LSI LOGIC CORP
Form 10-Q
August 07, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X]	**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended June 30, 2002

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 Number: 0-11674

LSI LOGIC CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(408) 433-8000
(Registrant s telephone number)

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 [X] NO [ ]

As of August 2, 2002, there were 371,838,370 shares of the registrant s Common Stock, $.01 par value, outstanding.

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PART I

Item 1. Financial Statements

LSI LOGIC CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands, except per-share amounts)	June 30, 2002	December 31, 2001
Assets		
Cash and cash equivalents	$ 445,942	$ 757,138
Short-term investments	562,606	256,169
Accounts receivable, less allowances of $8,484 and $20,151	244,659	191,731
Inventories	197,828	256,629
Deferred tax assets	161,231	160,371
Prepaid expenses and other current assets	150,044	146,930
Total current assets	1,762,310	1,768,968
Property and equipment, net	819,274	944,374
Goodwill and other intangibles (Note 2)	1,252,115	1,297,542
Deferred tax assets	110,789	107,957
Non-current assets and deposits	287,023	296,265
Investment in available-for-sale securities	60,611	78,433
Other assets	135,319	132,233
Total assets	$4,427,441	$4,625,772
Liabilities and Stockholders Equity		
Accounts payable	$ 95,756	$ 136,739
Accrued salaries, wages and benefits	70,978	72,260
Other accrued liabilities	244,063	227,467
Income tax payable	67,949	73,187
Current portion of long-term obligations	342	332
Total current liabilities	479,088	509,985
Deferred tax liabilities	174,072	173,759
Long term debt and capital lease obligations	1,334,297	1,335,806
Other non-current liabilities	111,795	120,470
Total long-term obligations and deferred tax liabilities	1,620,164	1,630,035
Commitments and contingencies (Note 12)		
Minority interest in subsidiary	6,711	5,867
Stockholders equity:		
Preferred shares; $.01 par value; 2,000 shares authorized		
Common stock; $.01 par value; 1,300,000 shares authorized; 371,772 and 368,446 shares outstanding	3,718	3,684
Additional paid-in capital	2,935,711	2,905,638
Deferred stock compensation	(76,493)	(124,091)

Accumulated deficit	(553,847)	(319,803)
Accumulated other comprehensive income	12,389	14,457
Total stockholders equity	2,321,478	2,479,885
Total liabilities and stockholders equity	$4,427,441	$4,625,772

See notes to unaudited consolidated financial statements.

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LSI LOGIC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2002	2001	2002	2001
Revenues	$437,768	$ 465,219	$ 850,277	$ 982,418
Costs and expenses:				
Cost of revenues	269,632	284,759	535,541	595,904
Additional excess inventory charges	4,772	108,026	45,526	108,026
Research and development	112,833	127,412	227,176	246,179
Selling, general and administrative	57,366	77,480	115,546	156,451
Acquired in-process research and development		77,500		77,500
Restructuring of operations and other non-recurring items, net	(6,405)	59,839	58,655	59,839
Amortization of non-cash deferred stock compensation (*)	23,849	27,840	50,770	49,107
Amortization of intangibles	19,147	43,469	38,304	70,558
Total costs and expenses	481,194	806,325	1,071,518	1,363,564
Loss from operations	(43,426)	(341,106)	(221,241)	(381,146)
Interest expense	(15,486)	(9,864)	(31,320)	(19,804)
Interest income and other, net	2,621	3,742	6,267	18,023
Loss before income taxes	(56,291)	(347,228)	(246,294)	(382,927)
Provision/(benefit) for income taxes	6,000	(34,747)	(12,250)	(39,198)
Net loss	$ (62,291)	$(312,481)	$ (234,044)	$ (343,729)
Loss per share:				
Basic	$ (0.17)	$ (0.91)	$ (0.63)	$ (1.03)
Dilutive	$ (0.17)	$ (0.91)	$ (0.63)	$ (1.03)
Shares used in computing per share amounts:				
Basic	369,672	344,873	368,769	332,728
Dilutive	369,672	344,873	368,769	332,728

(*) Amortization of non-cash deferred stock compensation, if not shown separately, would have been included in cost of revenues, research and development and selling, general and administrative expenses as shown below:

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001

Cost of revenues	$ 444	$ 685	$ 994	$ 848
Research and development	18,580	19,625	38,899	36,707
Selling, general and administrative	4,825	7,530	10,877	11,552

See notes to unaudited consolidated financial statements.

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LSI LOGIC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Operating activities:		
Net loss	$ (234,044)	$ (343,729)
Adjustments:		
Depreciation and amortization	175,928	243,614
Amortization of non-cash deferred stock compensation	50,770	49,107
Acquired in-process research and development		77,500
Non-cash restructuring and non-recurring items, net	49,598	54,215
Changes in working capital components, net of assets acquired and liabilities assumed in business combinations:		
Accounts receivable, net	(49,577)	237,013
Inventories, net	61,115	(54,763)
Prepaid expenses and other assets	(9,960)	(48,477)
Accounts payable	(41,398)	(91,166)
Accrued and other liabilities	(12,366)	(19,349)
Net cash (used in)/ provided by operating activities	(9,934)	103,965
Investing activities:		
Purchase of debt and equity securities available-for-sale	(947,636)	(934,197)
Maturities and sales of debt and equity securities available-for-sale	627,823	949,613
Purchases of property and equipment, net of retirements	(12,148)	(125,635)
Increase in non-current assets and deposits	236	
Acquisition of companies, net of cash acquired		43,979
Net cash used in investing activities	(331,725)	(66,240)
Financing activities:		
Repayment of debt obligations	(191)	(869)
Issuance of common stock, net	26,589	44,367
Net cash provided by financing activities	26,398	43,498
Effect of exchange rate changes on cash and cash equivalents	4,065	791
(Decrease)/ increase in cash and cash equivalents	(311,196)	82,014
Cash and cash equivalents at beginning of period	757,138	235,895
Cash and cash equivalents at end of period	$ 445,942	$ 317,909

The Company paid $28 million and $18 million in interest for the six months ended June 30, 2002 and 2001, respectively.

See notes to unaudited consolidated financial statements.

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LSI LOGIC CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

In the opinion of LSI Logic Corporation (the Company or LSI), the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments, additional excess inventory and other related charges, and restructuring and other non-recurring items, net as discussed in Note 3), necessary to present fairly the financial information included herein. While the Company believes that the disclosures are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2001.

For financial reporting purposes, the Company reports on a 13 or 14 week quarter with a year ending December 31. For presentation purposes, the consolidated financial statements refer to the quarter s calendar month end for convenience. The results of operations for the quarter ended June 30, 2002 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from these estimates.

NOTE 2 GOODWILL AND INTANGIBLE ASSETS

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets on January 1, 2002. As a result, goodwill is no longer amortized, but is instead tested for impairment annually or sooner if circumstances indicate that it may no longer be recoverable. In addition, intangible assets acquired prior to July 1, 2001 that do not meet the criteria for recognition under SFAS No. 141 Business Combinations have been reclassified to goodwill.

Upon adoption, the Company completed the transitional goodwill impairment assessment required by SFAS No. 142 and concluded that goodwill was not impaired as of January 1, 2002. For the purpose of measuring the impairment, goodwill was assigned to reporting units as defined by SFAS No. 142. The reporting units identified by the Company are Semiconductor and Storage Systems.

Goodwill and intangible assets by reportable segment are comprised of the following (in thousands):

	June 30, 2002		December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Unamortized intangible assets:				
Semiconductor	$ 892,057	$	$ 899,180	$
Storage Systems	53,000		53,000	
Total goodwill (a)	945,057		952,180	
Amortized intangible assets:				
Semiconductor:				
Current technology	374,513	(131,505)	374,513	(100,538)
Trademarks	37,347	(10,693)	37,347	(7,797)
Subtotal	411,860	(142,198)	411,860	(108,335)
Storage Systems:				
Current technology	56,490	(24,622)	56,490	(20,817)
Trademarks	3,500	(1,716)	3,500	(1,498)
Customer base	5,010	(1,266)	5,010	(848)

Subtotal	65,000	(27,604)	65,000	(23,163)
Total	$1,421,917	$(169,802)	$1,429,040	$(131,498)

(a) Goodwill is net of accumulated amortization immediately prior to the adoption of SFAS No. 142.

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Amortization expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Goodwill	$	$30,887	$	$47,595
Current technology	17,381	11,353	34,772	20,982
Trademarks	1,557	1,020	3,114	1,563
Customer base	209	209	418	418
Total	$19,147	$43,469	$38,304	$70,558

The amounts allocated to current technology, trademarks and customer base are being amortized over their estimated weighted average useful lives of six years.

The estimated future amortization expense of intangible assets as of June 30, 2002 is as follows (in millions):

Fiscal year:	Amount:
2002 (remaining six months)	$ 39
2003	77
2004	77
2005	70
2006	40
2007 and later	4
	$307

Pro forma net loss and pro forma net loss per share excluding amortization expense for goodwill is as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net loss, as reported	$(62,291)	$(312,481)	$(234,044)	$(343,729)
Add back goodwill amortization		30,887		47,595
Pro forma net loss	(62,291)	(281,594)	(234,044)	(296,134)
Basic loss per share, as reported	(0.17)	(0.91)	(0.63)	(1.03)
Add back goodwill amortization		0.09		0.14
Basic pro forma loss per share	(0.17)	(0.82)	(0.63)	(0.89)
Diluted loss per share, as reported	(0.17)	(0.91)	(0.63)	(1.03)
Add back goodwill amortization		0.09		0.14

Diluted pro forma loss per share	$ (0.17)	$ (0.82)	$ (0.63)	$ (0.89)

NOTE 3 RESTRUCTURING AND OTHER NON-RECURRING ITEMS

The Company recorded a gain of approximately $6 million and a charge of approximately $59 million in restructuring and other non-recurring items for the three and six months ended June 30, 2002, respectively. The details of the restructuring and non-recurring items are discussed further below. The Company recorded restructuring and non-recurring charges of approximately $60 million for the second quarter and first half of 2001. For a discussion of the 2001 restructuring actions, please refer to the Company s Annual Report on Form 10-K.

Restructuring:

In the first quarter of 2002, the Company announced a series of actions to reduce costs and streamline operations. These actions included a worldwide reduction in workforce, downsizing the Company s manufacturing operations in Tsukuba, Japan and the decision to exit the CDMA handset standard product line. During the three months ended March 31, 2002, the Company recorded a restructuring charge for severance for approximately 1,400 employees worldwide, fixed asset write-downs due to impairment in the U.S. and Japan that will be disposed of by sale, and exit costs primarily associated with cancelled contracts and operating leases. In the second quarter of 2002, the Company completed the sale of the CDMA handset product line to a third party, recognizing a net gain of approximately $6 million.

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On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed. The adoption did not have a significant effect on the Company s financial position and results of operations.

Assets held for sale of $98 million and $89 million were included as a component of prepaid expenses and other current assets as of June 30, 2002 and December 31, 2001, respectively. The fair value of assets determined to be impaired was the result of independent appraisals and the use of management estimates. Given that current market conditions for the sale of older fabrication facilities and related equipment may fluctuate, there can be no assurance that the Company will realize its current net book value for the assets. The Company will reassess the realizability of the carrying value of these assets at the end of each quarter until the assets are sold or otherwise disposed of and additional adjustments may be necessary.

The following table sets forth the Company s restructuring reserves as of June 30, 2002:

(In thousands)	Balance at December 31, 2001	Restructuring Expense Q1 2002	Utilized Q1 2002	Utilized Q2 2002	Balance at June 30, 2002
Write-down of excess assets(a)	$ 3,762	$ 25,933	$ (27,623)	$ (765)	$ 1,307
Lease terminations and maintenance contracts(c)	10,695	12,871	(1,623)	(1,066)	20,877
Facility closure and other exit costs(c)	14,153	415	(3,142)	(2,723)	8,703
Payments to employees for severance(b)	724	27,490	(10,352)	(9,932)	7,930
Total	$ 29,334	$ 66,709	$ (42,740)	$ (14,486)	$ 38,817

(a) Amounts utilized in 2002 reflect a non-cash write-down of fixed assets in the U.S. and Japan due to impairment of $25.3 million and cash payments for machinery and equipment decommissioning costs of $3.1 million. The fixed asset write-downs were accounted for as a reduction of the assets and did not result in a liability. The $1.3 million balance as of June 30, 2002 relates to machinery and equipment decommissioning costs in the U.S.

(b) Amounts utilized represent cash payments related to the severance of approximately 750 and 400 employees during the three months ended March 31, 2002 and June 30, 2002, respectively. The $7.9 million balance as of June 30, 2002 will be paid during 2002.

(c) Amounts utilized represent cash payments.

Other non-recurring items:

The Company recorded a net gain of approximately $2 million in other non-recurring items during the first quarter of 2002 which consisted of a nonrefundable deposit paid to the Company in the first quarter of 2002 related to the termination of the agreement to sell the Colorado Springs fabrication facility during 2001, offset in part by operating expenses for the CDMA handset product line held for sale.

NOTE 4 LICENSE AGREEMENT

In the second quarter of 1999, the Company and Silterra Malaysia Sdn. Bhd. (formerly known as Wafer Technology (Malaysia) Sdn. Bhd.) (Silterra) entered into a technology transfer agreement under which the Company granted licenses to Silterra with respect to certain of the Company s wafer fabrication technologies and provides associated manufacturing training and related services. In exchange, the Company will receive cash consideration of $75 million and equity consideration over three years for which transfers and obligations of the Company are scheduled to occur. The equity consideration was valued at zero at June 30, 2002. The Company transferred technology to Silterra valued at $2 million and $6 million for the three months ended June 30, 2002 and 2001, respectively and $6 million and $12 million for the six months ended June 30, 2002 and 2001, respectively. The amount was recorded as an offset to the Company s R&D expenses.

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NOTE 5 INVESTMENTS

(In thousands)	June 30, 2002	December 31, 2001
Cash and cash equivalents		
Overnight deposits	$ 73,969	$295,439
Commercial paper	68,833	151,793
Corporate and municipal debt securities	45,878	9,957
Total held-to-maturity	188,680	457,189
Cash	257,262	299,949
Total cash and cash equivalents	$445,942	$757,138
Available-for-sale		
Corporate and municipal debt securities	$295,052	$191,405
Commercial paper	17,409	19,851
Auction rate preferred stock	9,713	29,887
U.S. government and agency securities	137,150	15,026
Asset and mortgage backed securities	103,282	
Total short-term investments	$562,606	$256,169
Investment in available-for-sale securities	$ 60,611	$ 78,433
Total other long-term assets	$ 60,611	$ 78,433
Total available-for-sale	$623,217	$334,602

Unrealized holding gains and losses for held-to-maturity and available-for-sale debt securities were not significant and accordingly the amortized cost approximated fair market value at June 30, 2002 and December 31, 2001. Realized gains and losses for held-to-maturity and available-for-sale debt securities were not significant for the three and six months ended June 30, 2002 and 2001.

An unrealized gain of $6 million, net of the related tax effect of $3 million, and $22 million, net of the related tax effect of $12 million, related to marketable equity securities was included in accumulated other comprehensive income as of June 30, 2002 and December 31, 2001, respectively.

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency risk

The Company has foreign subsidiaries that operate and sell the Company s products in various global markets. As a result, the Company is exposed to changes in foreign currency exchange rates and interest rates. The Company utilizes various hedge instruments, primarily forward contracts, interest rate swap and currency option contracts, to manage its exposure associated with firm intercompany and third-party transactions and net asset and liability positions denominated in non-functional currencies. The Company does not hold derivative financial instruments for speculative or trading purposes.

Forward contracts are used to hedge certain cash flows denominated in non-functional currencies. Changes in the fair value of forward contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in other income and expense. As of June 30, 2002 and December 31, 2001, there was one contract outstanding at each date. The contracts were each set to expire within one month and were designated as foreign currency fair-value hedges in accordance with SFAS No. 133. For the three and six months ended June 30, 2002 and 2001, the change in time value of the forward contracts was not significant. The Company did not record any gains or losses due to hedge ineffectiveness for the three and six months ended June 30, 2002 and 2001.

The Company also enters into purchased currency option contracts that are designated as foreign currency cash-flow hedges of third-party yen revenue exposures. Changes in the fair value of currency option contracts due to changes in time value are excluded

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from the assessment of effectiveness and are recognized in other income and expense. As of June 30, 2002, the Company held purchased currency option contracts that were designated as foreign currency cash-flow hedges of third-party yen revenue exposures. The contracts expire over a six month period. There were no option contracts outstanding as of December 31, 2001. For the three and six months ended June 30, 2002 and 2001, the change in option time value was not significant. There were no unrealized gains or losses included in accumulated other comprehensive income as of June 30, 2002 or December 31, 2001. The Company did not record any gains or losses due to hedge ineffectiveness for the three and six months ended June 30, 2002 and 2001.

Forward exchange contracts and options are also used to hedge certain foreign currency denominated assets or liabilities. These derivatives do not qualify for SFAS No. 133 hedge accounting treatment. Accordingly, changes in the fair value of these hedges are recorded immediately in earnings to offset the changes in fair value of the assets or liabilities being hedged. The related gains and losses included in other income and expense were not significant.

Interest rate risk

In June 2002, the Company entered into interest rate swap transactions (the swaps) with various investment banks. The swaps effectively convert fixed interest payments on the notional amount of $1.085 billion Convertible Subordinated Notes to LIBOR based floating rates. The swaps were entered into in order to hedge the fixed rate interest expense on the Company s 4% and 4.25% Convertible Subordinated Notes (the Notes). Under the terms of the swaps, the Company must provide collateral to match any mark-to-market exposure on the swaps. The collateral of approximately $10.9 million was included in non-current assets as of June 30, 2002. The swaps qualify to be accounted for as a fair value hedge under the provisions of SFAS No. 133 with changes in the fair value of the interest rate risk being offset by changes in the fair value of the swaps through income. The changes in fair value of the interest rate risk and the swaps were not significant for the three months ended June 30, 2002.

NOTE 7 BALANCE SHEET DETAIL

(In thousands)	**June 30, 2002**	**December 31, 2001**
Inventories:		
Raw materials	$ 16,022	$ 31,797
Work-in-process	56,678	88,354
Finished goods	125,128	136,478
	$197,828	$256,629
Other accrued liabilities:		
Accrued expenses	$156,824	$158,673
Sales tax payable	15,225	7,044
Interest payable	15,463	14,890
Restructuring reserves	38,817	29,334
Deferred tax liability	17,734	17,526
	$244,063	$227,467

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NOTE 8 RECONCILIATION OF BASIC AND DILUTED LOSS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted loss per share computations are as follows:

	Three Months Ended June 30,					
	2002			2001		
(In thousands except per share amounts)	Loss*	Shares+	Per-Share Amount	Loss*	Shares+	Per-Share Amount
Basic EPS:						
Net loss available to common stockholders	$(62,291)	369,672	$(0.17)	$(312,481)	344,873	$(0.91)
Effect of dilutive securities:						
Diluted EPS:						
Net loss available to common stockholders	$(62,291)	369,672	$(0.17)	$(312,481)	344,873	$(0.91)

	Six Months Ended June 30,					
	2002			2001		
(In thousands except per share amounts)	Loss*	Shares+	Per-Share Amount	Loss*	Shares+	Per-Share Amount
Basic EPS:						
Net loss available to common stockholders	$(234,044)	368,769	$(0.63)	$(343,729)	332,728	$(1.03)
Effect of dilutive securities:						
Diluted EPS:						
Net loss available to common stockholders	$(234,044)	368,769	$(0.63)	$(343,729)	332,728	$(1.03)

* Numerator
\+ Denominator

Options to purchase approximately 74,740,226 shares and 71,395,129 shares were outstanding at June 30, 2002 and 2001, respectively, and were excluded from the computation of diluted shares because of their antidilutive effect on loss per share for the three and six months then ended. The exercise price of these options ranged from $0.01 to $72.25 at June 30, 2002 and 2001.

For the three and six months ended June 30, 2002, common equivalent shares of 47,720,853 associated with the 2001, 2000 and 1999 Convertible Notes were excluded from the calculation of diluted shares because of their antidilutive effect on loss per share. For the three and six months ended June 30, 2001, common equivalent shares of 29,117,261 associated with the 2000 and 1999 Convertible Notes were excluded from the calculation of diluted shares because of their antidilutive effect on loss per share.

NOTE 9 COMPREHENSIVE LOSS

Comprehensive loss is defined as a change in equity of a company during a period from transactions and other events and circumstances, excluding transactions resulting from investments by owners and distributions to owners. Comprehensive loss, net of taxes for the current reporting period and comparable period in the prior year is as follows:

	Three Months Ended June 30,	Six Months Ended June 30,

(In thousands)	2002	2001	2002	2001
Net loss	$ (62,291)	$ (312,481)	$ (234,044)	$ (343,729)
Change in unrealized gain on derivative instruments designated as and qualifying as cash-flow hedges	(2,608)	726		4,926
Change in unrealized gain on available for sale securities, net of tax	(10,074)	14,362	(16,267)	(6,801)
Change in foreign currency translation adjustments	23,758	(3,396)	14,199	(23,531)
Comprehensive loss	$ (51,215)	$ (300,789)	$ (236,112)	$ (369,135)

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NOTE 10 SEGMENT REPORTING

The Company operates in two reportable segments: the Semiconductor segment and the Storage Systems segment. In the Semiconductor segment, the Company uses advanced process technology and comprehensive design methodologies to design, develop, manufacture and market highly complex integrated circuits. These system-on-a-chip solutions include both application specific integrated circuits, commonly referred to as ASICs, application specific standard products in silicon, or ASSPs, as well as Redundant Array of Independent Disks (RAID) host bus adapters and related products and services. In the Storage Systems segment, the Company designs, manufactures, markets and supports high-performance, highly scaleable open storage area network systems, storage solutions and a complete line of RAID systems, subsystems and related software.

The following is a summary of operations by segment for the three and six months ended June 30, 2002 and 2001:

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	2002	2001	2002	2001
Revenues:				
Semiconductor	$354,761			