served as a director of Engenio Information Technologies, Inc., a former subsidiary of the Company, from April 2004 to November 2005.

Mr. Hill has been Chief Executive Officer and a director of Novellus Systems, Inc., a supplier of integrated circuit manufacturing equipment, since 1993 and has been Chairman of its board of directors since 1996. Before joining Novellus, Mr. Hill spent 12 years at Tektronix, Inc., where he held a variety of positions, including President of Tektronix Development Company, Vice President of the Test and Measurement Group and President of Tektronix Components Corporation. Prior to joining Tektronix, he held engineering management and engineering positions at General Electric, Motorola and Hughes Aircraft Company. Mr. Hill is a director of Arrow Electronics, Inc. and the University of Illinois Foundation.

Mr. Keyes has served as the Company s Chairman of the Board of Directors since May 2006. He served as Chairman of Johnson Controls, Inc. from October 2002 until his retirement in December 2003. He served as Chairman and Chief Executive Officer of that company from January 1993 to October 2002. Johnson Controls, Inc. is a provider of automotive systems, batteries and facility management and control. Mr. Keyes also serves on the board of directors of Pitney Bowes, Inc. and Navistar International Corporation, and is a trustee of Fidelity Funds, a fund complex consisting of 348 funds as of March 1, 2007.

Table of Contents

Mr. Mancuso is retired from General Dynamics, a supplier of business aviation and aircraft services, land and amphibious combat systems, mission-critical information systems and technologies, and shipbuilding and marine systems. He was Chief Financial Officer of General Dynamics from 1994 to 2006. Prior to joining General Dynamics in 1993, he was Vice President and Controller of UTC s Pratt and Whitney Commercial Engine business unit. He also served 21 years with General Electric in various financial management positions. Mr. Mancuso is a director of SPX Corporation and The Shaw Group.

From April 2003 to June 2005, Mr. Miner was the President of Intel Capital, a venture capital organization of Intel Corporation, a microprocessor manufacturer, and a Corporate Vice President of Intel Corporation. He retired from Intel in June 2005, concluding 22 years of service in various sales, engineering, marketing and general management roles. From October 1993 through 2001, Mr. Miner served in a general management capacity overseeing major product divisions including the Enterprise Server and Communications Products and New Products Groups. In August 2002, Mr. Miner became General Manager, Intel Capital and was named President, Intel Capital in April 2003.

Since November 2004, Mr. Netravali has been Managing Partner of OmniCapital Group LLC, a venture capital firm. From January 2002 to April 2003, Mr. Netravali was Chief Scientist for Lucent Technologies Inc., a provider of services, systems and software for communications networks. From June 1999 to January 2002, Mr. Netravali was President of Bell Labs as well as Lucent s Chief Technology Officer and Chief Network Architect. Mr. Netravali currently serves on the board of Level 3 Communications Inc. and on the advisory board of Veridicom International Inc.

Mr. O Rourke was a partner with the accounting firm Price Waterhouse LLP (a predecessor firm of PricewaterhouseCoopers LLP) from 1972 until his retirement in June 1996. Since his retirement, Mr. O Rourke has been engaged as an independent business consultant and a corporate director. Mr. O Rourke also served as a director of Engenio Information Technologies, Inc., a former subsidiary of the Company, from April 2004 to October 2005.

Mr. Reyes has been a private investor and management consultant since 1994. He co-founded Sunward Technologies in 1985 and served as Chairman and Chief Executive Officer until 1994. Mr. Reyes serves on the board of directors of Dialog Semiconductor and Seagate Technology. Mr. Reyes also served as a director of Engenio Information Technologies, Inc., a former subsidiary of the Company, from April 2004 to October 2005.

Mr. Talwalkar was appointed LSI President and Chief Executive Officer and elected to the Company s Board of Directors in May 2005. Prior to joining the Company, Mr. Talwalkar was employed by Intel Corporation, a microprocessor manufacturer, most recently as Corporate Vice President and Co-General Manager of the Digital Enterprise Group, from January 2005 until he joined the Company in May 2005. Previously, from May 2004 to January 2005, he served as Vice President and General Manager for Intel s Enterprise Platform Group. Prior to this role, from April 2002 to May 2004, he served as Vice President and General Manager of Intel s Platform Products Group, within Intel s Enterprise Platform Group. Mr. Talwalkar served as Vice President and Assistant General Manager of Intel s Enterprise Platform Group from June 2001 to March 2002. Prior to this position, Mr. Talwalkar held the position of Vice President and General Manager of the Enterprise Platforms and Services Division at Intel.

Other Directors

Biographical information of directors who are expected to resign as of the effective date of the merger is set forth below:

Mr. Chen, age 50, has served as Corporate Vice President and Chief Executive Officer, Greater China Region, for Microsoft Corporation, a software provider, since September 2003. Mr. Chen is the former Chairman and President of Motorola (China) Electronics, Ltd., a wireless and broadband communications company, a position he held from

September 2001 until joining Microsoft Corporation in September 2003. From June 2000 until September 2001, Mr. Chen was Chief Executive Officer of 21CN CyberNet Corporation Ltd., with overall responsibility for its business in Hong Kong and Mainland China.

Dr. Currie, age 79, has served as Chairman of Real Spirit USA, a manufacturer and distributor of air purification systems, since May 2005. He served as Chief Executive Officer of Currie Technologies, Inc., a

Table of Contents

manufacturer of electric propulsion systems for bicycles and other light vehicles, from February 1997 to May 2005. Dr. Currie served as Under Secretary of Defense for Research and Engineering from 1972 to 1977 and as Chairman and Chief Executive Officer of Hughes Aircraft Company from 1988 to 1993. He presently serves on the board of directors for Enova Systems, Inc., Regal One Corporation and Inamed Corporation.

Mr. Norby, age 71, was Chief Financial Officer and Senior Vice President of Tessera, Inc., a semiconductor packaging technology company, from July 2003 until his retirement in January 2006. After his retirement, he served Tessera as a management consultant from January 2006 to July 2006. He worked as a management consultant with Tessera from May 2003 until July 2003. Mr. Norby was a private investor from March 2003 until May 2003. He served as Vice President and Chief Financial Officer of Zambeel, Inc., a data storage systems company, from March 2002 until February 2003, and as Chief Financial Officer of Novalux, Inc., an optoelectronics company, from December 2000 to March 2002. Prior to his tenure with Novalux, Inc., Mr. Norby served as Executive Vice President and Chief Financial Officer of the Company from November 1996 to November 2000. Mr. Norby also serves on the board of directors of Alexion Pharmaceuticals, Inc., ChipPac, Inc. and MagnaChip Semiconductor.

Required Vote

Directors shall be elected by a plurality vote. The nine nominees for director receiving the highest number of affirmative votes of the shares entitled to be voted for them shall be elected as directors. Votes against, votes withheld and broker non-votes have no legal effect on the election of directors due to the fact that such elections are by a plurality.

Every stockholder voting in the election of directors may cumulate such stockholder s votes and give one candidate a number of votes equal to the number of directors to be elected (nine) multiplied by the number of votes to which the stockholder s shares are entitled, or may distribute the stockholder s votes on the same principle among as many candidates as the stockholder sees fit, provided that votes cannot be cast for more than nine candidates. However, no stockholder shall be entitled to cumulate votes for a candidate unless the candidate s name has been properly placed in nomination in accordance with the Company s bylaws prior to the meeting, and the stockholder, or any other stockholder, has given notice prior to the voting of the stockholder s intention to cumulate votes. The proxy holders will exercise discretionary authority to cumulate votes in the event that additional persons are nominated for election as directors.

Board Recommendation

The Board of Directors unanimously recommends a vote FOR the proposed slate of directors for the current year. Unless you indicate otherwise, your proxy will be voted FOR each of the Company s nominees (except as otherwise noted under Required Vote above).

CORPORATE GOVERNANCE

The Company s Standards of Business Conduct apply to the Company s directors, officers and employees and cover matters such as insider trading, conflict of interest, compliance with laws, rules and regulations and responsibilities for reporting illegal or unethical behavior. The Company has also adopted a Code of Ethics for the Principal Executive and Senior Financial Officers of the Company. Copies of these documents are available on the Company s website at http://www.lsi.com/investors/corp_gov.html. You may also request a copy in print by writing to:

Andrew S. Hughes
Vice President, General Counsel & Corporate Secretary
LSI Logic Corporation

1621 Barber Lane, MS AD-106
Milpitas, California 95035

-6-

Table of Contents

Board Structure and Composition

Board of Directors

The Company s Board of Directors is the ultimate decision-making body of the Company, except with respect to those matters reserved for the approval of stockholders. The Board is responsible for selection of the executive management team, providing oversight responsibility and direction to management and evaluating the performance of this team on behalf of the stockholders. The Board has adopted Corporate Governance Guidelines (the Guidelines) to assist it in the performance of its responsibilities. The Guidelines were amended in February 2007 to adopt a majority voting policy for the election of directors. The Guidelines provide that, in an uncontested election, any director nominee who receives a greater number of votes withheld from his or her election than votes for such election will tender his or her resignation for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee would consider the resignation offer based on the circumstances that led to the majority withheld vote and would make a recommendation to the Board of Directors. Thereafter, the Board would promptly disclose its decision-making process and decision regarding whether to accept the director s resignation offer, including the reasons for rejecting the offer, if applicable. These Guidelines are available on the Company s website at www.lsi.com, or you may request a copy in print by writing to the address set forth above.

In accordance with New York Stock Exchange requirements, the Board affirmatively determines the independence of each director and nominee for election as a director. The Company uses the elements set forth in Section 303A of the New York Stock Exchange Listing Manual in determining director independence. The Board considered transactions, relationships and/or arrangements with each of the directors based on review of these regulations as well as the responses of the directors to questions regarding employment, and on discussions among the directors. The Board also reviews the relationships between the Company and the companies with which the Company s directors are affiliated.

The Board of Directors has determined that Mr. Chen, Dr. Currie, Mr. Haggerty, Mr. Keyes, Mr. Miner, Mr. Norby, Mr. O Rourke and Mr. Reyes are independent and that the members of the Audit Committee are also independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934. The Board of Directors has determined that Mr. Talwalkar is not independent. The Board of Directors has not determined the independence of Mr. Hill, Mr. Mancuso and Mr. Netravali as of the mailing date of the proxy statement.

The Board of Directors of the Company held a total of 25 meetings during the last fiscal year. Mr. James Keyes serves as the Chairman of the Board. The Board has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Audit, Compensation and Nominating and Corporate Governance Committees consist solely of non-employee independent directors as defined by the New York Stock Exchange. The Board appoints the members and chairs of the committees annually. All committees operate under charters approved by the Board. These charters are available on the Company s website, or alternatively, you may request a print copy by writing to the address set forth above.

Executive sessions of independent directors are held on a quarterly basis. During the last fiscal year, these sessions were led by Mr. James Keyes, who was the lead independent director until May 2006, when he was elected Chairman of the Board of Directors.

You may contact the Board of Directors by sending an email to board@lsi.com. In accordance with instructions from the Board, the Corporate Secretary to the Board reviews all correspondence, organizes the communications for review by the Board, and posts communications to the full Board or individual directors as appropriate. The Company s directors have requested that certain items that are unrelated to the Board s duties, such as spam, junk mail, mass mailings, solicitations, resumes and job inquiries, not be posted.

Although the Company does not have a policy with respect to attendance by directors at annual meetings of stockholders, the Company customarily schedules Board and committee meetings on the same day as the annual meeting of stockholders to encourage and facilitate director attendance at the annual meeting. All of the Company s then current directors attended the Company s annual meeting held in May 2006.

Table of Contents

During the year ended December 31, 2006, all incumbent directors attended more than 75% of the aggregate number of meetings of the Board of Directors and meetings of the committees of the Board on which they served.

Audit Committee

As of the mailing date of this proxy statement, the Audit Committee consists of Dr. Currie, who serves as its chairman, Mr. Haggerty, Mr. Keyes, Mr. Norby and Mr. O Rourke. The Audit Committee held nine meetings during the last fiscal year. The Audit Committee reviews the Company s accounting policies and practices, internal controls, financial reporting practices, contingent risks and risk management strategies and plans. The Audit Committee selects and retains the Company s independent registered public accounting firm to examine the Company s accounts, reviews the independence of the independent registered public accounting firm as a factor in making these determinations and pre-approves all audit and non-audit services performed by the independent registered public accounting firm. The Audit Committee regularly meets alone with the Company s management, independent registered public accounting firm, and the director of the Company s Internal Audit Department, and grants them free access to the Audit Committee at any time. All members of the Audit Committee are financially literate, as such qualification is interpreted by the Company s Board of Directors in its business judgment. In addition, Messrs. Keyes, Norby and O Rourke are designated as financial experts of the Audit Committee, as defined by SEC rules. Stockholders interested in communicating with the Audit Committee may do so by sending an email to auditchair@lsi.com.

The Audit Committee has established a policy for pre-approval of audit and permissible non-audit services. The Audit Committee reviews and approves the independent registered public accounting firm s annual audit plan and any subsequent engagements. The Audit Committee requires that all audit and permissible non-audit services be submitted to it for review and approval in advance. In addition, the Audit Committee has approved the expenditure of up to $100,000 per year on fees for PwC related to, but not contemplated by, the audit plan, provided that such expenditure is approved, in advance, by the Company s chief financial officer, and is reported to the Audit Committee at the next regular meeting. Occasionally, a subcommittee of the Audit Committee, consisting of two members, pre-approves certain services. The entire Audit Committee ratifies the subcommittee s pre-approval in a subsequent meeting of the Audit Committee. In 2006, the Audit Committee followed these guidelines in approving all services rendered by PricewaterhouseCoopers LLP.

Compensation Committee

As of the mailing date of this proxy statement, the Compensation Committee consists of Mr. O Rourke, who serves as its chairman, Dr. Currie, Mr. Haggerty, Mr. Keyes and Mr. Reyes. The Compensation Committee held five meetings during the last fiscal year. The scope of the Compensation Committee s authority is set forth in its charter. At least annually, the Compensation Committee establishes the Company s overall executive compensation strategy, and, in particular, determines the compensation structure and package for the chief executive officer and other executive officers, as well as director compensation. In addition, the Compensation Committee establishes the goals of the Company s executive officers, and amends or recommends that the Board of Directors amend these goals or arrangements if the Compensation Committee deems it appropriate. The Compensation Committee evaluates and reviews the performance of the chief executive officer and makes recommendations to the Board, as appropriate. The Compensation Committee also reviews the performance of all other executive officers in light of those aforementioned goals or arrangements on an annual basis. The Compensation Committee reviews and approves the Company s stock option and other stock incentive award programs and reviews, as needed, executive compensation matters and significant issues that relate to executive compensation. In determining executive compensation, the Compensation Committee obtains advice and assistance from an independent consultant, Hewitt Associates LLC (Hewitt). The Compensation Committee provides Hewitt with information concerning executive compensation practices (base salary, target bonuses and equity compensation) for the purpose of benchmarking our practices against industry norms. Information is also compiled regarding the compensation practices of other companies from, and we contribute information to, a national survey of executive compensation practices, and provides information to Hewitt regarding certain companies that participate in the survey. Hewitt then analyzes the data in conjunction with its own internal database of information and information compiled from publicly available sources. Using this information, Hewitt develops proposed compensation recommendations and submits them to

Table of Contents

the Compensation Committee. The Compensation Committee reviews the compensation recommendations and discusses them with Hewitt, and may propose changes to the recommendations prior to approving a final executive compensation package.

The Compensation Committee may form subcommittees for any purpose that it deems appropriate and may delegate to such subcommittees such power and authority as the Committee deems appropriate. However, the Compensation Committee can not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Compensation Committee as a whole.

Stockholders interested in communicating with the Compensation Committee may do so by sending an email to compensationchair@lsi.com.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is composed entirely of independent directors, none of whom has any interlocking relationships as defined by the Securities and Exchange Commission.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee held four meetings during the last fiscal year. As of the mailing date of this proxy statement, the Nominating and Corporate Governance Committee consists of Mr. Reyes, who serves as its chairman, Mr. Chen, Mr. Keyes, Mr. Miner and Mr. Norby. The Nominating and Corporate Governance Committee recommends individuals to the full Board of Directors qualified to serve as directors of the Company and on committees of the Board of Directors, recommends to the Board the director nominees for each annual meeting of stockholders, and is charged with advising the Board of Directors with respect to Board composition and procedures, and whether to form or dissolve committees. The Nominating and Corporate Governance Committee also advises the Board of Directors with respect to the corporate governance principles applicable to the Company and develops criteria for oversight of the evaluation of the Board and management.

The Nominating and Corporate Governance Committee may retain and, in the past, has retained professionals to assist in identifying and evaluating candidates for director nominees. Although there are no specific, minimum qualifications for nominees, each nominee to the Board of Directors is considered on the basis of his or her likelihood to enhance the Board s ability to manage and direct the affairs and businesses of the Company, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties and satisfy any requirements imposed by law, regulation, or exchange listing requirements.

The Nominating and Corporate Governance Committee will consider properly submitted stockholder recommendations for candidates for election to the Company s Board of Directors at the 2008 annual meeting if received no later than December 31, 2007. The Nominating and Corporate Governance Committee uses the same criteria described above in assessing candidates recommended by stockholders. The name of any recommended candidate for director, together with a brief biography, a document indicating the candidate s willingness to serve and evidence of the nominating person s ownership of Company stock should be sent to the attention of the Nominating and Corporate Governance Committee at nominatingchair@lsi.com. Stockholders may use the same email address to communicate other matters to the Nominating and Corporate Governance Committee.

Director Compensation

During the prior fiscal year and through March 31, 2007, members of the Board of Directors, who are not employees of the Company, received an annual fee of $35,000, paid quarterly, plus $2,000 for each regular Board meeting they attend in person. Board members are also reimbursed for expenses for attendance at regular Board and committee meetings. For attendance at additional telephonic meetings, members receive a fee of $1,000 per meeting. In addition, the Chairman of the Board receives an annual fee of $5,000. Each director receives $1,000 for attending a committee meeting that is not held in conjunction with a meeting of the Board of Directors. Notwithstanding the foregoing, members of the Audit Committee receive $1,000 for each Audit Committee meeting they attend, regardless of whether it is held in conjunction with a Board of Directors meeting. In addition,

Table of Contents

the Audit Committee s designated financial experts receive an additional $5,000 for their services annually, and the Audit Committee chairman receives an additional annual fee of $7,000.

Beginning April 1, 2007, members of the Board of Directors who are not employees of the Company will receive an annual fee of $60,000, paid quarterly. They will continue to be reimbursed for expenses for attendance at regular Board and committee meetings, and the Chairman of the Board will continue to receive an annual fee of $5,000. Members of the Audit Committee will receive an annual fee of $15,000, and members of the Compensation Committee the Nominating and Corporate Governance Committee will receive an annual fee of $10,000. Each committee chair will receive an annual fee of $7,500. Board members will no longer be entitled to fees for attending individual meetings, unless the Chairman determines that the number of meetings is extraordinary and that meeting attendance fees are appropriate.

The Company s Amended 1995 Director Option Plan, as adopted by the Board of Directors and approved by the stockholders, provides for the grant of non-statutory stock options to non-employee directors of the Company. Under a non-discretionary formula approved by the stockholders, each non-employee director is granted an initial option to purchase 30,000 shares of common stock on the date on which he or she first becomes a director. In addition, on April 1 of each year, each non-employee director is automatically granted a subsequent option to purchase 30,000 shares of common stock of the Company, if on the date of grant he or she has served on the Board of Directors for at least six months. The vesting schedule for initial options granted under the Amended 1995 Director Option Plan is set at 25% on each of the first four anniversaries of the grant date. Subsequent option grants become exercisable in full six months after the date of grant. Options may be exercised only while the optionee is a director of the Company, within 12 months after death or within three months after the optionee ceases to serve as a director of the Company for a reason other than death, but in no event after the ten-year term of the option has expired.

The table below summarizes the compensation paid by the Company to each person who served as a non-employee Director at any time during the fiscal year ended December 31, 2006.

Director Compensation for Fiscal Year Ended December 31, 2006

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)(1)	Non-Equity Incentive Plan Compensation ($) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (f)	All Other Compensation ($) (g)	Total ($) (h)
James H. Keyes	80,000		106,524				186,524
Timothy Y. Chen	21,667		7,563				29,230
TZ Chu	42,250		0(2)				42,250
Wilfred J. Corrigan	19,500		0(3)				19,500
Malcolm R. Currie	72,000		106,524				178,524

Charles A. Haggerty	36,500	12,461	48,961
John H. F. Miner	32,500	12,461	44,961
R. Douglas Norby	69,000	106,524	175,524
Matthew J. O Rourke	79,000	106,524	185,524
Gregorio Reyes	61,000	106,524	167,524
Larry W. Sonsini	8,750	0(4)	8,750

(1) For all directors, the amounts in column (d) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, with respect to options held by the director, as accounted for by the Company in accordance with FAS 123(R). For an explanation of assumptions underlying the valuation of stock option grant awards, refer to Note 3 of the consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended

-10-

Table of Contents

December 31, 2006, filed with the SEC on March 1, 2007. For Messrs. Chu, Corrigan, Currie, Keyes, Norby, O Rourke and Reyes, the full grant date fair value of options granted in fiscal year 2006, computed in accordance with FAS 123(R), is $106,524. The stock options granted to the recently appointed directors in 2006, as accounted for by the Company in accordance with FAS 123(R) consists of: for Mr. Chen, $91,323, for Mr. Haggerty, $102,852 and for Mr. Miner, $102,852. At fiscal year end, the aggregate number of option awards held by each director is as follows: Timothy Y. Chen, 30,000 shares, TZ Chu, 0 shares, Wilfred J. Corrigan, 4,850,000 (pursuant to the employment agreement dated September 2001 and amendments made in 2005 to certain stock option agreements, Mr. Corrigan s exercise period is the term of each option, which is ten years from the grant date with respect to each stock option), Malcolm R. Currie, 235,000 shares, Charles A. Haggerty, 30,000 shares, James H. Keyes, 235,000 shares, John H.F. Miner, 30,000 shares, R. Douglas Norby, 165,000 shares, Matthew J. O Rourke, 220,000 shares, Gregorio Reyes, 170,000 shares and Larry W. Sonsini, 0 shares.

(2) Mr. Chu resigned from the Board of Directors in July 2006, prior to the vesting of any stock options granted in 2006.

(3) Mr. Corrigan resigned from the Board of Directors in May 2006, prior to the vesting of any stock options granted in 2006.

(4) Mr. Sonsini resigned from the Board of Directors in February 2006, prior to receiving the annual grant of stock options in 2006.

SECURITY OWNERSHIP

The following table sets forth certain information with respect to the beneficial ownership of the common stock of the Company as of the Record Date, by all persons known to the Company to be beneficial owners of more than five percent of the Company s common stock, by all directors, nominees for director and executive officers named in the Summary Compensation Table (Named Executive Officers) and by all current directors and executive officers as a group.

Name	Number of Shares Beneficially Owned	Approximate Percentage Owned
Black Rock, Inc.(1)	47,597,360	11.8%
Morgan Stanley & Co., Inc.(2)	28,886,307	7.1%
Paulsen & Co., Inc.(3)	23,773,922	5.9%
Timothy Y. Chen	0	*
Malcolm R. Currie(4)	566,500	*