NATURAL HEALTH TRENDS CORP
Form 10-K
November 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010
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: 0-26272

NATURAL HEALTH TRENDS CORP.
(Exact name of registrant as specified in its charter)

| Delaware | 59-2705336 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

2603 Oak Lawn Avenue
5th Floor
Dallas, Texas 75219
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (972) 241-4080

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value
(Title of each class)

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

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 þ

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 þ

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No þ

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Small reporting company þ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price of such common equity on June 30, 2011: $3,565,128

At November 7, 2011, the number of shares outstanding of the registrant's common stock was 11,326,323 shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

This is the first periodic report of Natural Health Trends Corp. covering periods ended after September 30, 2009. Readers should be aware that several aspects of this Annual Report on Form 10-K differ from other annual reports. First, this report is for each of the fiscal years ended December 31, 2009 and 2010, in lieu of filing separate reports for each of those years. Second, we are including in this report expanded financial and other disclosures in lieu of filing separate Quarterly Reports on Form 10-Q for each of the quarters ended March 31, 2010 through September 30, 2010. We do not intend to file separate Quarterly Reports on Form 10-Q for any of the quarters ended March 31, 2010 through September 30, 2010. We believe that the filing of this expanded annual report enables us to provide information to investors in a more efficient manner than separately filing each of the quarterly reports described above. In addition, we intend to file, as soon as practicable, our Quarterly Reports on Form 10-Q for each of the quarters ended March 31, 2011 through September 30, 2011. The Company intends to file timely all reports required under the Exchange Act in the future.

Unless otherwise noted, the terms “we,” “our,” “us,” and “Company,” refer to Natural Health Trends Corp. and its subsidiaries. References to “dollars” and “$” are to United States dollars.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, in particular “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Item 1. Business,” include “forward-looking statements” within the meaning of section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). When used in this report, the words or phrases “will likely result,” “expect,” “intend,” “will continue,” “anticipate,” “estimate,” “project,” “believe” and sim expressions are intended to identify “forward-looking statements” within the meaning of the Exchange Act. These statements represent our expectations or beliefs concerning, among other things, future revenue, earnings, growth strategies, new products and initiatives, future operations and operating results, and future business and market opportunities.

Forward-looking statements in this report speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. We caution and advise readers that these statements are based on certain assumptions that may not be realized and involve risks and uncertainties that could cause actual results to differ materially from the expectations and beliefs contained herein.

For a summary of certain risks related to our business, see “Item 1A. Risk Factors” in this report. Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this report, including under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our financial statements and the related notes.

Part I

Item 1. BUSINESS

Overview of Business

Natural Health Trends Corp. is an international direct-selling and e-commerce company headquartered in Dallas, Texas. Subsidiaries controlled by the Company sell personal care, wellness, and "quality of life" products under the "NHT Global" brand. In most markets, we sell our products to an independent distributor network that either uses the products themselves or resells them to consumers.

Our majority-owned subsidiaries have an active physical presence in the following markets: North America; Greater China, which consists of Hong Kong, Taiwan and China; Russia; South Korea; Japan; and Europe, which consists of Italy and Slovenia.

We seek to be a leader in the direct selling industry serving the health and wellness marketplace by selling our products into many markets, primarily through our direct selling marketing operations. Our objectives are to enrich the lives of the users of our products and enable our distributors to benefit financially from the sale of our products.

We were originally incorporated as a Florida corporation in 1988. We merged into one of our subsidiaries and re-incorporated in Delaware effective June 29, 2005.

Our common stock is quoted under the symbol "NHTC" on the Pink Sheets, a centralized electronic quotation service run by Pink OTC Markets Inc. for over-the-counter securities.

Available Information

We maintain executive offices at 2603 Oak Lawn Avenue, 5th Floor, Dallas, Texas 75219 and our telephone number is (972) 241-4080. We maintain a corporate website located at www.naturalhealthtrendscorp.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available, free of charge, on our website as soon as reasonably practicable after we file electronically such material with, or furnish it to, the United States Securities and Exchange Commission, or SEC. Our Code of Ethics for Senior Financial Officers can also be found on our website. The information provided on our website should not be considered part of this report. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1–800–SEC–0330. The SEC maintains an internet website at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Our Principal Products

We offer a line of "NHT Global" branded products in three distinct categories including wellness, skincare and lifestyle. These three product categories, along with the business opportunity we offer in most of our markets, provide our members a platform to further their goal of achieving and maintaining healthy, quality lifestyles complete with product supplementation and the opportunity for financial rewards.

NHT Global Essentials, the wellness and nutritional supplementation product line includes:

- Premium Noni Juice™ is a reconstituted morinda citrifolia fruit juice, made from organic noni puree. Noni is a fruit native in the Samoan Islands of the South Pacific. Marketed as a refreshing and energizing beverage, its natural

flavor has been enhanced with white grape concentrate, concord grape concentrate, pineapple juice puree and other natural flavors.

- Triotein™ is a lactose-free whey protein powder that provides amino acid substrates needed to stimulate the body's production of an anti-oxidant, intracellular glutathione peroxidase, in an effort to optimize the body's ability to increase immunity.

- Cluster X2™ is a product created for increased and more efficient cell hydration, improved cellular function and communication and release of cellular toxins.

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- Trifusion Max™ is a beverage with a unique blend of exotic fruits and berries rich in antioxidants, lycopene, and more. Its main ingredients are Acai berry, Goji berry, the Mangosteen fruit, and the Gac fruit; each containing phytonutrients. Phytonutrients are compounds having antioxidative properties found naturally in plant-based foods such as fruit and vegetables. The newly formulated Trifusion Max now contains calcium as well for improved health benefits.

- Glucosamine 2200™ is a great source of daily glucosamine to assist with joint and cartilage health and reduce inflammation and swelling in the joints, the primary cause of pain. The consumption of Glucosamine 2200 can directly stimulate cartilage cells to produce more collagen and proteoglycan of the articular cartilage and help prevent loss of synovial fluid to support normal functionality of the joints.

- FibeRich® is a dietary supplement high in dietary fiber to assist with proper digestive health and more. Every teaspoon of FibeRich contains more than 6 grams of dietary fiber helping to ease bowel movements and remove toxic substances from our bodies. FibeRich also contains 8 billion compound high-density probiotics including L. rhamnosus, L. acidophilus, B. longum and B. bifidum. These probiotics protect the digestive tract and can help the body to absorb vitamins, minerals and nutrients.

- Energin™ is a dietary supplement to help increase metabolism and energy and improve brain function. The key ingredient in Energin is Korean Ginseng, which helps to promote a healthy physical, as well as active mental lifestyle. Studies show that Korean ginseng helps stimulate the formation of blood vessels and improves blood circulation in the brain, thereby improving memory and cognitive abilities.

- Essential Probiotics™ helps maintain the ecological balance of intestinal micro flora, helps peristalsis in the intestinal tract and supports overall intestinal health. Essential Probiotics is a great-tasting powder which dissolves easily and is conveniently packaged in a foil stick pack for portability. One pouch taken daily following a meal is all that is required to restore a healthy balance to the intestinal tract.

- ReStor is a patent-pending liquid dietary supplement targeted to help the body replace a critical enzyme called Ca2+ATPase, which naturally declines as we age. This enzyme is important for optimal cellular function and has been known to assist with improved sleep function and efficiency, reduced joint and muscular pain and soreness, improved bladder function and, increased muscle endurance and strength.

NHT Global Beauty, the skincare product line includes:

- Skindulgence™ 30-Minute Non-Surgical Facelift System is a skin care system that includes a daily cleanser and moisturizer, as well as a specialty mask to lift and reduce the appearance of fine lines and wrinkles in just 30 minutes and after just one use. The 30-Minute Non-Surgical Facelift is designed to help tone and firm facial muscles as it dries and tightens on the skin.

- Time Restore™ series is comprised of the Time Restore Essence and Time Restore Eye Cream and is specifically targeted toward anti-aging benefits and long-term wrinkle reduction. Skindulgence Time Restore products combine the Skindulgence herbal aromatherapy technology and dermatology technology such as Adenosine, Argireline, Matrixyle3000, Polylift and Regu-Age to create and sustain healthier, more beautiful, younger looking skin.

- BioCell™ is a patented skincare treatment product providing the ultimate in hydration and skin brightening. The patented bio-cellulose mask material helps BioCell’s essence gel penetrate deep into the skin, locking in moisture and resulting in a more even skin tone, skin clarity and providing the nutrition a user’s skin needs to maintain a youthful glow.

- 24K Renaissance Skin Rejuvenation Serum™ facilitates moisture absorption and storage to bring your skin healthy hydration. Formulated with real 24K gold flakes, NHT Global has found that ingredients EGF and TRF combined with Hyaluronate form an all-natural bionic protective layer to a user's skin's surface increasing water retention and ultimately diminishing the appearance of fine lines and wrinkles and helping restore elasticity.

NHT Global Lifestyle, the lifestyle enhancing product line includes:

- Alura™ by NHT Global is an intimacy enhancing cream for women.
- Valura™ is topical male intimacy enhancing gel to improve and stimulate male sexual performance and desire.

- La Vie™ is an energy-boosting dietary supplement with a proprietary herbal blend and natural flavors formulated to increase energy and vitality and assist with mental clarity and focus.

- Twin Slim™ is an easy to use weight management program targeted to reduce unwanted pounds and help increase metabolism, burn fat and curb appetite. Complete with a weight management guide encouraging proper diet and nutrition along with regular exercise, Twin Slim offers a jump start slimming solution many need to achieve their desired weight loss goals. The proprietary Twin Slim products, GC Slim and Magic Drop, target subcutaneous fat reduction and increase energy throughout the day.

In addition, some of our subsidiaries offer products specific to their local markets.

NHT Global continuously sources unique, proprietary and immediate impact products to offer to our members and customers. Product development is an ongoing process at NHT Global that is fueled by marketplace trends and new scientific findings and research.

Working closely with raw material manufacturers and leading domestic and international contract manufacturers, NHT Global's mission is to co-develop and bring to market the highest quality products. Our manufacturers are primarily located in the United States and some in Asia. Our raw materials (including botanical ingredients) are sourced from reputable suppliers around the world. In addition, raw material Certificates of Analysis are reviewed in our effort to assure that the appropriate testing has been performed and are within ingredient specification requirements.

Operations of the Business

Operating Strategy

Our objective is to help our members succeed in achieving their life objectives; be it personal health, beauty, happiness or financial security. The Company consists of professionals who focus on assisting our members in attaining their goals.

We believe that, since early 2010, we have completely changed our corporate identity and are building a competitive business model applicable to the markets we operate in based on six key competencies:

- Our field leaders are experienced and culturally coherent. They work effectively with the Company's management, implementing our strategies and providing continuous feedback to improve the Company's services. Most of them have been with the Company for seven years or more and are fiercely loyal to the Company.
- The Company has implemented a commission structure that makes it as easy as possible to join the Company's business, while giving existing members a chance to start making money as quickly as possible in a number of different ways.
- We have developed and rolled out a comprehensive training system that provides a complete career path appropriate for our members. Our training material covers the needs of all of our members, be they prospects, new recruits, product evangelists, sales leaders or dream builders.
- The continuously improving mentality and methodology we have instilled in our field leaders and personnel have not only distinguished us as an organization, but have also given us a constant flow of information as to how we can do better to service our members.
- We have developed a year-round, multi-faceted promotional plan that targets different segments of our membership and has proven most effective in the last couple of years.
- Last, but perhaps most importantly, a discipline and capability has been established to continue launching high-quality consumer products that are designed to facilitate the accomplishment of our corporate objective.

Sourcing of Products

Our corporate staff works with research and development personnel of our manufacturers and other prospective vendors to create product concepts and develop the product ideas into actual products. Each of our three current major product lines - Skindulgence™, Alura™ and Premium Noni Juice™ - were originally conceived by our manufacturing vendors. We then enter into supply agreements with the vendors pursuant to which we obtain rights to sell the products under private labels (or trademarks) that are owned by us. Because our current main products all came to us originally as proposals from our vendors, we have incurred minimal "out-of-pocket" research and development costs through December 31, 2010. In addition, some of our local markets introduce their own products from time to time and these products are sometimes adopted by our other markets.

We or certain of our subsidiaries generally purchase finished goods from manufacturers and sell them to our distributors for their resale or personal consumption. Alix Technologies (for Skindulgence™ and LaVie™), 40Js LLC (for Alura™) and Two Harbors Trading Company (for Premium Noni Juice™) are our three most significant vendors, accounting for a majority of our product purchases. We believe that in the event we are unable to source products from our current or alternate suppliers, our revenue, income and cash flow could be adversely and materially impacted. We have a contract with Two Harbors Trading Company that has annual renewal rights and a contract with 40Js LLC through December 2014. We do not currently have a long term contract with Alix Technologies.

Marketing and Distribution

We distribute our products internationally primarily through a network marketing system, which is a form of person-to-person direct selling. Under this system, distributors purchase products at wholesale prices for resale to consumers and for personal consumption. The concept of network marketing is based on the strength of personal recommendations that frequently come from friends, neighbors, relatives, and close acquaintances. We believe that network marketing is an effective way to distribute our products because it allows person-to-person product education and testimonials as well as higher levels of customer service, all of which are not as readily available through other distribution channels. In some markets, like China, we distribute our products directly to consumers using an e-commerce platform.

Our distributors are independent full-time or part-time contractors who purchase products directly from our subsidiaries via the internet for resale to retail consumers (other than in China, parts of Europe, and certain other markets) or for their own personal consumption. Purchasers of our products in China, Europe and certain other markets may purchase only for their own personal consumption and not for resale. The growth of a distributor's business depends largely upon their ability to recruit a down-line network of distributors and the popularity of our products in the marketplace.

The following table sets forth the number of active distributors by market for the time periods indicated. We consider a distributor "active" if they have placed at least one product order with us during the preceding year.

| | December 31, | | |
|---|---|---|---|
| | 2008 | 2009 | 2010 |
| North America | 1,310 | 700 | 550 |
| Hong Kong | 20,810 | 12,090 | 9,770 |
| Taiwan | 3,450 | 2,030 | 1,630 |
| South Korea | 3,480 | 1,860 | 950 |
| Japan | 1,200 | 690 | 440 |
| Russia | 920 | 2,480 | 2,520 |
| Europe | 1,250 | 590 | 490 |
| Other | 270 | – | – |
| Total | 32,690 | 20,440 | 16,350 |

To become a NHT Global distributor, a prospective distributor must agree to the terms and conditions of our distributor agreement posted on our website. NHT Global distributors generally pay an annual enrollment fee. The distributor agreement sets forth our policies and procedures, and we may elect to terminate a distributor for non-compliance.

We pay commissions to eligible NHT Global distributors based on sales by such distributors' down-line distributors during a given commission period. To be eligible to receive commissions, distributors in some countries may be

required to make nominal monthly or other periodic purchases of products. We believe that the uniqueness and desirability of our NHT Global products, combined with a high commission rate, creates a highly desirable business opportunity and work environment for our NHT Global distributors. See “Working with Distributors.”

Distributors generally place orders through the internet and pay by credit card prior to shipment. Accordingly, we carry minimal accounts receivable and credit losses are historically minimal.

We sponsor promotional meetings and motivational training events in key cities in our markets for current and potential NHT Global distributors. These events are designed to inform prospective and existing distributors about both existing and new product lines as well as selling techniques. Distributors typically share their direct selling experiences, their individual selling styles and their recruiting methods at these promotional or training events. Prospective distributors are educated about the structure, dynamics and benefits of the direct selling industry. We are continually developing or updating our marketing strategies and programs to motivate our distributors. These programs are designed to increase distributors' monthly product sales and the recruiting of new distributors in their down-lines.

Management Information Systems

The NHT Global business uses a proprietary web-based system to process orders and to communicate business volume activity and commissions to distributors. Other than this proprietary system, we have not fully automated and integrated other critical business processes such as inventory management. We automated a substantial amount of our financial reporting processes with the implementation of Oracle's E-Business Suite in the fourth quarter of 2005. We expect to implement further functionality provided we have adequate operating cash flows to reinvest.

Employees

At December 31, 2009, we employed 119 total employees worldwide, of which 22 were located in the United States, 63 in Hong Kong and China, 21 in Taiwan, 3 in Europe, 7 in South Korea, and 3 in Japan.

At December 31, 2010, we employed 103 total employees worldwide, of which 22 were located in the United States, 52 in Hong Kong and China, 18 in Taiwan, 3 in Europe, 6 in South Korea, and 2 in Japan.

Seasonality

From quarter to quarter, we are somewhat impacted by seasonal factors and trends such as major cultural events and vacation patterns. For example, most Asian markets celebrate their respective local New Year in the first quarter, which generally has a significant negative impact on that quarter. We believe that direct selling is also generally negatively impacted during the third quarter, when many individuals, including our distributors, traditionally take time off for vacations. In addition, the national holidays in Hong Kong, China and Taiwan in early October tend to have a significant adverse effect on sales in those markets.

Our spending is materially affected by the major events planned for at different times of the year. A major promotional event could significantly increase the reported expenses during the quarter in which the event actually takes place, while the revenue that might be generated by the event may not occur in the same reporting period.

Intellectual Property

Most of our products are packaged under a "private label" arrangement. We have obtained or applied for trademark registration for certain names, logos and various product names in several countries in which we are doing business or considering expanding into. We also rely on common law trademark rights to protect our unregistered trademarks. These common law trademark rights do not provide us with the same level of protection as afforded by a United States federal registration trademark. Common law trademark rights are limited to the geographic area in which the trademark is actually utilized, while a United States federal registration of a trademark enables the registrant to discontinue the unauthorized use of the trademark by a third party anywhere in the United States even if the registrant has never used the trademark in the geographic area where the trademark is being used; provided, however, that the unauthorized third party user has not, prior to the registration date, perfected its common law rights in the trademark within that geographic area.

In 2005, we implemented a foreign holding and operating company structure for our non-United States businesses, which involved the division of our United States and non-United States operations. As part of implementing this structure, we and some of our United States subsidiaries granted an exclusive license to some of our non-United States subsidiaries to use outside of the United States all of their intangible property, including trademarks, trade secrets and other proprietary information.

Working with Distributors

Sponsorship

Sponsoring new distributors creates multiple levels in the direct selling structure of NHT Global. The persons that a distributor sponsors within the network are referred to as "sponsored" distributors. Persons newly recruited are assigned by sponsoring distributors into network positions that can be “under” other distributors, thus they can be called “down-line” distributors. If down-line distributors also sponsor new distributors, they create additional levels within the structure, but their down-line distributors remain in the same down-line network as their original sponsoring distributor.

We rely on our distributors to recruit and sponsor new distributors. Our top up-line distributors tend to focus on building their network of "down-line" distributors and assisting them with the sale of our products. While we provide product samples, brochures and other sales materials, distributors are primarily responsible for recruiting and educating their new distributors with respect to products, the compensation plan and how to build a successful distributorship network.

Distributors are not required to sponsor other distributors as their down-line, and we do not pay any commissions for sponsoring new distributors. However, because of the financial incentives provided to those who succeed in building a distributor network that consumes and resells products, we believe that many of our distributors attempt, with varying degrees of effort and success, to sponsor additional distributors. Because they are seeking new opportunities for income, people are often attracted to become distributors after using our products or after attending introductory seminars. Once a person becomes a distributor, he or she is able to purchase products directly from us at wholesale prices via the internet. The distributor is also entitled to sponsor other distributors in order to build a network of distributors and product users.

Compensation Plans

NHT Global employs what is commonly referred to as a binary compensation plan. We believe that one of our key competitive advantages within the direct selling industry is our compensation plan for distributors. Under the NHT Global compensation plan, distributors are paid weekly commissions, generally in their home country currency, for product sold by their down-line distributor network across all geographic markets, except China, where in the second quarter of 2007 we launched an e-commerce retail platform and do not pay any commissions. Distributors are not paid commissions on purchases or sales of our products made directly by them. This "seamless" compensation plan enables a distributor located in one country to sponsor other distributors located in other countries where we are authorized to conduct our business. Currently, there are basically two ways in which NHT Global distributors can earn income:

- Through retail markups on sales of products purchased by distributors at wholesale prices (in some markets, sales are for personal consumption only and income may not be earned through retail mark-ups on sales in that market); and

- Through commissions paid on product purchases made by their down-line distributors.

Each of our products is designated a specified number of sales volume points, also called bonus volume or "BV." Commissions are based on total personal and group sales volume points per sales period. Sales volume points are essentially a percentage of a product's wholesale price. As the distributor's business expands from successfully sponsoring other distributors who in turn expand their own businesses by sponsoring other distributors, the distributor receives higher commissions from purchases made by an expanding down-line network. To be eligible to receive commissions, a distributor may be required to make nominal monthly or other periodic purchases of our products. Certain of our subsidiaries do not require these nominal purchases for a distributor to be eligible to receive commissions. In determining commissions, the number of levels of down-line distributors included within the distributor's commissionable group increases as the number of distributorships directly below the distributor increases. Under our current compensation plan, certain of our commission payout may be limited to a hard cap in terms of a specific percentage of the total product sales. In some markets, commissions may be further limited.

In some markets, we also pay certain bonuses on purchase by several generations of personally sponsored distributors, as well as bonuses on commissions earned by several generations of personally sponsored distributors. Distributors can also earn income, trips and other prizes in specific time-limited promotions and contests we hold from time to time.

From time to time we make modifications and enhancements to our compensation plan to help motivate distributors, which can have an impact on distributor commissions. From time to time we also enter into agreements for business or market development, which may result in additional compensation to specific distributors.

Distributor Support

We are committed to providing a high level of support services tailored to the needs of our distributors in each marketplace we are serving. We attempt to meet the needs and build the loyalty of distributors by providing personalized distributor services and by maintaining a generous product return policy (see "Product Warranties and Returns"). We believe that maximizing a distributor's efforts by providing effective distributor support has been, and could continue to be, important to our success.

Through training meetings, annual conventions, web-based messages, distributor focus groups, regular telephone conference calls and other personal contacts with distributors, we seek to understand and satisfy the needs of our distributors. Via our websites, we provide product fulfillment and tracking services that result in user-friendly and timely product distribution.

To help maintain communication with our distributors, we offer the following support programs:

- Teleconferences – we hold teleconferences with company management and associate field leadership on various subjects such as technical product discussions, distributor organization building and management techniques.

- Internet – we maintain a website at www.nhtglobal.com. On this website, the user can read company news, learn more about various products, sign up to be a distributor, place orders, and track the fulfillment and delivery of their order.

- Product Literature – we offer a variety of literature to distributors, including product catalogs, informational brochures, pamphlets and posters for individual products.

- Broadcast E-mail – we send announcements via e-mail to all active distributors.

Technology and Internet Initiatives

We believe that the internet has become increasingly important to our business as more consumers communicate online and purchase products over the internet as opposed to traditional retail and direct sales channels. As a result, we have committed significant resources to our e-commerce capabilities and the abilities of our distributors to take advantage of the internet. Substantially all of our sales have occurred via the internet. NHT Global offers a global web page that allows a distributor to have a personalized website through which he or she can sell products in all of the countries in which we do business. Links to these websites can be found at our main website for distributors at www.nhtglobal.com. The information provided on these websites should not be considered part of this report.

Rules Affecting Distributors

Our distributor policies and procedures establish the rules that distributors must follow in each market. We also monitor distributor activity in an attempt to provide our distributors with a "level playing field" so that one distributor may not be disadvantaged by the activities of another. We require our distributors to present products and business opportunities in an ethical and professional manner. Distributors further agree that their presentations to customers must be consistent with, and limited to, the product claims and representations made in our literature.

We require that we produce or pre-approve all sales aids used by distributors such as videotapes, audiotapes, brochures and promotional clothing. Further, distributors may not use any form of media advertising to promote products unless it is pre-approved by us. Products may be promoted only by personal contact or by literature produced or approved by us. Distributors are not entitled to use our trademarks or other intellectual property without our prior consent.

Our compliance department reviews reports of alleged distributor misbehavior. If we determine that a distributor has violated our distributor policies or procedures, we may terminate the distributor's rights completely. Alternatively, we may impose sanctions, such as warnings, probation, withdrawal or denial of an award, suspension of privileges of the distributorship, fines, withholding commissions, until specified conditions are satisfied or other appropriate injunctive relief. Our distributors are independent contractors, not employees, and may act independently of us. Further, our distributors may resign or terminate their distributorship at any time without notice. See "Item 1A. Risk Factors."

Government Regulations

Direct Selling Activities

Direct selling, or multi-level marketing, activities are regulated by various federal, state and local governmental agencies in the United States and foreign countries. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, which compensate participants for recruiting additional participants irrespective of product sales, use high-pressure recruiting methods and/or do not involve legitimate products. The laws and regulations in our current markets often:

- impose cancellation/product return, inventory buy-backs and cooling-off rights for consumers and distributors;
- require us or our distributors to register with governmental agencies;
- impose reporting requirements; and
- impose upon us requirements, such as requiring distributors to maintain levels of retail sales to qualify to receive commissions, to ensure that distributors are being compensated for sales of products and not for recruiting new distributors.

The laws and regulations governing direct selling are modified from time to time, and, like other direct selling companies, we are subject from time to time to government investigations in our various markets related to our direct selling activities. This can require us to make changes to our business model and aspects of our global compensation plan in the markets impacted by such changes and investigations.

Based on advice of our engaged outside professionals in existing markets, the nature and scope of inquiries from government regulatory authorities and our history of operations in those markets to date, we believe our method of distribution complies in all material respects with the laws and regulations related to direct selling of the countries in which we currently operate.

As a result of restrictions in China on direct selling activities, we are not conducting direct selling in China. Consumers and members purchase the Company's products via our Hong Kong-based web site or our e-commerce platform in China. The regulatory environment in China is complex. Because we operate a direct selling model outside of China, our operations in China have attracted constant and significant regulatory and media scrutiny. At the end of 2005, China adopted new direct selling and anti-pyramiding regulations that are restrictive and contain various limitations, including a restriction on the ability to pay multi-level compensation to independent distributors. Regulations are subject to discretionary interpretation by municipal and provincial level regulators. Interpretations of what constitutes permissible activities by regulators can vary from province to province and can change from time to time because of the lack of clearly defined rules regarding direct selling activities.

Because of the Chinese government's significant concerns about direct selling activities, it scrutinizes very closely activities of direct selling companies. The scrutiny has increased following adoption of the new direct selling and anti-pyramiding regulations and our business continues to be subject to reviews and investigations by municipal and provincial level regulators. At times, investigations and related actions by government regulators have caused an obstruction to our members' activities in certain locations, and have resulted in a few cases of enforcement actions. In each of these cases, we helped our members with their defense in the legality of their conduct. So far, no material changes to our business model have been required. We expect to receive continued guidance and direction as we work with regulators to address our business model and any changes that need to be made to comply with the new direct selling regulations.

In accordance with the direct selling regulations, our Chinese subsidiary applied for a direct selling license first in 2005, provided a revised version in June 2006, and then updated again our application in November 2007. After the approval from the municipal and the provincial authorities, the application did not progress further with the central government. Eventually, the information contained in our most recent application became stale and we withdrew the license application in February 2009 with the intention of filing an updated application in the future. As the Company continues to experience changes in the management, location and nature of its business in China, the Company plans to re-apply but has not yet filed an updated application.

Regulation of Our Products

Our products and related promotional and marketing activities are subject to extensive governmental regulation by numerous governmental agencies and authorities in the United States, including the FDA, the FTC, the Consumer Product Safety Commission, the United States Department of Agriculture, State Attorneys General and other state regulatory agencies. In our foreign markets, the products are generally regulated by similar government agencies, such as the Ministry of Health, Labour and Welfare in Japan and the Department of Health in Taiwan.

Our personal care products are subject to various laws and regulations that regulate cosmetic products and set forth regulations for determining whether a product can be marketed as a "cosmetic" or requires further approval as an over-the-counter drug. In the United States, regulation of cosmetics is under the jurisdiction of the FDA. The Food,

Drug and Cosmetic Act defines cosmetics by their intended use, as "articles intended to be rubbed, poured, sprinkled, or sprayed on, introduced into, or otherwise applied to the human body . . . for cleansing, beautifying, promoting attractiveness, or altering the appearance." Among the products included in this definition are skin moisturizers, eye and facial makeup preparations, perfumes, lipsticks, fingernail polishes, shampoos, permanent waves, hair colors, toothpastes and deodorants, as well as any material intended for use as a component of a cosmetic product. Conversely, a product will not be considered a cosmetic, but may be considered a drug if it is intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease, or is intended to affect the structure or any function of the body. A product's intended use can be inferred from marketing or product claims. The other markets in which we operate have similar regulations. In Japan, the Ministry of Health, Labour and Welfare regulates the sale and distribution of cosmetics and requires us to have an import business license and to register each personal care product imported into Japan. In Taiwan, all "medicated" cosmetic products require registration. In China, personal care products are placed into one of two categories, "general" and "drug." Products in both categories require submission of formulas and other information with the health authorities, and drug products require human clinical studies. The product registration process in China for these products can take from nine to more than 18 months or longer. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. The sale of cosmetic products is regulated in the European Union under the European Union Cosmetics Directive, which requires a uniform application for foreign companies making personal care product sales.

The markets in which we operate all have varied regulations that distinguish foods and nutritional health supplements from “drugs” or “pharmaceutical products.” Because of the varied regulations, some products or ingredients that are recognized as a “food” in certain markets may be treated as a “pharmaceutical” in other markets. That sometimes requires us to either modify a product or refrain from selling the product in that market. As a result, we must often modify the ingredients and/or the levels of ingredients in our products for certain markets. In some circumstances, the regulations in foreign markets may require us to obtain regulatory approval prior to introduction of a new product or limit our uses of certain ingredients altogether. Because of negative publicity associated with some supplements, there has been an increased movement in the United States and other markets to expand the regulation of dietary supplements, which could impose additional restrictions or requirements in the future. In general, the regulatory environment is becoming more complex with increasingly strict regulations each year.

Effective June 2008, the FDA established regulations to require current good manufacturing practices (cGMP) for dietary supplements. The regulations ensure that dietary supplements are produced in a quality manner, do not contain contaminants or impurities, and are accurately labeled. The regulations include requirements for establishing quality control procedures for us and our vendors and suppliers, designing and constructing manufacturing plants, and testing ingredients and finished products. The regulations also include requirements for record keeping and handling consumer product complaints. If dietary supplements contain contaminants or do not contain the type or quantity of dietary ingredient they are represented to contain, the FDA would consider those products to be adulterated or misbranded.

Our business is subject to additional FDA regulations, such as those implementing an adverse event reporting system (“AER’s”) effective December 2007, which requires us to document and track adverse events and report serious adverse events, which are events involving hospitalization or death, associated with consumers’ use of our products.

Most of our major markets also regulate advertising and product claims regarding the efficacy of products. This is particularly true with respect to our dietary supplements because we typically market them as foods or health foods. For example, in the United States, we are unable to claim that any of our nutritional supplements will diagnose, cure, mitigate, treat or prevent disease. In the United States, the Dietary Supplement Health and Education Act, however, permits substantiated, truthful and non-misleading statements of nutritional support to be made in labeling, such as statements describing general well-being resulting from consumption of a dietary ingredient or the role of a nutrient or dietary ingredient in affecting or maintaining a structure or a function of the body. Most of the other markets in which we operate have not adopted similar legislation and we may be subject to more restrictive limitations on the claims we can make about our products in these markets.

Other Regulatory Issues

As a United States entity operating through subsidiaries in foreign jurisdictions, we are subject to foreign exchange control, transfer pricing and custom laws that regulate the flow of funds between our subsidiaries and us for product purchases, management services and contractual obligations, such as the payment of distributor commissions. As is the case with most companies that operate in our product categories, we might receive inquiries from time to time from government regulatory authorities regarding the nature of our business and other issues, such as compliance with local direct selling, transfer pricing, customs, taxation, foreign exchange control, securities and other laws.

Product Warranties and Returns

NHT Global refund policies and procedures closely follow industry and country-specific standards, which vary greatly by country. For example, in the United States, the Direct Selling Association recommends that direct sellers permit returns during the twelve-month period following the sale, while in Hong Kong the standard return policy is 14 days following the sale. Our return policies have conformed to local laws or the recommendation of the local direct selling

association. In most cases, distributors who timely return unopened product that is in resalable condition may receive a refund. The amount of the refund may be dependent on the country in which the sale occurred, the timeliness of the return, and any applicable re-stocking fee. NHT Global must be notified of the return in writing and such written requests would be considered a termination notice of the distributorship. From time to time, we may alter our return policy in response to special circumstances.

Our Industry

We are engaged in the direct selling industry, selling lifestyle enhancement products, cosmetics, personal care and dietary supplements. More specifically, we are engaged in what is called network marketing or multi-level marketing. This type of organizational structure and approach to marketing and sales include companies selling lifestyle enhancement products, cosmetics and dietary supplements, or selling other types of consumer products, such as Tupperware Corporation and Amway Corp. Generally, direct selling is based upon an organizational structure in which independent distributors of a company's products are compensated for sales made directly to consumers.

NHT Global distributors are compensated for sales generated by distributors they have recruited and all subsequent distributors recruited by their "down-line" network of distributors. The experience of the direct selling industry has been that once a sizeable network of distributors is established, new and alternative products and services can be offered to those distributors for sale to consumers and additional distributors. The successful introduction of new products can dramatically increase sales and profits for both distributors and the direct selling marketing organization.

Competition

We compete with a significant number of other retailers that are engaged in similar lines of business, including sellers of health-related products and other network marketing companies such as Nu Skin Enterprises, Inc., USANA Health Sciences, Inc., Mannatech, Inc., Reliv' International, Inc, and Herbalife, Ltd. Many of our competitors have greater name recognition and financial resources than we do and also have many more distributors. A number of our former employees and distributors now work for competitors, and sometimes try to use relationships and knowledge obtained with us to compete with us.

Our ability to compete with other network marketing companies depends, in significant part, on our success in attracting and retaining distributors. There can be no assurance that our programs for attracting and retaining distributors will be successful. The pool of individuals interested in network marketing is limited in each market and is reduced to the extent other network marketing companies successfully attract these individuals into their businesses. Although we believe that we offer an attractive opportunity for our distributors, there can be no assurance that other network marketing companies will not be able to recruit our existing distributors or deplete the pool of potential distributors in a given market.

The direct selling channel tends to sell products at a higher price compared to traditional retailers, which poses a degree of competitive risk. There is no assurance that we would continue to compete effectively against retail stores, internet-based retailers or other direct sellers.

Item 1A. RISK FACTORS

We are exposed to a variety of risks that are present in our business and industry. The following are some of the more significant factors that could affect our business, results of operations and financial condition.

Difficult economic conditions could harm our business.

Global economic conditions continue to be challenging, and it is not possible for us to predict the extent and timing of any improvement in global economic conditions. The economic downturn could adversely impact our business in the future by causing a decline in demand for our products, particularly if the economic conditions are prolonged or worsen. In addition, such economic conditions may adversely impact access to capital for us and our suppliers, may decrease our distributors' ability to obtain or maintain credit cards or otherwise afford to purchase our products, and may otherwise adversely impact our operations and overall financial condition.

We may experience substantial negative cash flows, which may have a significant adverse effect on our business and could threaten our solvency.

We experienced substantial negative cash flows during the years ended December 31, 2008, 2009 and 2010, primarily due to declines in our revenues without proportional decreases in expenditures. If we again experience negative cash flows, our decreasing cash balance could impair our ability to support our operations and, eventually, threaten our solvency, which would have a material adverse effect on our business, results of operations and financial condition, as well as our stock price. Negative cash flows and the related adverse market perception associated therewith may have negatively affected, and may in the future negatively affect, our ability to attract new distributors and/or sell our products. There can be no assurance that we will be successful in maintaining an adequate level of cash resources and we could be forced to act more aggressively in the area of expense reduction in order to conserve cash resources as we look for alternative solutions.

If we experience negative cash flows, we may need to seek additional debt or equity financing, which may not be available on acceptable terms or at all. If available, it could have a highly dilutive effect on the holdings of existing stockholders.

Unless we are able to stabilize or grow revenues, control expenses and achieve positive cash flows, our ability to support our obligations could be impaired and our liquidity could be adversely affected and our solvency and our ability to repay our debts when they come due could be threatened. We may need to seek additional debt or equity financing on acceptable terms in order to improve our liquidity. However, we may not be able to obtain additional debt or equity financing on satisfactory terms, or at all, and any new financing could have a dilutive effect to our existing stockholders.

The anti-dilution provisions of warrants to purchase 1,645,547 shares of our common stock would, if triggered, cause substantial dilution and may, therefore, make it particularly difficult to obtain new equity financing. The warrants were originally issued under a Securities Purchase Agreement dated October 19, 2007. The warrants have an exercise price of $3.52 per share, subject to certain anti-dilution provisions that reduce the exercise price and increase the number of shares underlying the warrants if the Company issues its common stock or equivalent securities at below the exercise price for the warrants (with certain transactions exempted). Warrants to purchase 149,595 shares of our common stock expire on April 21, 2013, and the remaining warrants for the purchase of 1,495,952 shares of our common stock expire on April 21, 2016.

We could be adversely affected by additional management changes or an inability to attract and retain key management, directors and consultants.

Our future success depends to a significant degree on the skills, experience and efforts of our top management and directors. A series of changes in top management since November 2005 may have had, and may in the future have, a material adverse effect on our business, results of operations and financial condition. We also depend on the ability of our executive officers and other members of senior management to work effectively as a team. The loss of one or more of our executive officers, members of our senior management or directors could have a material adverse effect on our business, results of operations and financial condition. Moreover, as our business evolves, we may require additional or different management members, directors or consultants, and there can be no assurance that we will be able to locate, attract and retain them if and when they are needed.

Because our Hong Kong operations account for a majority of our overall business, and most of our Hong Kong business is derived from the sale of products to members in China, any material adverse change in our business relating to either Hong Kong or China would likely have a material adverse impact on our overall business.

In 2008, 2009 and 2010 approximately 66%, 64% and 59% of our revenue, respectively, was generated in Hong Kong. Most of our Hong Kong revenues are derived from the sale of products that are delivered to members in China. This geographic concentration in our business means that events or conditions that could negatively impact this geographic region or our operations in this region would have a greater adverse impact upon our overall business and financial results than would be the case with a company having greater geographic diversification.

In contrast to our operations in other parts of the world, we have not implemented a direct sales model in China. The Chinese government permits direct selling only by organizations that have a license that we do not have, and has also adopted anti-multilevel marketing legislation. We operate an e-commerce direct selling model in Hong Kong and recognize the revenue derived from sales to both Hong Kong and Chinese members as being generated in Hong Kong. Products purchased by members in China are delivered by us to one or more third parties that act as the importers of record under agreements to pay applicable duties. In addition, through a Chinese entity we sell products in China using an e-commerce retail model. The Chinese entity operates separately from the Hong Kong entity,

although a Chinese member may elect to participate separately in both.

We believe that the laws and regulations in China regarding direct selling and multi-level marketing are not specifically applicable to our Hong Kong based e-commerce activity, and that our Chinese entity is operating in compliance with applicable Chinese laws. However, there can be no assurance that the Chinese authorities will agree with our interpretations of applicable laws and regulations or that China will not adopt new laws or regulations. Should the Chinese government determine that our e-commerce activity violates China's direct selling or anti-multilevel marketing legislation, or should new laws or regulations be adopted, there could be a material adverse effect on our business, financial condition and results of operations.

Because of the Chinese government's significant concerns about direct selling activities, it scrutinizes very closely activities of direct selling companies. At times, investigations and related actions by government regulators have resulted in a few cases where we have paid substantial fines. In each of these cases, we have been allowed to recommence operations after the government's investigation, and no material changes to our business model were required in connection with these fines and impediments.

Although we attempt to work closely with both national and local Chinese governmental agencies in conducting our business, our efforts to comply with national and local laws may be harmed by a rapidly evolving regulatory climate, concerns about activities resembling violations of direct selling or anti-multi-level marketing legislation, subjective interpretations of laws and regulations, and activities by individual distributors that may violate laws notwithstanding our strict policies prohibiting such activities. Any determination that our operations or activities, or the activities of our individual distributors or employee sales representatives, or importers of record are not in compliance with applicable laws and regulations could result in the imposition of substantial fines, extended interruptions of business, restrictions on our future ability to obtain business licenses or expand into new locations, changes to our business model, the termination of required licenses to conduct business, or other actions, any of which could materially harm our business, financial condition and results of operations.

Various other factors could harm our business in Hong Kong and China, such as worsening economic conditions in Hong Kong or China, adverse local publicity or other events that may be out of our control. For example, we were advised to voluntarily suspend marketing activities in China during the third quarter of 2007 when the Chinese government was expected to impose a more intense enforcement program against illegal chain sales activities. We did not want to run the risk of being inadvertently entangled in the government enforcement actions and voluntarily withdrew all marketing activities from China during that period. It may be necessary or advisable to repeat this or similar actions from time to time in the future, and such periods of reduced activity could have a material adverse effect on our business.

As a network marketing company, we rely on an independent sales force and we do not have direct control over the marketing of our products.

We rely on non-employee, independent distributors to market and sell our products. We have a large number of distributors and a relatively small corporate staff to implement our marketing programs and to provide motivational support and training to our distributors. Distributors may voluntarily terminate their agreements with us at any time, and there is typically significant turnover in our distributor ranks.

Our failure to maintain and expand our distributor relationships could adversely affect our business.

We distribute our products through independent distributors, and we depend upon them directly for all of our sales in most of our markets. Accordingly, our success depends in significant part upon our ability to attract, retain and motivate a large base of distributors. Our direct selling organization is headed by a relatively small number of key distributors. The loss of a significant number of distributors, including any key distributors, could materially and adversely affect sales of our products and could impair our ability to attract new distributors. Moreover, the replacement of distributors could be difficult because, in our efforts to attract and retain distributors, we compete with other direct selling organizations, including but not limited to those in the personal care, cosmetic product and nutritional supplement industries. Our distributors may terminate their services with us at any time and, in fact, like most direct selling organizations we have a high rate of attrition.

We experienced a 43%, 37% and 20% decrease in active distributors during 2008, 2009 and 2010, respectively. The number of active distributors or their productivity may not increase and could further decline in the future. Distributors may terminate their services at any time, and, like most direct selling companies, we experience a high turnover in our distributor ranks. We cannot accurately predict any fluctuation in the number and productivity of distributors because we primarily rely upon existing distributors to sponsor and train new distributors and to motivate new and existing distributors. Operating results could be adversely affected if our existing and new business opportunities and products do not generate sufficient economic incentive or interest to retain existing distributors and to attract new distributors.

The number and productivity of our distributors could be harmed by several factors, including:

- adverse publicity or negative perceptions regarding us, our products, our distribution channel, our method of distribution or our competitors;
- lack of interest in, or the technical failure of, existing or new products;
- lack of interest in our existing compensation plan for distributors or in enhancements or other changes to that compensation plan;
- our actions to enforce our policies and procedures;
- regulatory actions or charges or private actions against us or others in our industry;
- general economic and business conditions;
- changes in management or the loss of one or more key distributor leaders;
- entry of new competitors, or new products or compensation plan enhancements by existing competitors, in our markets; and
- potential saturation or maturity levels in a given country or market which could negatively impact our ability to attract and retain distributors in such market.

The high level of competition in our industry could adversely affect our business.

The business of marketing personal care, cosmetic, nutritional supplements, and lifestyle enhancement products is highly competitive. This market segment includes numerous manufacturers, distributors, marketers, and retailers that actively compete for the business of consumers both in the United States and abroad. The market is highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. Sales of similar products by competitors may materially and adversely affect our business, financial condition and results of operations.

We are subject to significant competition for the recruitment of distributors from other direct selling organizations, including those that market similar products. Many of our competitors are substantially larger than we are, offer a wider array of products, have far greater financial resources and many more active distributors than we have. Our ability to remain competitive depends, in significant part, on our success in recruiting and retaining distributors through an attractive compensation plan and other incentives. We believe that our compensation and incentive programs provide our distributors with significant earning potential. However, we cannot be sure that our programs for recruitment and retention of distributors would be successful.

Some of our competitors have employed or otherwise contracted for the services of our former officers, employees, consultants, and distributors, who may try to use information and contacts obtained while under contract with us for competitive advantage. While we seek to protect our information through contractual and other means, there can be no assurance that we will timely learn of such activity, have the resources to attempt to stop it, or have adequate remedies available to us.

An increase in the amount of compensation paid to distributors would reduce profitability.

A significant expense is the payment of compensation to our distributors, which represented approximately 39%, 38% and 37% of net sales during 2008, 2009 and 2010, respectively. We compensate our distributors by paying commissions, bonuses, and certain awards and prizes. Factors impacting the overall commission payout include the growth and depth of the distributor network, the distributor retention rate, the level of promotions, local promotional programs and business development agreements. Any increase in compensation payments to distributors as a percentage of net sales will reduce our profitability.

Our compensation plan includes a cap on distributor compensation paid out as a percentage of product sales. We have enforced that cap from December 2008, which diluted commissions payable to certain highly-paid distributors. There can be no assurance that enforcement of this cap will ensure profitability (which depends on many other factors). Moreover, enforcement of this cap could cause key distributors affected by the cap to leave and work elsewhere.

Failure of new products to gain distributor and market acceptance could harm our business.

An important component of our business is our ability to develop new products that create enthusiasm among our distributor force. If we fail to introduce new products on a timely basis, our distributor productivity could be harmed. In addition, if any new products fail to gain market acceptance, are restricted by regulatory requirements, or have quality problems, this would harm our results of operations. Factors that could affect our ability to continue to introduce new products include, among others, limited capital and human resources, government regulations, proprietary protections of competitors that may limit our ability to offer comparable products and any failure to anticipate changes in consumer tastes and buying preferences.

Direct-selling laws and regulations may prohibit or severely restrict our direct sales efforts and cause our revenue and profitability to decline, and regulators could adopt new regulations that harm our business.

Our direct selling system is subject to extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. These laws and regulations are generally intended to prevent fraudulent or deceptive schemes, often referred to as "pyramid" schemes, which compensate participants for recruiting additional participants irrespective of product sales, use high pressure recruiting methods and/or do not involve legitimate products.

Complying with these widely varying and sometimes inconsistent rules and regulations can be difficult and may require the devotion of significant resources on our part. There can be no assurance that we or our distributors are in compliance with all of these regulations. Our failure or our distributors' failure to comply with these regulations or new regulations could lead to the imposition of significant penalties or claims and could negatively impact our business. If we are unable to continue business in existing markets or commence operations in new markets because of these laws, our revenue and profitability may decline.

We are also subject to the risk that new laws or regulations might be implemented or that current laws or regulations might change, which could require us to change or modify the way we conduct our business in certain markets. This could be particularly detrimental to us if we had to change or modify the way we conduct business in markets that represent a significant percentage of our net sales. For example, the FTC released a proposed New Business Opportunity Rule in April 2006. As initially drafted, the proposed rule would have required pre-sale disclosures for all business opportunities, which may have included network marketing compensation plans such as ours. However, in March 2008 the FTC issued a revised notice of proposed rulemaking, which indicates that the New Business Opportunity Rule as drafted will not apply to multi-level marketing companies. The comment and rebuttal periods regarding the proposed rule have closed, but the FTC has not yet issued a final rule. The New Business Opportunity Rule is currently only a proposed rule and may change before it is implemented, if it is implemented at all.

Challenges by third parties to the form of our business model could harm our business.

We are also subject to the risk of private party challenges to the legality of our direct selling system. The regulatory requirements concerning direct selling systems do not include “bright line” rules and are inherently fact-based and subject to judicial interpretation. An adverse judicial determination against us with respect to our direct selling system, or in proceedings not involving us directly but which challenge the legality of other direct selling marketing systems, could have a material adverse effect on our business. Moreover, there is a risk that such challenges and settlements involving other parties could provide incentives for similar actions by distributors against us and other direct selling companies. Any challenges regarding us or others in our industry could harm our business if such challenges result in the imposition of any fines or damages on our business, create adverse publicity, increase scrutiny of our industry, detrimentally affect our efforts to recruit or motivate distributors and attract customers, or interpret laws in a manner inconsistent with our current business practices.

Our products and related activities are subject to extensive government regulation, which could delay, limit or prevent the sale of some of our products in some markets.

The formulation, manufacturing, packaging, labeling, importation, advertising, distribution, sale and storage of certain of our products are subject to extensive regulation by various federal agencies, including the U.S. Food and Drug Administration (the “FDA”), the FTC, the Consumer Product Safety Commission and the United States Department of Agriculture and by various agencies of the states, localities and foreign countries in which our products are manufactured, distributed and sold. For example, the FDA requires us and our suppliers to meet relevant current good manufacturing practice, or cGMP, regulations for the preparation, packing and storage of foods and OTC drugs. We are also now required to report serious adverse events associated with consumer use of certain of our products. Other laws and regulations govern or restrict the claims that may be made about our products and the information that must be included and excluded on labels.

In markets outside the United States, prior to commencing operations or marketing new products, we may be required to obtain approvals, licenses, or certifications from a ministry of health or a comparable agency. Moreover, a foreign jurisdiction may pass laws that would prohibit the use of certain ingredients in their particular market. Compliance with these regulations can create delays and added expense in introducing new products to certain markets.

Failure by our distributors or us to comply with those regulations could lead to the imposition of significant penalties or claims and could materially and adversely affect our business. If we are not able to satisfy the various regulations, then we would have to cease sales of that product in that market. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and may adversely affect the marketing of our products, resulting in significant loss of sales revenues.

We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative orders, when and if promulgated, could have on our business. These potential effects could include, however, requirements for the reformulation of certain products to meet new standards, the recall or discontinuance of certain products, additional record keeping and reporting requirements, expanded documentation of the properties of certain products, expanded or different labeling, or additional scientific substantiation. Any or all of these requirements could have a material adverse effect on our business, financial condition, or results of operations.

New regulations governing the marketing and sale of nutritional supplements could harm our business.

There has been an increasing movement in the United States and other markets to increase the regulation of dietary supplements, which could impose additional restrictions or requirements in the future. In the United States, for example, some legislators and industry critics continue to push for increased regulatory authority by the FDA over nutritional supplements. Our business could be harmed if more restrictive legislation is successfully introduced and adopted in the future. In particular, the adoption of legislation requiring FDA approval of supplements or ingredients could delay or inhibit our ability to introduce new supplements. We face similar pressures in our other markets, including Europe, which is expected to adopt additional regulations setting new limits on acceptable maximum levels of vitamins and minerals. In the United States, effective December 1, 2009, the FTC approved revisions to its Guides Concerning the Use of Endorsements and Testimonials in Advertising, or Guides, that require disclosure of material connections between an endorser and the company they are endorsing and do not allow marketing using atypical results. The requirements and restrictions of the revised Guides may diminish the impact of our marketing efforts and negatively impact our sales results. If we or our distributors fail to comply with these Guides, the FTC could bring an enforcement action against us and we could be fined and/or forced to alter our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute nutritional supplements or impose additional burdens or requirements on nutritional supplement companies or require us to reformulate our products.

Regulations governing the production and marketing of our personal care products could harm our business.

Our personal care products are subject to various domestic and foreign laws and regulations that regulate cosmetic products and set forth regulations for determining whether a product can be marketed as a “cosmetic” or requires further approval as an over-the-counter drug. A determination that our cosmetic products impact the structure or function of the human body, or improper marketing claims by our distributors may lead to a determination that such products require pre-market approval as a drug. Such regulations in any given market can limit our ability to import products and can delay product launches as we go through the registration and approval process for those products. Furthermore, if we fail to comply with these regulations, we could face enforcement action against us and we could be fined, forced to alter or stop selling our products and/or required to adjust our operations. Our operations also could be harmed if new laws or regulations are enacted that restrict our ability to market or distribute our personal care products or impose additional burdens or requirements on the contents of our personal care products or require us to reformulate our products.

If we are found not to be in compliance with good manufacturing practices our operations could be harmed.

FDA regulations on Good Manufacturing Practices and Adverse Event Reporting requirements for the nutritional supplement industry have recently gone into effect and require good manufacturing processes for us and our vendors, including stringent vendor qualifications, ingredient identification, manufacturing controls and record keeping. We are also now required to report serious adverse events associated with consumer use of our products. Our operations could be harmed if regulatory authorities make determinations that we or our vendors are not in compliance with the new regulations. A finding of noncompliance may result in administrative warnings, penalties or actions impacting our ability to continue selling certain of our products. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of our products as we work with our vendors to assure they are qualified and in compliance.

Failure to comply with domestic and foreign laws and regulations governing product claims and advertising could harm our business

Our failure to comply with FTC or state regulations, or with regulations in foreign markets that cover our product claims and advertising, including direct claims and advertising by us, as well as claims and advertising by distributors for which we may be held responsible, may result in enforcement actions and imposition of penalties or otherwise materially and adversely affect the distribution and sale of our products. Distributor activities in our existing markets that violate applicable governmental laws or regulations could result in governmental or private actions against us in markets where we operate. Given the size of our distributor force, we cannot ensure that our distributors would comply with applicable legal requirements.

Although our distributors are independent contractors, improper distributor actions that violate laws or regulations could harm our business.

Our distributors are independent contractors and, accordingly, we are not in a position to directly provide the same direction, motivation and oversight as we would if distributors were our own employees. As a result, there can be no assurance that our distributors will participate in our marketing strategies or plans, accept our introduction of new products, or comply with our distributor policies and procedures. Extensive federal, state and local laws regulate our business, our products and our network marketing program. Because we have expanded into foreign countries, our policies and procedures for our independent distributors differ due to the different legal requirements of each country in which we do business. While we have implemented distributor policies and procedures designed to govern distributor conduct and to protect the goodwill associated with our trademarks and trade names, it can be difficult to enforce these policies and procedures because of the large number of distributors and their independent status. Given the size and diversity of our distributor force, we experience problems with distributors from time to time, especially with respect to our distributors in foreign markets. Distributors often desire to enter a market, before we have received approval to do business, to gain an advantage in the marketplace. Improper distributor activity in new geographic markets could result in adverse publicity and can be particularly harmful to our ability to ultimately enter these markets. Violations by our distributors of applicable law or of our policies and procedures in dealing with customers could reflect negatively on our products and operations, and harm our business reputation. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent distributors. If any of these events occur, the value of an investment in our common shares could be impaired.

Adverse publicity associated with our products, ingredients or network marketing program, or those of similar companies, could harm our financial condition and operating results.

Adverse publicity concerning any actual or claimed failure by us or our distributors to comply with applicable laws and regulations regarding product claims and advertising, good manufacturing practices, the regulation of our network marketing program, the licensing of our products for sale in our target markets or other aspects of our business, whether or not resulting in enforcement actions or the imposition of penalties, could have an adverse effect on our goodwill and could negatively affect our ability to attract, motivate and retain distributors, which would negatively impact our ability to generate revenue. We cannot ensure that all distributors will comply with applicable legal requirements relating to the advertising, labeling, licensing or distribution of our products.

In addition, our distributors' and consumers' perception of the safety and quality of our products and ingredients as well as similar products and ingredients distributed by other companies can be significantly influenced by national media attention, publicized scientific research or findings, widespread product liability claims and other publicity concerning our products or ingredients or similar products and ingredients distributed by other companies. Adverse publicity, whether or not accurate or resulting from consumers' use or misuse of our products, that associates consumption of our products or ingredients or any similar products or ingredients with illness or other adverse effects, questions the benefits of our or similar products or claims that any such products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could negatively impact our reputation or the market demand for our products.

We have a limited product line.

We offer a limited number of products under our NHT Global brand. Our Premium Noni Juice™ , Skindulgence™ , Alura™ and La Vie™ products each account for a significant portion of our total sales and, together, account for a significant majority of our total sales. If demand for any of these four products decreases significantly, government regulation restricts the sale of these products, we are unable to adequately source or deliver these products (we currently source two of these products from a single supplier and the other two products from two other suppliers), or we cease offering any of these products for any reason without a suitable replacement, our business, financial condition and results of operations could be materially and adversely affected.

We do not manufacture our own products so we must rely on independent third parties for the manufacturing and supply of our products.

All of our products are manufactured by independent third parties. There is no assurance that our current manufacturers will continue to reliably supply products to us at the level of quality we require. In particular, the ongoing economic crisis creates risk for us if any of these third parties suffer liquidity or operational problems. If a key manufacturer becomes insolvent or is forced to lay off employees assisting with our projects, our results could suffer. In the event any of our third-party manufacturers become unable or unwilling to continue to provide the products in required volumes and quality levels at acceptable prices, we will be required to identify and obtain acceptable replacement manufacturing sources or replacement products. There is no assurance that we will be able to obtain alternative manufacturing sources or products or be able to do so on a timely basis. An extended interruption in the supply of our products will result in a substantial loss of sales. In addition, any actual or perceived degradation of product quality as a result of our reliance on third party manufacturers may have an adverse effect on sales or result in increased product returns and buybacks.

Growth may be impeded by the political and economic risks of entering and operating foreign markets.

Our ability to achieve future growth is dependent, in part, on our ability to continue our international expansion efforts. However, there can be no assurance that we would be able to grow in our existing international markets, enter

new international markets on a timely basis, or that new markets would be profitable. We must overcome significant regulatory and legal barriers before we can begin marketing in any foreign market.

Also, it is difficult to assess the extent to which our products and sales techniques would be accepted or successful in any given country. In addition to significant regulatory barriers, we may also encounter problems conducting operations in new markets with different cultures and legal systems from those encountered elsewhere. We may be required to reformulate certain of our products before commencing sales in a given country. Once we have entered a market, we must adhere to the regulatory and legal requirements of that market. No assurance can be given that we would be able to successfully reformulate our products in any of our current or potential international markets to meet local regulatory requirements or attract local customers. The failure to do so could have a material adverse effect on our business, financial condition, and results of operations. There can be no assurance that we would be able to obtain and retain necessary permits and approvals.

In many markets, other direct selling companies already have significant market penetration, the effect of which could be to desensitize the local distributor population to a new opportunity, or to make it more difficult for us to recruit qualified distributors. There can be no assurance that, even if we are able to commence operations in foreign countries, there would be a sufficiently large population of potential distributors inclined to participate in a direct selling system offered by us. We believe our future success could depend in part on our ability to seamlessly integrate our business methods, including distributor compensation plan, across all markets in which our products are sold. There can be no assurance that we would be able to further develop and maintain a seamless compensation program.

Currency exchange rate fluctuations could lower our revenue and net income.

In 2008, 2009 and 2010, approximately 93%, 95% and 95%, respectively, of our revenue was recorded by subsidiaries located outside of North America. Revenue transactions and related commission payments, as well as other incurred expenses, are typically denominated in the local currency. Accordingly, our international subsidiaries use the local currency as their functional currency. The results of operations of our international subsidiaries are exposed to foreign currency exchange rate fluctuations during consolidation since we translate into U.S. dollars using the average exchanges rates for the period. As exchange rates vary, revenue and other operating results may differ materially from our expectations. Additionally, we may record significant gains or losses related to foreign-denominated cash and cash equivalents and the re-measurement of inter-company balances.

We believe that our foreign currency exchange rate exposure is somewhat limited since the Hong Kong dollar is pegged to the U.S. dollar. We also purchase almost all inventories in U.S. dollars. Our foreign currency exchange rate exposure, mainly to South Korean won, Taiwan dollar, Japanese yen, Chinese yuan, Russian ruble and European euro, represented approximately 32% and 36% of our revenue in 2009 and 2010, respectively. Our foreign currency exchange rate exposure may increase in the near future as our Greater China, Russia and European subsidiaries expand operations and we develop new markets. Additionally, our foreign currency exchange rate exposure would significantly increase if the Hong Kong dollar were no longer pegged to the U.S. dollar.

Given our inability to predict the degree of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future reported results, product pricing or our overall financial condition. Further, to date we have not attempted to reduce our exposure to short-term exchange rate fluctuations by using foreign currency exchange contracts.

Transfer pricing, duties and other tax regulations affect our business.

In many countries, including the United States, we are subject to transfer pricing and other tax regulations designed to ensure that appropriate levels of income are reported as earned by our United States or local entities and are taxed accordingly. In addition, our operations are subject to regulations designed to ensure that appropriate levels of customs duties are assessed on the importation of our products.

Our principal domicile is the United States. Under tax treaties, we are eligible to receive foreign tax credits in the United States for taxes paid abroad. Taxes paid to foreign taxing authorities may exceed the credits available to us, resulting in the payment of a higher overall effective tax rate on our worldwide operations.

We have adopted transfer pricing agreements with our subsidiaries to regulate inter-company transfers, which agreements are subject to transfer pricing laws that regulate the flow of funds between the subsidiaries and the parent corporation for product purchases, management services, and contractual obligations, such as the payment of distributor compensation. In 2005, we implemented a foreign holding and operating company structure for our non- agreement must have been true as of March 26, 2001 and must be true on and as of the date of the expiration of the exchange offer, as it may be extended pursuant to the merger agreement, with the same force and effect as if made as of such date, except: - in each case or in the aggregate, as does not constitute, and is not reasonably expected to result in, a material adverse effect on C-Cube; - for changes contemplated by the merger agreement; and - for those representations and warranties which address matters only as of a particular date, which representations must have been true (subject to the material adverse effect qualifications and limitations described above) as of such particular date; 61 67 - The representations and warranties made by C-Cube regarding its capitalization must have been true in all material respects as of March 26, 2001; - Except as disclosed to LSI Logic by C-Cube, since December 31, 2000, there must not have been any material adverse effect on C-Cube or the occurrence of any event or circumstance that would reasonably be expected to have a material adverse effect on C-Cube; and - The merger agreement must not have been terminated in accordance with its terms. If any one of the above conditions is not met, and, in the good faith judgment of LSI Logic, it is inadvisable to proceed with the exchange offer or the acceptance for exchange of, or the delivery of shares of LSI Logic common stock in exchange for, shares of C-Cube common stock, then LSI Logic will not be required to accept for exchange, or deliver any shares of LSI Logic common stock in exchange for, any shares of C-Cube common stock tendered. LSI Logic reserves the absolute right, in its sole discretion, subject to terms of the merger agreement, to waive, in whole or in part, any of the conditions to the exchange offer. However, the minimum tender condition, the United States antitrust clearance condition, the conditions relating to the effectiveness of the registration statement for the shares of LSI Logic common stock to be issued in the exchange offer and the listing of shares of LSI Logic common stock on The New York Stock Exchange and the condition that C-Cube must have received a tax opinion from its legal counsel, as described above, may not be waived by LSI Logic without C-Cube's consent. As used in the merger agreement, "material adverse effect" as it relates to LSI Logic or C-Cube means a material adverse effect on or change in the financial condition, business, assets or results of operations of LSI Logic or C-Cube and their respective subsidiaries, each taken as a whole, as the case may be. However, in no event shall any effect that directly results from: - any change in general economic conditions that does not affect such party and its subsidiaries, taken as a whole, in a substantially disproportionate manner; - any adverse change affecting the semiconductor industry generally that does not affect such party and its subsidiaries, taken as a whole, in a substantially disproportionate manner; - any failure by such party to meet revenue and earnings estimates in and of itself; and - the announcement or pendency of the merger agreement, constitute, or be considered in determining the existence of, a material adverse effect on a party. CONDITIONS TO THE MERGER The obligations of LSI Logic and C-Cube to complete the merger are subject to the satisfaction or waiver of the following conditions: - if required by Delaware law, the merger agreement must have been adopted and the merger approved; - LSI Logic must have accepted for exchange, and delivered shares of LSI Logic common stock in exchange for, all shares of C-Cube common stock that are validly tendered and not properly withdrawn, pursuant to the exchange offer; - no provision of any applicable law or regulation and no judgment, injunction, order or decree prohibits the completion of the merger or the other transactions contemplated by the merger agreement; and - the registration statement on Form S-4 relating to the transaction, including any post-effective amendment, must have become effective, and must not be the subject of any stop order or proceedings seeking a stop order, and any material "blue sky" and other state securities laws applicable to the registration and qualification of shares of C-Cube's common stock must have been complied with. 62 68 TERMINATION OF THE MERGER AGREEMENT TERMINATION BY MUTUAL AGREEMENT LSI Logic and C-Cube may terminate the merger agreement at any time prior to the completion of the merger by mutual written consent. TERMINATION BY EITHER LSI LOGIC OR C-CUBE Either LSI Logic or C-Cube may terminate the merger agreement at any time prior to the completion of the merger if: - the exchange offer expires or terminates in

accordance with the terms of the merger agreement without LSI Logic having accepted for exchange any shares of C-Cube common stock, except that the right to terminate the merger agreement for the reason identified in this paragraph is not available to any party whose action or failure to act has been a principal cause of the expiration or termination of the exchange offer without shares of C-Cube common stock having been accepted for exchange, if the action or failure to act constitutes a breach of the merger agreement; - the exchange offer has not been completed on or before September 30, 2001, except that the right to terminate the merger agreement for the reason identified in this paragraph is not available to any party whose action or failure to act has been a principal cause of the failure of the exchange offer to have been completed on or before such date if the action or failure to act constitutes a breach of the merger agreement; or - there is any applicable law or regulation that makes completion of the exchange offer or the merger illegal or otherwise prohibited, or any final and nonappealable judgment, injunction or order that prohibits the completion of the exchange offer or the merger. TERMINATION BY LSI LOGIC LSI Logic may terminate the merger agreement at any time prior to the acceptance for exchange of shares of C-Cube common stock pursuant to the exchange offer, if any of the following (a "Triggering Event") occurs: - C-Cube's board of directors withdraws, modifies or amends in any respect adverse to LSI Logic its recommendation that C-Cube stockholders accept the exchange offer or its recommendation that C-Cube stockholders approve the merger agreement; - C-Cube's board of directors makes any disclosure to C-Cube stockholders or a public announcement that makes it reasonably apparent that, absent the restrictions described in the merger agreement, C-Cube's board of directors would withdraw, modify or amend in any respect adverse to LSI Logic its recommendation that C-Cube stockholders accept the exchange offer or its recommendation that C-Cube stockholders approve the merger agreement; - C-Cube's board of directors recommends, or resolves or announces an intention to recommend, any Acquisition Proposal to C-Cube stockholders; - any tender offer or exchange offer (other than the exchange offer being made by LSI Logic as described in this prospectus) for 15% or more of the outstanding shares of C-Cube common stock is announced or commenced and either C-Cube's board of directors recommends acceptance of the tender offer or exchange offer, or within 10 business days of the commencement of the tender offer or exchange offer, C-Cube's board of directors fails to recommend against approval of the tender offer or exchange offer by C-Cube stockholders; or - there is a material breach of C-Cube's obligations described in the section entitled "-- Limitation on C-Cube's Ability to Consider Other Acquisition Proposals" above, and within 10 days of LSI Logic becoming aware of the material breach, LSI Logic gives C-Cube a written termination notice. 63 69 In addition, LSI Logic may terminate the merger agreement, at any time prior to the acceptance for exchange of shares of C-Cube common stock pursuant to the exchange offer, if: - C-Cube materially breaches any covenant or agreement in the merger agreement; or - any representation or warranty of C-Cube was untrue when made or becomes untrue such that, pursuant to the terms of the merger agreement, LSI Logic would not be required to accept for exchange any shares of C-Cube common stock tendered pursuant to the exchange offer if the expiration of the exchange offer had occurred on the date the untruth of the representation or warranty is communicated in writing to C-Cube by LSI Logic. If, however, the breach of the covenant or agreement by C-Cube, or the untruth of the representation or warranty of C-Cube, is curable by C-Cube through the exercise of commercially reasonable efforts, then LSI Logic may not terminate the merger agreement until the earlier of 30 days after delivery of written notice from LSI Logic to C-Cube of the breach or untruth, or the date on which C-Cube ceases to use commercially reasonable efforts to cure the breach or untruth. TERMINATION BY C-CUBE C-Cube may terminate the merger agreement at any time prior to the acceptance for exchange of shares of C-Cube common stock pursuant to the exchange offer (but not less than five business days after LSI Logic's receipt of the written notice referred to below), to enter into a definitive acquisition agreement with respect to a Superior Proposal, as long as: - C-Cube is not in breach of its obligations, summarized above in the section entitled "-- Limitation on C-Cube's Ability to Consider Other Acquisition Proposals," in connection with such Superior Proposal; - C-Cube has notified LSI Logic in writing that C-Cube has received a Superior Proposal and intends to enter into a definitive acquisition agreement with respect to the Superior Proposal and has attached a copy of the most current version of the definitive acquisition agreement to the notice; and - LSI Logic does not, within five business days of receiving the notice described above, make an offer that C-Cube's board of directors determines in good faith, after consultation with its financial advisor and its outside legal counsel, provides greater benefits to C-Cube stockholders than the Superior Proposal. In addition, C-Cube may terminate the merger agreement, at any time prior to the acceptance for exchange of shares of C-Cube common stock pursuant to the exchange offer, if: - LSI Logic materially breaches any covenant or agreement in the merger agreement; or - any representation or warranty of LSI Logic was untrue when made or

becomes untrue such that, in the aggregate, the untruths would reasonably be expected to have a material adverse effect on LSI Logic. If, however, the breach of the covenant or agreement by LSI Logic, or the untruth of the representation or warranty of LSI Logic, is curable by LSI Logic through the exercise of commercially reasonable efforts, then C-Cube may not terminate the merger agreement until the earlier of 30 days after delivery of written notice from C-Cube to LSI Logic of the breach or untruth, or the date on which LSI Logic ceases to exercise commercially reasonable efforts to cure the breach or untruth. If the merger agreement is terminated pursuant to any of the provisions described above in this section, the merger agreement will become void and of no effect, with no liability on the part of LSI Logic or C-Cube, other than liability for a willful breach of the merger agreement or the payment by C-Cube of the termination fee described below. However, if the merger agreement is so terminated, any information and documents received by LSI Logic or C-Cube, or their respective representatives, from any other party to the merger agreement, whether furnished before or after the date of the merger agreement, is required 64 70 to be held in accordance with the "Confidentiality Agreement," dated as of March 16, 2001, between LSI Logic and C-Cube. In addition, if the merger agreement is so terminated, the "standstill" provisions contained in the Confidentiality Agreement (which were terminated upon the signing of the merger agreement) will again become operative in accordance with their terms, unless the merger agreement is terminated: - by LSI Logic because a Triggering Event has occurred; - by C-Cube to enter into a definitive acquisition agreement with respect to a Superior Proposal (as described more fully above); - by LSI Logic because of the breach or untruth of a covenant, agreement representation or warranty of C-Cube (as described more fully above); or - under certain circumstances pursuant to which the termination fee described below may become payable. TERMINATION FEE; EXPENSES C-Cube has agreed to pay to LSI Logic a termination fee in an amount equal to $33 million, if the merger agreement is terminated before shares of C-Cube common stock are accepted for exchange pursuant to the exchange offer and any of the following additional circumstances exist: - The merger agreement is terminated by LSI Logic because a Triggering Event has occurred; or - The merger agreement is terminated by either LSI Logic or C-Cube because the exchange offer expires or terminates in accordance with the terms of the merger agreement without LSI Logic having accepted for exchange any shares of C-Cube common stock or the exchange offer has not been completed on or before September 30, 2001, if: - prior to the termination of the merger agreement, an Acquisition Proposal is publicly announced and is not publicly and unconditionally withdrawn (taking into account that the percentages in the definition of "Acquisition Proposal" are changed from 15% to 40% for the purpose of this clause and the following clause); and - within 12 months following the termination of the merger agreement, either a transaction contemplated by any Acquisition Proposal is completed or C-Cube enters into a definitive agreement with respect to any Acquisition Proposal and the transaction contemplated by that definitive agreement is later completed; or - The merger agreement is terminated by C-Cube to enter into a definitive acquisition agreement with respect to a Superior Proposal. The merger agreement provides that all expenses, other than any termination fee, incurred in connection with the merger agreement and the transactions contemplated by the merger agreement are to be paid by the party incurring such expenses. However, LSI Logic and C-Cube are required to share equally all fees and expenses, other than attorneys' and accountants' fees, incurred in connection with the filing, printing and mailing of the registration statement of which this prospectus is a part, the preliminary prospectus, the exchange offer documents, the post-effective amendment to the registration statement of which this prospectus is a part, the proxy statement and any amendments or supplements to the preceding documents (if required), the filing by any of the parties to the merger agreement of reports and forms relating to the transaction under the HSR Act and the filing of any notice or other document under any applicable foreign antitrust law. AMENDMENTS TO THE MERGER AGREEMENT The merger agreement may be amended, modified or waived by LSI Logic's or C-Cube's board of directors prior to the completion of the merger if the amendment or waiver is in writing and signed, in the case of an amendment, by C-Cube and LSI Logic or, in the case of a waiver, by the party against whom 65 71 the waiver is to be effective. However, after the adoption of the merger agreement by the stockholders of C-Cube, if necessary, no amendment shall be made except as allowed under applicable law. See the section entitled "-- Conditions to the Exchange Offer" for information regarding the right of LSI Logic to waive conditions to the exchange offer. 66 72 THE STOCKHOLDER AGREEMENTS The following description of the stockholder agreements describes the material terms of the stockholder agreements. A complete form of stockholder agreement is attached as Annex B to this prospectus and is incorporated into this prospectus by reference. All stockholders are urged to read the form of stockholder agreement carefully. PARTIES TO THE STOCKHOLDER AGREEMENTS As an inducement for LSI Logic to enter into the merger agreement, the

directors, one of whom is also an executive officer, of C-Cube have entered into stockholder agreements with LSI Logic and granted LSI Logic an irrevocable proxy with respect to the shares of C-Cube common stock (and options, warrants and other rights to acquire shares of C-Cube common stock) beneficially owned by them as of March 26, 2001 or acquired by them after March 26, 2001. The stockholder agreements cover, in the aggregate, 1,735,765 shares of C-Cube common stock, which represented approximately 3.4% of the outstanding shares of C-Cube common stock as of April 20, 2001. AGREEMENT TO TENDER Each stockholder who has signed a stockholder agreement has agreed that, unless LSI Logic requests otherwise, the stockholder will tender his shares of C-Cube common stock in the exchange offer within 10 business days after the commencement of the exchange offer and will not withdraw the shares so tendered. AGREEMENT TO VOTE Each stockholder who has signed a stockholder agreement has agreed that, until the earlier of the day when the merger is completed or the day when the merger agreement is validly terminated pursuant to its terms, the stockholder will vote, or cause his shares of C-Cube common stock to be voted: - in favor of the adoption and approval of the merger agreement, and in favor of each of the other actions contemplated by the merger agreement and the irrevocable proxy granted by the stockholder to LSI Logic pursuant to the stockholder agreement; - against the approval of any Acquisition Proposal or any proposal made in opposition to or in competition with completion of the exchange offer or the merger; and - against any action that could reasonably be expected to delay or otherwise adversely affect the exchange offer or the merger and would constitute a breach of any covenant of C-Cube pursuant to the merger agreement. In addition, each stockholder who has signed a stockholder agreement has agreed that, prior to the earlier of the day when the merger is completed or the day when the merger agreement is validly terminated pursuant to its terms, the stockholder will not enter into any agreement or understanding with any person or vote or give instructions in any manner inconsistent with the stockholder's agreement to vote, as described above. AGREEMENT NOT TO TRANSFER Each stockholder who has signed a stockholder agreement has agreed that the stockholder will not: - tender any shares of C-Cube common stock or any securities convertible into or exchangeable or exercisable for shares of C-Cube common stock to any person other than LSI Logic or Clover Acquisition Corp.; 67 73 - sell, pledge, grant an option with respect to, transfer, assign or otherwise dispose of any shares of C-Cube common stock or any securities convertible into or exchangeable or exercisable for shares of C-Cube common stock; or - deposit, or permit the deposit of, any shares of C-Cube common stock into a voting trust or depositary facility or enter into a voting agreement or arrangement with respect to any shares of C-Cube common stock in contravention of the stockholder agreement or grant any proxy, other than the irrevocable proxy granted to LSI Logic. OTHER Each stockholder who has signed a stockholder agreement has agreed not to exercise any rights to demand appraisal of any shares of C-Cube common stock, which may arise with respect to the merger. All obligations under the stockholder agreements terminate upon the earlier of the day when the merger is completed or the day when the merger agreement is validly terminated pursuant to its terms. 68 74 INFORMATION RELATING TO C-CUBE MAY 2000 RESTRUCTURING "C-Cube Microsystems Inc." was incorporated as a California corporation in 1988 and reincorporated in Delaware in 1994. In 1996, C-Cube Microsystems Inc. acquired all of the capital stock of DiviCom Inc. After operating for three years as a combined entity, in 2000, C-Cube Microsystems Inc.'s semiconductor business was spun off as C-Cube Semiconductor Inc. to the stockholders of C-Cube Microsystems Inc. C-Cube Microsystems Inc. then merged with Harmonic Inc. in May 2000. Immediately after the merger, the semiconductor business changed its name back to C-Cube Microsystems Inc. This new entity (including its direct and indirect subsidiaries) is referred to as C-Cube in this prospectus. GENERAL C-Cube designs, develops, has manufactured and sells semiconductors, software and systems for digital audio and video applications. As a major supplier of such products, C-Cube has played a role in enabling the growth of digital audio and video. C-Cube is focused on working with its original equipment manufacturer, or OEM, customers and service providers to enable key applications in its consumer and communications target markets. In the consumer market, C-Cube is focused on playback and recordable digital video disc and video compact disc as well as digital video recorders and digital VHS recorders. The communications market targets interactive set-top boxes, cable front ends, cable modems and broadcast encoders, and other emerging applications. Users of these products will be able to record hours of digital video disc-quality video obtained from any video source, whether television, video cassette recorder, digital video camcorder or analog camcorder. Once users have recorded the video, they will be able to edit and play back the video on standard personal computers and store the resulting video to digital video disc, web pages, e-mail, recordable compact disc or personal computer hard-disk drives. COMPRESSION ENABLES MASS-MARKET APPLICATIONS OF DIGITAL VIDEO Representing video in uncompressed digital form requires

a large amount of data, which in the past has made storage or transmission economically impractical. To store a single uncompressed digital video movie requires up to 25 discs, whereas a compressed digital video movie can be stored onto one disc. The sheer size of uncompressed digital video has relegated it to niche applications of small volumes. The very nature of video information lends itself to compression. Any video sequence has inherent redundancies. For example, one frame of a movie often differs very little from the next successive frame. Through digital compression techniques, the redundancies in video data can be detected and eliminated, significantly reducing the overall amount of data needed to recreate the original image without affecting the image quality. Using video compression techniques, a single satellite transponder can broadcast 8 to 12 programs instead of the partial program possible with uncompressed video. C-Cube believes that the design and deployment of cost-effective and practical video compression technology is critical to the development of mass-market applications. STANDARDS ENHANCE THE GROWTH OF DIGITAL VIDEO MARKETS As digital video markets develop, so does the need for standards to ensure that products from different manufacturers use the same formats for video information. Throughout C-Cube's history, it has been an active participant and respected technology pioneer on International Organization for Standardization committees charged with creating standards for still image and digital video compression. Key standards that have driven the growth of digital video include the joint photographic experts group, or JPEG, standard for still-image compression and two moving pictures experts group standards for digital video and audio compression. The MPEG-1 standard enabled the first digital video consumer products such as the first video compact disc, while the more recent MPEG-2 standard has become the accepted compression format in diverse applications such as digital satellite, cable and terrestrial television 69 75 as well as professional video editing, digital VHS and digital video disc. The adoption and acceptance of these standards has contributed greatly to the growth of digital video markets during the 1990s. MATHEMATICAL RULES GOVERN COMPRESSION WHICH DETERMINES VIDEO QUALITY As vital as the International Organization for Standardization standards have been to the development of digital video, they have a built-in limitation. The standards determine interoperability, not video quality. More specifically, the standards define the format for compressed video data. A MPEG-compliant encoder, which is the compression device, will create data that a MPEG-compliant decoder, which is the decompression device, can reconstruct into a video image. However, the process of encoding necessarily involves discarding some of the image information to achieve compression. If the encoder is smart, that is, if it can correctly determine which information is redundant or insignificant to the video quality, then the encoded video will be a faithful representation of the original video and the decoder can create a high-quality video image. Nevertheless, if the encoder makes poor choices and discards important video information, then the decoder cannot compensate. The reconstructed image will be poor in comparison to the original image. Encoder design, therefore, is a critically important determining factor for video quality. At the heart of encoder design is the development of encoding algorithms, the mathematical rules that govern how the large volume of uncompressed video is reduced to a manageable size without adversely affecting image quality. One of C-Cube's core strengths has been its expertise in the development, testing and refinement of these mathematical rules. These mathematical formulas are proprietary and represent C-Cube's vital intellectual property. By incorporating these highly efficient and powerful algorithms into its products, C-Cube has consistently been recognized as the industry leader in digital video encoding. As evidence of this leadership, its products perform the encoding for the majority of digital video television currently being broadcast. Also, C-Cube is one of a select group of technology companies that have been recognized by The National Academy of Television Arts and Sciences for technical achievement, as shown by their award of a special technology Emmy(TM) to C-Cube Semiconductor Inc. in 1995. C-Cube differentiates its products from competitors by offering both encoding and decoding products that are not only fully compliant with the MPEG-1 or -2 international standards (and therefore interoperable with equipment from many other suppliers), but at the same time provide superior image quality (enhancing the viewing experience), are feature rich and are highly integrated and therefore cost competitive. All of C-Cube's products are programmable, permitting the incorporation of sophisticated system-level features after the chip design is completed, while lessening design time, risk and system cost. C-Cube also develops proprietary product extensions and features such as RealSonic(TM) home theater sound enhancement and ClearView(TM) error correction technology. MARKET TRENDS C-Cube addresses two broad industries where digital audio and video is used: - consumer electronics; and - communications. This section describes some of the trends affecting these markets. Consumer Electronics. Through the use of MPEG compression, video can be stored, reproduced and distributed on the same media currently in use for other types of digital data, such as 5-inch, or 12 cm, compact discs that are commonly used for digital audio.

Emerging applications for digital video capture, playback and distribution at the consumer level are being advanced by the rapid adoption of new consumer-oriented media formats such as digital video disc players, video compact disc players, digital VHS recordable digital video discs, as well as consumer digital video cameras and camcorders. Recordable Digital Video Disc and Digital VHS. In 1999, several original equipment manufacturers demonstrated consumer-oriented products positioned as video cassette recorder replacements. C-Cube 70 76 believes that rapid growth in this market will occur only when single-chip codecs, which are an encoder/decoder combination, reach a price point low enough to enable a recordable unit at prices that will support a mass market. Once this milestone is achieved, however, the potential for wide consumer acceptance of digital video cassette recorder replacements is expected to be high. Key advantages of disc-based recording include: - higher video quality of digital versus analog recording; - the convenience of discs over tape; and - the ability to integrate the video cassette recorder recording function with other desirable consumer features such as easy program recording, time-shifting of programs and digital video disc playback. Key advantages of digital-VHS include: - the ability to record up to 24 hours of video on a single tape; - capability to record high-definition television; and - compatibility with VHS and Super-VHS, thus preserving existing consumer video libraries stored in VHS format. Digital Video Disc Player, or DVD. The DVD standard was defined specifically for the very high-quality playback of feature-length movies. The DVD format, now commercially available, provides up to 135 minutes of playing time (270 for double-sided) on a disc the same physical size as an audio compact disc with four times the image resolution of a standard video compact disc. Digital video disc uses MPEG-2 compression technology. Video Compact Disc Player, or VCD. A VCD is essentially an audio compact disc player with a MPEG-1 decoder and a video output. While adding this functionality marginally increases the cost to manufacture a typical compact disc player, these machines now have the ability to play movies, music videos and other titles from MPEG-1 encoded compact discs. The physical video compact disc format is identical to a standard audio compact disc and is limited to 72 minutes playing time with video quality that is generally perceived as comparable to an analog VHS tape. Several thousand video compact disc titles are now available, including movies, music videos and karaoke titles. The VCD format has thus far received mass-market adoption in China. In 1998, leading Chinese manufacturers and the Chinese government introduced an enhanced version of video compact disc known as Chaoji video compact disc, also referred to as super-VCD, or S-VCD. This enhanced version features MPEG-2 video quality that is comparable to DVD video and is backward compatible with VCD titles. C-Cube anticipates that the VCD and S-VCD markets will eventually transition to DVD. Non-Linear Editing Systems. The capabilities of non-linear editing systems continue to grow. Sophisticated features such as the ability to allow a user to edit video and re-sequence it, which was once the province of professional studios, are now coming to the consumer and prosumer markets. An important enabling factor is the availability of low-cost recordable compact disc drives, which provide a convenient and cost-effective means to store edited digital video. C-Cube expects this trend to accelerate in 2000, as the higher capacity recordable digital video disc drives become more common in personal computers. Communications. The ability to compress digital video into a more compact form, which provides significant storage and transmission efficiencies, is currently enabling a number of applications and capabilities in the communications market in diverse segments such as satellite, cable, telephone and wireless networks. Satellite. The first full-scale digital video transmission systems to achieve full deployment were a series of direct broadcast satellite networks. By combining the ability to compress digital video into a more compact form with high-power Ku-band satellites, direct broadcast satellite systems typically provide 100 or more channels to a large geographical area (e.g. the continental United States). This expanded service 71 77 usually imposes a relatively low cost per subscriber since the only incremental investment needed by subscribers is the purchase of a small dish and a decoder box. To compete with other high-speed media, satellite service providers are beginning direct broadcast satellite deployments using high-speed satellite data transmission to the home. A disadvantage of this approach is that the return channel uses a standard modem over telephone lines, thus limiting the interactive nature of the service. A major trend in this market during 1998 and 1999 was consolidation through a number of mergers and acquisitions, for example, the merger of DIRECTV and USSB operations and the merger of AT&T and TCI operations. At the same time, the satellite market saw the first trials of high-definition television broadcasting. Cable. Cable providers are upgrading the level of their services using a variety of network approaches. Open standards, such as those developed by various standard-setting organizations, are expected to drive increased cable revenue opportunities by creating a competitive marketplace for system network equipment and end-terminal devices. New applications of DSL and hybrid fiber cable, or HFC, are bringing more and more digital audio and video options to the home. With the advantage of being able to support

high-speed, two-way networks combined with advanced interactive set-top boxes, the revenue base for cable operators is expected to expand. This is a result of a growing client base and increased revenue per client through a broad offering of interactive services including web browsing and electronic commerce. Cable is also experiencing consolidation as smaller companies are unable to make the transition to digital and also as telephony companies seek to get a foothold in a competitive delivery mechanism into the home for both voice and video. PRODUCTS C-Cube supplies products for two main markets for digital video: - consumer electronics; and - communications. CONSUMER ELECTRONICS Recordable Digital Video. While DVD playback has achieved increasing success in both consumer players and personal computer applications, C-Cube believes that the high-volume applications of digital video in the consumer world depend on the ability to both record and play back DVD-quality video. Thus, C-Cube extended its DVxpert technology to the consumer world with the DVxplore(TM) line of consumer codecs. DVxplore codecs are the world's first single-chip consumer products to support both MPEG formats and the digital video format used primarily in digital camcorders called DV. The initial focus was on the personal computer market, where original equipment manufacturers use DVxplore codecs to offer personal content creation, personal computer/television and time-shifting applications. Users of these products are able to record hours of DVD-quality video obtained from any video source, whether television, video cassette recorder, digital video camcorder or analog camcorder. Once they record the video, they are able to edit and play back the video on standard personal computers and store the resulting video to optical disc, web pages, e-mail or hard-disk drives. During 2000, C-Cube developed DVxcel(TM), the second-generation line of consumer codecs. This product's focus is towards the recordable devices that reside next to the television. DVxcel codecs are low-cost chips for the consumer digital video market that will power a new generation of affordable, high- quality digital video recording systems for the home. The chip builds takes on the task of simultaneously recording and playing back, or encoding and decoding, or broadcast quality video for optical-based recording and hard disk drive-based Digital Video Recorder, or DVR, devices. 72 78 Video cassette recorder replacement products began to appear on the market in 1999, and are likely to continue to expand in the market over the next few years. For consumer digital recorders, three types of media have emerged as viable platforms for recording and playing back digital video: tape digital VHS; optical recordable digital video disc; and hard disk digital video recorder. C-Cube is developing products for all three emerging consumer digital recordable platforms. Encoders for Editing Applications. Professional editing had been primarily the province of motion-JPEG products due to the need for accurate cuts and special effects. Because MPEG-compliant encoders essentially collapse some frames to achieve high levels of compression, industry analysts doubted whether MPEG could ever achieve the accuracy needed to supplant motion-JPEG products for professional needs. However, C-Cube showed that MPEG is a viable format for editing with the introduction of the DVxpress codecs. Based on the same architecture as the DVxpert product, the DVxpress(TM) codecs feature C-Cube's proprietary Frame-Accurate MPEG Editing, or FAME(TM), algorithm and dual-stream decoding, two capabilities for professional editing. C-Cube's DVxpress-MX codec products can support both MPEG and DV formats, to allow mixed-format editing where, for example, a MPEG stream and a DV stream are edited together. This innovation is particularly important because DV is the most popular format for consumer and professional digital camcorders, while MPEG is the prevailing standard for transmission and storage. Panasonic, the developer of the DV format, and Avid, a leading editing original equipment manufacturers, both endorsed the DVxpress-MX codec as a significant step toward unifying the moving pictures experts group and DV worlds. During 1999, many leading providers of editing solutions introduced products based on DVxpress- MX, including Matrox Electronic Systems, Pinnacle Systems, Accom and Fast Multimedia. DVD Decoders. C-Cube's ZiVA(TM) family of DVD products includes decoders and system-level design solutions for consumer original equipment manufacturers. The ZiVA DVD decoder family incorporates several critical DVD functions into a single chip. C-Cube addresses a critical concern of content owners with SecureView(TM) copy protection and decryption technology. SecureView made ZiVA decoders the first single-chip products to support the DVD consortium's copy protection scheme. The newest generation of ZiVA-based products was announced in October 2000. ZiVA-5 extended C-Cube's leadership in the DVD market with new features including the industry's only full DVD-audio solution, an MP3 audio codec, progressive-scan output, 2D-multiplane graphics engine, internet applications and more. ZiVA-5 will enable customers to quickly bring a new variety of DVD products to the market. Continuing the extension of the ZiVA technology, in January 2001 C-Cube's DVD&MORE was introduced which enabled the market's first combination DVD player and A/V recorder. Primarily targeted at the China market, C-Cube's DVD&MORE combines DVD playback and supports VCD, S-VCD, MP3 and CD-audio playback. C-Cube's DVD&MORE enables

OEMs to quickly develop dual-deck optical disc players that combine MPEG video and CD audio recording capability together with DVD playback. Video Compact Disc Decoders. VCD is a consumer entertainment format based on MPEG-1 technology. VCD players allow consumers to enjoy movies, documentaries and karaoke played from a disc similar to an audio compact disc. C-Cube has been a leading supplier of MPEG-1 decoders used in VCD players throughout the mid-and late-1990s. C-Cube pioneered the MPEG-1 market with the introduction in 1992 of the CL450 MPEG-1 video decoder, the first commercially available MPEG-1 video decoder. The CL450 found uses in commercial and professional digital karaoke players. It followed with the CL480 family of VCD decoders, products that boosted C-Cube to market leadership in the rapidly growing market for VCD players in China in the mid-1990s. C-Cube's current VCD product is the CL680 advanced VCD decoder. The CL680 decoder integrates an NTSC/PAL encoder, improved ClearView error concealment technology and a new WideSound(TM) feature, which simulates a surround-sound experience from two stereo channels. By fully utilizing the microcode architecture of the CL680, C-Cube was able to integrate the system functions directly on the CL680, effectively eliminating the need for the system micro-controller. 73 79 Chaoji Video Compact Disc Decoders, S-VCD. As the VCD market matured in China, Chinese customers, original equipment manufacturers and government agencies all saw a need for a higher quality video experience. Due to C-Cube's expertise in both VCD and digital compact disc, C-Cube was well qualified to help define the new standard. The result of this effort was the introduction of the S-VCD standard, an extension to VCD that was endorsed by the Chinese government and leading original equipment manufacturers. Soon after the adoption of the S-VCD standard, C-Cube introduced the CL8800 family of S-VCD decoders to C-Cube's partner original equipment manufacturers. The CL8830 decoder is a full-featured product that features C-Cube's patented RealSonic(TM) audio technology, offering significant advances in audio quality for home theater and Karaoke applications. The CL8820 decoder targets more price-sensitive products that do not demand the same audio quality as the CL8830 decoder. Both decoders are compatible with existing VCD and audio compact disc formats. In 1999, C-Cube introduced the most integrated S-VCD decoder chip, the CL8830A. Leading Chinese original equipment manufacturers have adopted the CL8800 decoders for their S-VCD product offerings. In 2001, C-Cube believes that the S-VCD market will continue to encroach on the VCD market as prices for S-VCD systems decline. COMMUNICATIONS In most digital video applications, the encoding and decoding functions are separated. For example, in broadcasting, the video is encoded by one or a small number of encoders at the transmission facility, while a decoder at the viewer's home reconstructs the broadcast for viewing. C-Cube has been, and continues to be, a major supplier for both encoders and decoders for a full spectrum of digital video applications. C-Cube has long recognized, however, that combining the encoding and decoding functions into one processor, called a codec, creates significant new market opportunities. C-Cube invested heavily in the development of a single-chip MPEG-2 codec architecture and introduced DVxpert(TM), the first product based on the new architecture, in August 1997. In 1999, C-Cube extended the capabilities of the architecture with the introduction of C-Cube's high-definition digital video product; the industry's first codec architecture for high-definition television broadcasting and video production applications. Broadcast and Distribution Encoders. Encoders in the DVxpert family offer improved image quality, efficient bandwidth utilization and reliability for broadcasting and professional applications. The DVxpert broadcast encoders target applications such as distribution, contribution, DVD authoring and video servers. All DVxpert encoders use C-Cube's patented PerfectView(TM) feature, which provides clear image quality with advanced video capabilities. One of the big issues broadcasters currently face is the migration to high definition programming. The Federal Communications Commission has established a target timeline for United States broadcasters to begin high-definition television transmissions, but many infrastructure issues remain uncertain. In 1999, C-Cube introduced its high-definition digital video product to address these issues. This product is a MPEG-2 encoder for high-definition television broadcast applications, but also retains the capabilities of the standard definition DVxpert products, enabling equipment manufacturers to deliver flexible high definition/standard definition solutions and ease broadcasters' transition issues. Interactive Set-top Box Decoders. The primary communications application for MPEG-2 decoders is in the STB market. To reconstruct the compressed broadcast program, several steps are required. First, the MPEG-2 stream must be separated or demultiplexed into C-Cube's video and audio portions. Then the video and audio must be decompressed. Finally, the video signal is combined with other on-screen information, such as program guides, and displayed on a monitor. C-Cube has introduced several innovative products in this arena, starting with the introduction of the CL9100 MPEG-2 video decoder in 1994. C-Cube followed in 1995 by bringing to market the CL9110 Transport Demultiplexer which was licensed from DiviCom, then a private company. Together, this

two-chip combination performed all the functions needed for digital video decoding and was instrumental in enabling first-generation designs for digital set-top boxes. 74 80 1996 saw the introduction of the AViA(TM) family of set-top box chips. Building on the technology and market success of the CL9100 and CL9110 products, the AViA platform offered high-performance graphics, better quality audio (Dolby Digital(TM)), interoperability across both wired and wireless networks and a tighter integration between the individual chips. In 1998, C-Cube introduced the AviA@tv product, extending graphics capabilities and providing support for web page and text display on TV screens. AviA@tv also provided Media Access Control, or MAC, for two-way interactive networks. In September of 2000, C-Cube introduced the AViA-9600, an advanced system on a chip for digital set-top boxes. This fourth generation set-top box solution addresses key trends in the STB market such as digital time-shifting, consumer product connectivity and innovative display of content. The AViA-9600 integrates multiple dedicated processing using including host CPU, A/V decoder, audio DSP and graphics processor. A new advanced graphics engine was designed in collaboration with many leading service operators to support their needs for advanced display of video and graphics. The integrated 150-MHz RISC CPU can act as host and supports applications including digital time-shifting and soft modem. The AViA-9600 integrates IEEE1394 "FireWire," USB and IDE interfaces to support home networking and connection to digital cameras/camcorders, hard drives and DTVs. Cable Front-End Communications Ics. In January of 1999, C-Cube acquired the relevant communications activities of TV/ Com in order to reinforce this successful strategic thrust into the arena of broadband communications network products. One reason for the selection of TV/Com was that C-Cube's products have been successfully deployed in the same networks and set-top boxes as its MPEG solutions. Through this purchase, C-Cube gained access to key people, intellectual property and designs including modulation and demodulation technology. The combination of these capabilities with the relevant designs and software from C-Cube's AViA product family and expertise in analog design, gives C-Cube all the necessary components required to develop state-of-the-art, highly integrated solutions for interactive digital television. In November of 2000, C-Cube introduced the MultiLynx family of integrated cable front-end communications ICs, the first devices designed to support all major world cable standards. The two MultiLynx ICs (CL2151 and CL2161), developed for cable set-top boxes and cable modems, make it possible for manufacturers to design a single product capable of being deployed on two-way broadband cable networks anywhere in the world. During 2001, C-Cube will be applying for DOCSIS certification with Cable Labs. The C-Cube MultiLynx CL2161 enables two-way communications using DOCSIS, EuroDOCSIS and DVB in-band cable modem standards. It integrates a QAM, QAM/QPSK modulator with a digital-to-analog converter for the return channel. An integrated communications processor and dedicated MAC provides support for all leading cable network standards. The communications processor also acts as the host CPU and includes DSP extensions to support voice-over-IP, or VoIP, codec algorithms simultaneously. The C-Cube MultiLynx CL2151 is the first cable modem chip designed specifically for set-top boxes. In addition to the protocols supported by the CL2161, the CL2151 supports DAVIC, DVS-178, Starvue and DVS-167 set-top MAC protocols. It provides direct connection to a POD, or point of deployment, module for OpenCable(TM) set-top designs. When combined with C-Cube's AviA-9600 set-top box decoder, the CL2151 enables the design of a cable set-top box with two-way communications, VoIP, home networking and personal video recording with a minimal bill of material costs. With this capability, C-Cube is now able to service the end-to-end requirements of a digital video network including video compression in the head end, network interfaces and the full spectrum of data, video, audio and graphics requirements in the consumer terminal. This enables a new generation of interactive services available through the television in the living room, including web-based e-commerce, video e-mail and voice over the internet. 75 81 CONSUMER BRANDING PROGRAM C-Cube's consumer branding program, begun in 1996, saw a reduction in OEM support in 2000. The rapid deployment of OEM's efforts to brand their own products curbed the desire to follow C-Cube branding program guidelines. A further obstacle to continuing the branding program arose from a slow down of new products aimed at the Chinese market. This was done in an effort to balance the geographic distribution of business worldwide. Name recognition of C-Cube remains high in the China market and continues to be associated with high quality, reliability and advanced technology. CHANGING PRODUCT MIX: DEPENDENCE ON DECODER PRODUCTS C-Cube offers a number of products for a variety of applications. Since the second quarter of 1995, sales of C-Cube's VCD decoder family of products have represented a significant percentage of C-Cube's total net revenues. C-Cube expects that revenues from its VCD decoder products including the CL680 and Chaoji VCD families of products will decrease as a percentage of its total revenues, but continue to account for a significant portion of its product revenues in 2001. C-Cube expects that price competition will continue

to result in declining average selling prices for this family of products. C-Cube has implemented several programs that have reduced costs associated with these families of products. In the event that increases in unit sales and other manufacturing efficiencies of these families of products do not offset decreasing sales prices in the future, C-Cube's business and results of operations would be materially and adversely affected. C-Cube anticipates that overall gross margins may continue to decrease as a result of a number of factors including anticipated declines in average selling prices over time. The timing of volume shipments and the life cycles of C-Cube's products are difficult to predict due in large measure to the emerging nature of the markets for its products, the future effect of its product enhancements and its current and future competitors. Declines in demand for C-Cube's products, particularly the CL680 and Chaoji VCD families of products, whether as a result of competition, technological change or otherwise, would have a moderately adverse effect on C-Cube's business and results of operations. New Architecture. In January 2001, C-Cube DoMiNo was introduced as C-Cube's newest architecture. C-Cube DoMiNo, which stands for Digital Media Network, was unveiled as the world's first multi-stream, multi-format network media processor, and integrates as many as 7 individual devices into a single chip. The processing power is ten times that of a Pentium, yet uses only 5 percent of the power, thus making it ideal for consumer electronic applications. It also brings professional level digital audio and video capability down to consumer price points. Although shipments for products containing this architecture will not occur until 2002, C-Cube anticipates that new products will be announced throughout 2001. CUSTOMERS During 2000, Samsung and Pace each accounted for 11% of C-Cube's net revenues. During 1999, no customer accounted for 10% or more of C-Cube's net revenue. During 1998, Malata accounted for 10% of C-Cube's net revenues. RESEARCH AND DEVELOPMENT C-Cube believes that the continued introduction of new products in its target markets is essential to its growth. As of December 31, 2000, C-Cube had 257 full-time employees engaged in research and development. Expenditures for research and development in 2000, 1999 and 1998 were approximately $72.2 million, $54.3 million and $52.8 million, respectively. C-Cube's operating results will depend to a significant extent on its ability to continue to successfully introduce new products on a timely basis and to reduce costs of existing products. In particular, C-Cube currently intends to announce several new products over the next year, including next generation MPEG-2 76 82 encoders and decoders and products based on C-Cube DoMiNo, the new architecture announced in January 2001. The success of new product introductions is dependent on several factors, including: - proper new product definition; - product cost; - timely completion and introduction of new product designs; - quality of new products; - differentiation of new products from those of C-Cube's competitors; and - market acceptance of C-Cube's and its customers' products. As a result, C-Cube believes that continued significant expenditures for research and development will be required in the future. Because of the complexity of its products, C-Cube has experienced delays from time-to-time in completing development and introduction of new products, and as a result, has from time-to-time not achieved the market share anticipated for such products. C-Cube may not successfully identify new product opportunities and develop and bring new products to market in a timely manner. Additionally, products or technologies developed by others may render C-Cube's products or technologies obsolete or noncompetitive, and its products may not be selected for design into the products of its targeted customers. SALES AND MARKETING C-Cube's sales and marketing strategy targets markets for which the compression of digital video into a more compact form, providing significant storage and transmission efficiencies, is an enabling technology in order to achieve key design wins with industry leaders, as well as early adopters of digital video technology. To implement its strategy, C-Cube has established a direct sales and marketing force and a worldwide network of independent sales representatives and distributors. In addition, C-Cube has a team of application engineers who assist customers with designing in its products. In the United States, C-Cube sells its products through direct sales channels, independent representatives and distributors. C-Cube records revenues from product sales to customers at the time of shipment. Some of C-Cube's agreements with its distributors permit limited stock rotation and provide for price protection. Allowances for returns and adjustments, including price protection, are provided at the time revenues from product sales are recorded. Generally, C-Cube pays its independent sales representatives on a commission basis. As of December 31, 2000, C-Cube has North American regional sales offices in California and Quebec, and international sales offices in China, France, Japan, Korea, Taiwan, and the United Kingdom. In Japan, C-Cube sells products through the direct sales force of C-Cube Microsystems Japan, Inc. and two distributors. C-Cube Microsystems Japan, Inc. was formed by C-Cube and Kubota Corporation in 1988 and is currently owned 65% by C-Cube and 35% by Kubota. The primary businesses of C-Cube Microsystems Japan, Inc. are the marketing, sales and support of its products in Japan. Internationally, C-Cube has commissioned sales representatives or distributors in Canada,

Denmark, Finland, France, Germany, Great Britain, Hong Kong, Ireland, India, Israel, Italy, Korea, Sweden and Taiwan. INTERNATIONAL BUSINESS ACTIVITIES During 2000, 1999 and 1998, international revenues accounted for approximately 87%, 82% and 82% of C-Cube's net revenues, respectively. C-Cube believes that international revenues will continue to account for a significant portion of net revenues. C-Cube's success will depend in part upon its ability to manage international marketing and sales operations. In addition, C-Cube purchases a substantial portion of its manufacturing services from foreign suppliers. C-Cube's international manufacturing and sales are subject to changes in foreign political and economic conditions, and to other typical risks of doing business internationally. For example, China is the primary market for VCD and Chaoji VCD players utilizing C-Cube's decoder products. As a consequence, any political or economic instability in China could significantly reduce demand for its products. C-Cube has made and will continue to make significant 77 83 investments in additional chip manufacturing capacity in Taiwan and is subject to the risk of political instability in Taiwan, including but not limited to the potential for conflict between Taiwan and the People's Republic of China. C-Cube sells products to customers in Korea and is subject to the risk of economic and political instability in Korea, including the potential for conflict between North and South Korea. In addition, C-Cube sells certain of its products in international markets and buys certain products from its chip manufacturing facilities in currencies other than the U.S. dollar. As a result, currency fluctuations could, in the long term, have an adverse effect on C-Cube's business and results of operations. With respect to international sales that are denominated in U.S. dollars, increases in the value of the U.S. dollar relative to foreign currencies can increase the effective price of, and reduce demand for, C-Cube's products relative to competitive products priced in the local currency. The United States has considered trade sanctions against Japan and has had disputes with China relating to trade and human rights issues. If trade sanctions were imposed, Japan or China could enact trade sanctions in response. Because a number of C-Cube's current and prospective customers and suppliers are located in Japan and China, trade sanctions, if imposed, could have an adverse effect on its business and results of operations. Similarly, protectionist trade legislation in either the United States or foreign countries could have an adverse effect on C-Cube's ability to manufacture or sell its products in foreign markets. The Asian consumer electronics markets accounted for approximately 60%, 67% and 74% of C-Cube's total sales in 2000, 1999 and 1998, respectively. Asia sales are expected to continue to account for a substantial, though declining, percentage of sales in the future. Most of C-Cube's sales in Asia were of decoder chips, which are used in VCD and Chaoji VCD players. C-Cube believes purchases of VCD and Chaoji VCD players are not as likely to be deferred as are purchases of higher priced consumer durables and production equipment, which have impacted U.S. export sales. However, C-Cube may experience reduced sales of its products into Asia because of declining consumer spending or because of its customers' increasing difficulty in obtaining letters of credit, which C-Cube generally requires prior to shipment. MANUFACTURING C-Cube has chosen to use independent chip manufacturing facilities, called foundries, to fabricate its integrated circuits. Assembly, test and packaging are also subcontracted to third parties. This approach enables C-Cube to concentrate its resources on product design and development, where it believes it has greater competitive advantages. C-Cube continually evaluates alternative sources for chip manufacturing, assembly and test capacity. During 2000, C-Cube's devices were fabricated using advanced process technology with 0.5 micron, 0.35 micron, 0.30 micron, 0.25 micron and 0.18 micron process feature sizes, using either three, four or five layers of metal interconnect. Fabricated chips are tested by the fabrication facility to C-Cube's specifications. Once the chips are fully tested and accepted, the dice are assembled into packages by subcontractors, primarily located in Asia. C-Cube utilizes multiple assembly subcontractors for its products. In 1996, C-Cube expanded and formalized its relationship with Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC, to provide chip production capacity in the years 1996 to 2003. C-Cube prepaid $24.5 million to TSMC and in return, TSMC provided that they would produce and sell chips to C-Cube at specified prices. If C-Cube meets its minimum guaranteed purchase volume each year, TSMC applies a portion of the prepayment against a portion of the chip cost. Accordingly, the prepaid amount, which has been allocated between current and long-term assets, is amortized to inventory as chips are received. In the event that C-Cube does not meet the minimum committed volume in a given year and the volume cannot be filled by TSMC or assigned to another company, the prepayment assigned to that year could be forfeited. At December 31, 2000, remaining production capacity rights were $5.7 million dollars of which $2.1 million was included in other current assets and $3.6 million was classified as a non-current asset. During the fourth quarter of 1999, C-Cube signed a production capacity agreement with United Microelectronics Corporation to provide chip production capacity in the years 2000 through 2002, for which C-Cube paid a $20.0 million refundable payment in the first quarter of 2000. This

refundable payment, classified as a current asset, allows for certain discounts on purchased capacity based upon the 78 84 quantities purchased. The agreement does not commit C-Cube to purchase chips, but does guarantee the availability of a set capacity of chips at "not to exceed" prices. C-Cube believes that an increase in the demand for its chips over currently expected levels, or a failure of manufacturing capacity in the industry to grow at anticipated rates, could result in greater difficulty in obtaining adequate manufacturing capacity, increased prices and increased lead times. C-Cube's future operating results depend in substantial part on its ability to increase the capacity available to it from its existing or new chip manufacturing facilities. In order to secure such capacity, C-Cube has considered and will continue to consider various possible transactions, which could include, without limitation: - equity investments in, prepayments to, non-refundable deposits with or loans to chip manufacturing facilities in exchange for guaranteed capacity; - take or pay contracts that commit C-Cube to purchase specified quantities of chips over extended periods; - joint ventures; or - other partnership relationships with chip manufacturing facilities. C-Cube sources its integrated circuit products from United Microelectronics Corporation and Taiwan Semiconductor Manufacturing Co., Ltd. This dependence on a small number of chip manufacturing facilities subjects C-Cube to risks associated with an interruption in supply from these chip manufacturing facilities. In connection with the manufacture of its newer products, C-Cube needs to continue to evaluate and qualify additional chip manufacturing facilities that employ advanced manufacturing and process technologies, which are currently available from a limited number of chip manufacturing facilities. For example, certain of the new products that C-Cube intends to introduce require advanced process technology. C-Cube has in the past experienced increased costs and delays in connection with the qualification of new chip manufacturing facilities. C-Cube's reliance on subcontractors to manufacture and assemble its products involves significant risks, including reduced control over: - delivery schedules; - quality assurance; - manufacturing yields and cost; - the potential lack of adequate capacity; and - potential misappropriation of C-Cube's intellectual property. C-Cube obtains manufacturing capacity through forecasts that are generated in advance of expected delivery dates. C-Cube's ability to obtain the manufacturing capacity necessary to meet the future demand for its products is based on its ability to accurately forecast such future demand. If C-Cube fails to accurately forecast such future demand, it may be unable to timely obtain an adequate supply of chips necessary to manufacture the number of products required to satisfy the actual demand. The markets into which C-Cube sells its products are subject to extreme price competition. Thus, C-Cube expects to continue to experience declines in the selling prices of its products over the life cycle of each product. In order to offset or partially offset declines in the selling prices of its products, C-Cube must continue to reduce the costs of products through product design changes, manufacturing process changes, volume discounts, yield improvements and other savings negotiated with its manufacturing subcontractors. Since C-Cube does not operate its own manufacturing facilities and must make volume commitments to subcontractors at prices that remain fixed over certain periods of time, C-Cube may not be able to reduce its costs as rapidly as its competitors who perform their own manufacturing. C-Cube's failure to design and introduce, in a timely manner, lower cost versions of existing products or new 79 85 products with higher gross margins, or to successfully manage C-Cube's manufacturing subcontractor relationships would have a material adverse effect on its gross margins. COMPETITION C-Cube believes that it competes favorably in the areas of: - product definition; - system cost; - functionality; - time-to-market; - reliability; and - reputation. C-Cube competes with major domestic and international companies, most of which have substantially greater financial and other resources than C-Cube with which to pursue engineering, manufacturing, marketing and distribution of their products. Some of these companies own proprietary video compression technology competitive with C-Cube's standards-based systems. In the market for consumer electronics semiconductors, C-Cube's principal competitors include: - Broadcom; - ESS Technology; - ST-Microelectronics; - LSI Logic; - IBM; - Sony; - National Semiconductor; - Philips Semiconductor; and - Zoran. IBM is C-Cube's principal competitor in the broadcast encoder market, while Sony is C-Cube's principal competitor in the consumer encoder market. C-Cube expects that other companies will introduce competing encoder products in the future. Although the timing of the production availability of such encoders is uncertain, their availability could have an adverse impact on C-Cube's encoder product revenues and margins. C-Cube may also face increased competition in the future from new entrants into its markets. As the markets for its products develop, competition from large semiconductor companies, such as ST-Microelectronics and Philips, and from vertically integrated companies such as Sony, MEC, Toshiba and NEC, may increase significantly. If C-Cube can offer low-cost hardware solutions, then it may continue to compete with manufacturers of general-purpose microprocessors such as Intel, AMD and Motorola in conjunction with software solutions. C-Cube's ability to compete successfully in the rapidly evolving markets for

high-performance video compression technology depends on factors both within and outside of its control, including: - success in designing and subcontracting the manufacture of new products that implement new technologies, adequate sources of raw materials; - protection of C-Cube's products by effective utilization of intellectual property laws; - product quality; 80 86 - reliability; - price and the efficiency of production; - the pace at which customers incorporate C-Cube's integrated circuits into their products or technologies; - success of competitors' products; and - general economic conditions. A variety of other hardware and software solutions to digital video compression have been introduced. Competitor companies are designing products around these and other alternative approaches. In addition, manufacturers of general-purpose microprocessors, such as Intel, AMD and Motorola and graphics chip manufacturers are positioning their products as offering the capacity to compress digital video into a more compact form. C-Cube does not know whether system manufacturers will use such processors for video compression applications. While MPEG has become the accepted standard, any of the alternative approaches, individually or collectively, could be adopted on a widespread basis in the emerging video compression market. If this were to happen, C-Cube's business and results of operations would be materially and adversely affected. INTELLECTUAL PROPERTY AND LICENSES As of December 31, 2000, C-Cube had 84 issued U.S. patents and 21 U.S. patent applications pending and has filed certain corresponding applications in certain foreign jurisdictions. These patents expire on various dates from 2010 to 2020. C-Cube intends to continue to seek patents on C-Cube's technology where appropriate. Notwithstanding its patent position, C-Cube believes that, in view of the rapid pace of technological change in the semiconductor industry, the technical experience and creative skills of its engineers and other personnel are the most important factors in determining its future technological success. Moreover, while C-Cube holds or has applied for patents relating to the design of its products, its products are based in part on standards and C-Cube does not hold patents or other intellectual property rights for such standards. In order to defray the cost of developing C-Cube's products and to develop products with specifications meeting customer requirements, C-Cube has established development relationships with certain companies. Under these arrangements, these companies provided C-Cube with development funding and/or technical assistance, and participated with C-Cube in determining the specifications for the performance requirements of various products. As a result of these relationships, C-Cube believes it has been able to more rapidly introduce products meeting the demands of these as well as other customers for similar applications. In certain cases, as consideration for such development assistance, C-Cube has agreed to pay royalties to such customers and generally it retains ownership of such products. PROPERTY C-Cube's principal facilities consist of approximately 215,000 square feet of space in three buildings located in Milpitas, California. This space is leased under three leases that expire on various dates through July 31, 2007. C-Cube believes its existing facilities and other available facilities will be adequate to meet its requirements for at least the next 12 months. LEGAL PROCEEDINGS C-Cube has been named as a defendant in a securities class-action complaint filed in the United States district court for the northern district of California. The plaintiffs in the action purport to represent the class of all persons who purchased common stock between January 19, 2000 and May 3, 2000 in the entity then known as C-Cube Microsystems. The complaint alleges that C-Cube is liable for the acts and statements for the entity then known as C-Cube Microsystems prior to May 3, 2000, even though C-Cube 81 87 did not legally exist prior to May 3, 2000. The case is in its early stages and C-Cube believes that the allegations contained in the complaint are without merit and intends to defend the action vigorously. From time-to-time C-Cube is party to certain other litigation or legal claims. Management has reviewed all additional pending legal matters and believes that the resolution of such additional matters will not have a significant adverse effect on C-Cube's financial position or results of operations. EMPLOYEES As of December 31, 2000, C-Cube had approximately 588 employees, 257 of whom are engaged in, or directly support, its research and development, 214 of whom are in sales and marketing, 38 of whom are in operations and 79 of whom are in administration. C-Cube's employees are not represented by any collective bargaining agreement, and it has never experienced a work stoppage. C-Cube believes its employee relations are good. C-Cube's future success is heavily dependent upon its ability to hire and retain qualified technical, marketing and management personnel. C-Cube is currently seeking certain additional engineering, marketing and management personnel. C-Cube's success in the future will depend in part on the successful assimilation of such new personnel. C-Cube also obtains assistance from customers whose engineers participate in its development programs. The continuing availability of such support is dependent upon a number of factors, including relationships with customers and the ability of such engineers, many of whom are foreign residents, to obtain immigration visas. 82 88 C-CUBE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

OPERATIONS RESULTS OF OPERATIONS The following table sets forth certain operating data as a percentage of net revenues for the years ended December 31, 2000, 1999 and 1998: YEARS ENDED DECEMBER 31, ---------- 2000 1999 1998 ------ ------ ------ Net revenues..... 100.0% 100.0% 100.0% ----- ----- ----- Costs and expenses: Cost of product revenues..... 45.1 39.7 41.0 Research and development: Research and development..... 22.5 24.4 25.3 Warrant issuance..... 4.8 -- -- Selling, general and administrative: Selling, general and administrative..... 17.9 16.8 17.4 Stock based compensation and merger/spin-off related payroll tax..... 7.9 -- -- ----- ----- ----- Total..... 98.2 80.9 83.7 ----- ----- ----- Income from continuing operations..... 1.8 19.1 16.3 Other income, net..... 3.0 4.1 1.2 ----- ----- ----- Income from continuing operations before income taxes, minority interest and extraordinary item..... 4.8 23.2 17.5 Income tax expense..... 1.3 6.5 4.7 ----- ----- ----- Income from continuing operations before minority interest and extraordinary item..... 3.5 16.7 12.8 Minority interest in net income (loss) of subsidiary..... 0.0 0.2 (0.2) ----- ----- ----- Income from continuing operations before extraordinary item..... 3.5 16.5 13.0 Extraordinary gain on repurchase of convertible notes (net of tax)..... -- -- 1.7 ----- ----- ----- Income from continuing operations..... 3.5 16.5 14.7 Discontinued operations: Income (loss) from discontinued operations (net of tax)... (3.8) 9.3 7.5 Loss on disposal of DiviCom (net of tax)..... (2.3) -- -- ----- ----- ----- Net income (loss)..... (2.6)% 25.8% 22.2% ===== ===== ===== MERGER/SPIN-OFF C-Cube entered into an Amended and Restated Agreement and Plan of Merger and Reorganization with Harmonic Inc. on December 9, 1999. In accordance with this agreement, in May 2000, C-Cube's semiconductor division was spun-off as C-Cube Semiconductor Inc. to the stockholders of C-Cube Microsystems Inc. as an independent company and C-Cube Microsystems Inc., consisting primarily of its DiviCom division, was merged with Harmonic Inc. C-Cube Semiconductor Inc. was then renamed C-Cube Microsystems Inc., with the approval of Harmonic Inc., to maintain customer continuity and the brand identity of C-Cube's semiconductor products. The transaction was accounted for as if the semiconductor division were the continuing entity. Accordingly, as required by Accounting Principles Board Opinion No. 30 and Emerging Issues Task Force Issue No. 95-18, the results of operations of the semiconductor division (the continuing entity) are reported separately from the results of operations of the DiviCom division (the discontinued entity). The results of operations in prior periods have been restated and certain prior period amounts have been reclassified to conform to the current period presentation. These restatements and reclassifications had no effect on net income or stockholders' equity. 83 89 The results of discontinued operations are presented on two line items on the face of the Consolidated Statements of Operations. For the current year, loss from operations of DiviCom represents the net loss of DiviCom operations through the date of merger of $10.1 million. Revenues and tax benefit for 2000 through the date of merger were $36.8 million and $6.8 million, respectively. Revenues and taxes for the year ended December 31, 1999 were $185.5 million and $10.2 million respectively. Loss on disposal of DiviCom includes direct costs, net of taxes, associated with the merger/spin-off transaction which were incurred by C-Cube. In connection with the merger, C-Cube transferred the net assets of DiviCom to Harmonic incurred a tax liability in connection with the spin-off of the semiconductor business and recorded a deferred tax asset relating to an increase in the tax basis of C-Cube's assets. The transfer of the net assets and the tax liability have been reflected as a return of capital to the stockholders. In connection with the merger, C-Cube entered into a tax sharing agreement with Harmonic under which C-Cube assumed liability for income and other taxes incurred prior to and as a result of the spin-off. PRODUCTION CAPACITY AGREEMENTS In the fourth quarter of 1999, C-Cube signed a production capacity agreement with United Microelectronics Corporation, or UMC, to provide chip production capacity in the years 2000 to 2002, for which it paid a $20.0 million refundable payment in January 2000, classified as a non-current asset. This deposit earns interest at 4% per year, allows for certain discounts on purchased capacity based upon the quantities purchased and is refundable after 90 days' notice by C-Cube. The agreement does not commit C-Cube to purchase chips, but does guarantee the availability of a set capacity of chips at "not to exceed" prices. In the second quarter of 1996, C-Cube expanded and formalized its relationship with Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC, to provide wafer production capacity in the years 1996 to 2001. The agreement with TSMC provided that TSMC would produce and ship wafers to C-Cube at specified prices and required C-Cube to make two advance payments totaling $49.0 million. An advance payment of $24.5 million was made in June 1996. In May 1997, C-Cube amended its agreement with TSMC which resulted in a reduction of its future wafer purchase commitments and the forgiveness of the second

advance payment of $24.5 million. In January 1999, C-Cube signed a second amendment to its agreement with TSMC which resulted in a refund to C-Cube of $11.7 million and an extension of the term of the agreement to 2003. Advance payments associated with wafer production capacity rights are amortized over the shorter of the contract period or the actual delivery of wafers in relation to the minimum number of wafers to be purchased under the agreement. At December 31, 2000, remaining production capacity rights were $5.7 million, of which $2.1 million was included in other current assets and $3.6 million was classified as a non-current asset. NET REVENUES Net revenues increased 19.3% to $265.0 million in 2000 compared to $222.1 million in 1999. This increase was led by strong set-top box sales, primarily for European deployments. Codec sales also increased because of increasing DVxpert and DVxpress volumes. Because of higher volume shipments, sales from DVD chips used in consumer applications increased significantly despite price reductions due to increased competition. Overall DVD growth was slowed by significantly reduced volumes of chips used in DVD PCs. The increases discussed above were largely offset by reductions in VideoCD and S-VCD decoder chip revenues due to reduced shipments and increased price competition. In 1999, net revenues increased 6.2% to $222.1 million compared to $209.1 million in 1998. C-Cube's revenues increased slightly over 1998; however, the product mix changed significantly. Revenues from DVD decoder chips used in consumer applications increased significantly due to higher volume shipments, despite price reductions resulting from increased competition. Revenues from encoder and codec chipsets for set-top, broadcast and non-linear editing applications increased due to higher volume shipments. The 84 90 increases discussed above were largely offset by reductions in VideoCD and S-VCD decoder chip revenues due to reduced shipments and increased price competition. The sales returns allowance at December 31, 2000 was $1.6 million, decreasing from $3.0 million at December 31, 1999. During 2000, additions to the sales returns allowance were $100,000 and deductions were $1.5 million. The deductions to the allowance were primarily due to price protection credits and other pricing adjustments. The sales returns allowance at December 31, 1999 was $3.0 million, decreasing from $4.7 million at December 31, 1998. During 1999, no additions were made to the sales returns allowance and deductions were $1.7 million. The deductions to the allowance were primarily due to product returns from customers. In 2000, sales to two customers were $29.9 million and $28.1 million, each more than 11% of C-Cube's revenues. In 1999 no customer accounted for 10% or more of net revenues. In 1998, one of C-Cube's customers accounted for $21.9 million, or 10%, of its 1998 revenues. International revenues accounted for 87.1%, 82.3% and 81.7% of net revenues in 2000, 1999 and 1998, respectively. International revenues were a significant portion of C-Cube's total revenues primarily due to volume shipments of DVD, VideoCD and S-VCD players into Asia and an increase in set-top sales into Europe. C-Cube sells products and supports customers internationally through subsidiaries and sales offices located in Canada, China, France, Japan, Korea, Taiwan and the United Kingdom. C-Cube expects that international revenues will continue to represent a significant portion of net revenues. C-Cube's international sales and manufacturing are subject to changes in foreign political and economic conditions and to other risks, including fluctuations in foreign exchange rates, export/import controls and changes in tax laws, tariffs and freight rates. See "Information Relating to C-Cube -- International Business Activities." GROSS MARGIN C-Cube's gross margin percentage decreased to 54.9% in 2000 from 60.3% in 1999. This decline was principally attributable to a change in its product mix as well as declines in the average selling price in the DVD, S-VCD and VCD markets without similar manufacturing cost reductions. C-Cube's gross margin percentage increased to 60.3% in 1999 from 59.0% in 1998. This increase was primarily the result of changes in product mix, as the volume of sales of products with higher gross margins, including encoders, DVD decoders and digital set-top boxes. Additionally, C-Cube was able to offset the related impact on gross margin by realizing greater operating efficiencies, including reduced material costs, refinement of its semiconductor design process and the reduction of outside manufacturing costs. The markets into which C-Cube sells its semiconductor products are subject to extreme price competition. Therefore, while C-Cube expects that any new products C-Cube may introduce could offset the decline in the average selling price for established products, C-Cube continues to experience declines in the selling prices of its semiconductor products over the life cycle of each product. In particular, C-Cube expects to continue to experience significant price competition in the markets for decoder chips. In order to offset or partially offset declines in the selling prices of its products, C-Cube must continue to reduce the costs of products through product design changes, manufacturing process changes, volume discounts, yield improvements and other savings negotiated with its manufacturing subcontractors. Since C-Cube does not believe that it can continually achieve cost reductions which fully offset the price declines of its products, C-Cube expects gross margin percentages to decline for existing products over their life cycles. C-Cube does not own its manufacturing facilities and must make volume

commitments to subcontractors at prices that remain fixed over certain periods of time. Therefore, it may not be able to reduce its costs as rapidly as its competitors who perform their own manufacturing. C-Cube's failure to design and introduce in a timely manner lower cost versions of existing products or higher gross margin new products, or to successfully manage its manufacturing subcontractor relationships, could have a material adverse effect on its gross margins. 85 91 RESEARCH AND DEVELOPMENT EXPENSES In 2000, research and development expenses were $72.2 million or 27.2% of net revenues, compared to $54.3 million or 24.4% of net revenues in 1999. The majority of the increase from 1999 resulted from the issuance of warrants to Thomson Multimedia S.A., whereby C-Cube recorded $12.6 million of research and development expense. In 1999, research and development expenses were $54.3 million or 24.4% of net revenues, compared to $52.8 million or 25.3% of net revenues in 1998 primarily related to an increase in employee-related costs associated with increases in product engineering staff, in addition to increases in costs for development tools and non-recurring engineering. The increase in headcount reflects C-Cube's continuing efforts to provide industry leading digital video solutions at the chip level. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES Selling, general and administrative expenses increased to $68.3 million or 25.8% of net revenues in 2000 compared to $37.2 million or 16.8% of net revenues in 1999. The increase from 1999 is primarily related to stock-based compensation and merger/spin-off related payroll taxes totaling $20.8 million. In connection with the merger and spin-off, C-Cube recorded stock-based compensation expense, of $15.5 million related to the accelerated vesting of options for certain of its employees. As a condition of the Amended and Restated Agreement and Plan of Merger and Reorganization with Harmonic Inc., all vested employee stock options were to be exercised before the merger date or they would be forfeited. The resulting exercises generated an additional payroll tax expense, within selling, general and administrative, of $5.3 million. To a lesser extent expenses increased as management and infrastructure were no longer shared with DiviCom. The increase in sales and marketing headcount reflects C-Cube's efforts to increase its international presence. Selling, general and administrative expenses increased to $37.2 million or 16.8% of net revenues in 1999 compared to $36.3 million or 17.4% of net revenues for 1998. The increase in absolute dollars from 1998 was primarily due to increased travel, staffing and related expenses partially offset by decreased commissions to distributors. C-Cube expects that absolute levels of selling, general and administrative expenses will continue to increase in future periods. OTHER INCOME (EXPENSE) Interest and other income increased to $11.0 million in 2000 compared to $10.7 million in 1999 primarily due to $4.6 million of gains on the sale of investments, partially offset by lower average balances of cash and investments in 2000 compared to 1999. Interest income and other increased to $10.7 million in 1999 compared to $10.2 million in 1998 primarily due to higher average balances of cash and investments in 1999 compared to 1998. Interest and other expense increased to $3.2 million in 2000 compared to $1.5 million in 1999 primarily due to an outstanding line of credit facility in 2000. Interest expense and other decreased to $1.5 million in 1999 compared to $4.2 million in 1998 primarily due to lower average outstanding debt balances due to the repurchase of a significant portion of C-Cube's convertible subordinated notes. INCOME TAX EXPENSE C-Cube provided $3.4 million for income taxes in 2000 on income before taxes, minority interest and extraordinary items of $12.8 million, for an effective tax rate of 26.6%. In 1999, C-Cube provided $14.6 million for income taxes on income before taxes, minority interest and extraordinary items of $51.6 million, for an effective tax rate of 28.3%. In 1998, C-Cube provided $9.8 million for income taxes on income before taxes and minority interest of $36.7 million, for an effective tax rate of 26.7%. The effective tax rates for 2000, 1999 and 1998 are less than the combined federal and state statutory rate primarily due to tax credits and lower foreign taxes. 86 92 EXTRAORDINARY ITEM During 1998, C-Cube repurchased $63.5 million of the face value of its 5.875% subordinated convertible notes due 2005 (the "notes") at 88.4% of the principal amount, with accrued interest to the date of repurchase, and recognized an extraordinary gain of $3.5 million, or $0.09 per diluted share, net of related income taxes of $2.4 million. FACTORS THAT MAY AFFECT FUTURE RESULTS C-Cube's quarterly and annual operating results have been and will continue to be affected by a wide variety of factors that could have a material adverse effect on revenues and profitability during any particular period, including its ability to introduce new products and technologies on a timely basis, unanticipated problems in the performance of C-Cube's next-generation or cost-reduced products, the rescheduling or cancellation of orders by its customers, competitive pressures on selling prices, changes in product or customer mix, availability and cost of foundry capacity and raw materials, fluctuations in yield, loss of any strategic relationships, the ability to successfully introduce products in accordance with OEM design requirements and design cycles, new product introductions by its competitors, market acceptance of products of both C-Cube and its customers, compatibility of new products with emerging digital video

standards, purchase commitments for customized components procured in advance of anticipated systems contracts, supply constraints for other components incorporated into its customers' products, credit risk for international customers not using letters of credit, fluctuations in foreign currency exchange rates to the U.S. dollar, the level of expenditures in manufacturing, research and development, and sales, general and administrative functions, and a recent trend of mergers and acquisitions creating larger competitors which may have established market share or greater financial or technical resources than C-Cube. In addition, C-Cube's operating results are subject to fluctuations in the markets for its customers' products, particularly the consumer electronics market, which has been extremely volatile in the past, and the digital satellite broadcast, cable and wireless cable markets, which are in an early stage, creating uncertainty with respect to product volume and timing. To the extent C-Cube is unable to fulfill its customers' purchase orders on a timely basis, these orders may be canceled due to changes in demand in the markets for its customers' products. A significant portion of C-Cube's expenses are fixed in the short term, and the timing of increases in expenses is based in large part on its forecast of future revenues. As a result, if revenues do not meet its expectations, C-Cube may be unable to quickly adjust expenses to levels appropriate to actual revenues, which could have a material adverse effect on its business and results of operations. C-Cube's dependence on the Chinese consumer electronics market has started to decline, and C-Cube believes it will either remain stable or decline in the future, as growth in the encoder, digital satellite broadcast, non-linear editing, digital cable and wireless cable markets generate larger contributions to revenues. Nevertheless, the substantial seasonality of sales in the consumer electronics market could impact C-Cube's revenues and net income. In particular, C-Cube believe that there may be seasonality in the Asia-Pacific region related to the Chinese New Year, which falls within the first calendar quarter, which could result in relatively lower product demand during the second and third quarters of each year. If in the future the geographic mix of C-Cube's sales shifts towards the U.S. and Europe, it would anticipate higher revenues and net income in the third and fourth calendar quarters as system manufacturers in these regions make purchases in preparation for the holiday season, and comparatively less revenues and net income in the first and second calendar quarters. As a result of the above, C-Cube's operating results and stock price may be subject to significant volatility, particularly on a quarterly basis. Any shortfall in net revenues or net income from levels expected by securities analysts could have an immediate and significant adverse effect on the trading price of C-Cube's common stock. The market price of C-Cube's common stock has fluctuated significantly since the merger/spin-off in May 2000. The market price of C-Cube's common stock could be subject to significant fluctuations in the future based on factors such as merger or acquisition activity, announcements of new products by C-Cube 87 93 or its competitors, quarterly fluctuations in its financial results or other semiconductor and digital video networking industries, conditions in the financial markets and general conditions in the global economy which might adversely affect consumer purchasing. In addition, the stock market in general has experienced extreme price and volume fluctuations, which have particularly affected the market prices for many high technology companies and which have often been unrelated to the operating performance of the specific companies. LIQUIDITY AND CAPITAL RESOURCES Cash, cash equivalents and short-term investments decreased to $52.5 million at December 31, 2000 from $290.5 million at December 31, 1999. Working capital decreased to $30.9 million at December 31, 2000 from $283.8 million at December 31, 1999. C-Cube's operating activities provided cash of $17.2 million in 2000, compared to $40.2 million in 1999. This is primarily from a warrant issuance of $12.6 million and an increase in accrued liabilities of $12.0 million. In C-Cube's investing activities, sales and maturities of short-term investments provided cash of $173.1 million and purchase of short-term investments used cash of $3.0 million. C-Cube also used cash of $20.0 million to secure production capacity rights. Cash used by financing activities was $233.4 million, primarily due to income tax paid on the spin-off of DiviCom using cash of $431.4 million, the tax benefit from employee stock transactions of $86.2 million, partially offset by $110.8 million provided by common stock issued under stock plans. As of December 31, 2000, C-Cube had a $27.0 million bank line of credit ($27.0 million outstanding at December 31, 2000) that expires on May 31, 2002. The first $6.0 million of borrowed funds bear interest at LIBOR plus 2.0% (8.4% at December 31, 2000), with additional borrowings bearing interest at the bank's prime rate (9.5% at December 31, 2000). The line of credit agreement requires that C-Cube, among other things, maintain a minimum tangible net worth and certain financial ratios and is collateralized by its current assets. At December 31, 2000, C-Cube was not in compliance with one of its covenants. The bank has waived compliance with this requirement for the fiscal year ended December 31,2000. On January 4, 2001, the line of credit was revised. Under the terms of the revised line of credit agreement, $22.0 million bears interest at LIBOR plus 2% (8.4% as of January 4, 2001) and $5.0 million bears interest at the bank's prime rate

(9.0% as of January 04, 2001), with all other loan terms remaining the same. As discussed earlier, C-Cube has a wafer production capacity agreement with Taiwan Semiconductor Manufacturing Co., Ltd., or TSMC. In January 1999, C-Cube signed a second amendment to its agreement with TSMC which resulted in a refund to C-Cube of $11.7 million. In the fourth quarter of 1999, C-Cube entered into a wafer production capacity agreement with United Microelectronics Corporation, for which it paid a refundable deposit of $20.0 million in January 2000. Based on current plans and business conditions, C-Cube expects that its cash, cash equivalents and short-term investments together with any amounts generated from operations and available borrowings, will be sufficient to meet its cash requirements for at least the next 12 months. However, C-Cube may be required to seek other financing sooner and such financing, if required, will be available on terms satisfactory to C-Cube. In addition, C-Cube has considered and will continue to consider various possible transactions to secure additional foundry capacity, which could include, without limitation, equity investments in, prepayments to, non-refundable deposits with or loans to foundries in exchange for guaranteed capacity, "take or pay" contracts that commit C-Cube to purchase specified quantities of wafers over extended periods, joint ventures or other partnership relationships with foundries. 88 94 NEW ACCOUNTING PRONOUNCEMENTS In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, or "SAB 101," "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. SAB 101 is effective for the fiscal quarter beginning October 1, 2000. The adoption of SAB 101 did not have a material impact on the consolidated financial statements. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133, or "SFAS 133", "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after June 15, 2000. C-Cube adopted SFAS 133 on January 1, 2001. The adoption of this statement did not have a material impact on the consolidated financial statements. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The following discussion about C-Cube's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. C-Cube is exposed to market risk related to changes in interest rates and foreign currency exchange rates. C-Cube does not use derivative financial instruments for speculative or trading purposes. INTEREST RATE SENSITIVITY C-Cube maintains a short-term investment portfolio consisting mainly of U.S. Government agencies and debt securities with an average maturity of less than one year. The market value of this portfolio was $2.8 million at December 31, 2000. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from current levels at December 31, 2000, the fair value of the portfolio would not be affected materially. C-Cube has the ability to hold its fixed income investments until maturity, and therefore it would not expect its operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on its securities portfolio. C-Cube does not hedge any interest rate exposures. C-Cube has fixed rate long-term debt of approximately $1.3 million, and a hypothetical 10% increase or decrease in current interest rates from levels at December 31, 2000 would not have a material impact on the fair market value of this debt. FOREIGN CURRENCY EXCHANGE RISK C-Cube enters into foreign exchange forward contracts to hedge certain economic exposures, balance sheet exposures and inter-company balances against future movements in the dollar/yen exchange rates. Gains and losses on the forward contracts are largely offset by gains and losses on the underlying exposure. A hypothetical 10% appreciation of the U.S. dollar from December 31, 2000 market rates would increase the unrealized value of C-Cube's forward contracts by $400,000. Conversely, a hypothetical 10% depreciation of the U.S. dollar from December 31, 2000 market rates would decrease the unrealized value of its forward contracts by $400,000. In either scenario, the gains or losses on the forward contracts are largely offset by the gains or losses on the underlying transactions and consequently a sudden or significant change in foreign exchange rates would not be expected to have a material impact on future net income or cash flows. All of the potential changes noted above are based on sensitivity analyses performed on C-Cube's financial positions at December 31, 2000. Actual results may differ materially. 89 95 SECURITY OWNERSHIP BY CERTAIN BENEFICIAL OWNERS OF C-CUBE The following table sets forth certain information, as of March 30,

2001, with respect to the beneficial ownership of C-Cube's common stock by (i) all persons known by C-Cube to be the beneficial owners of more than 5% of the outstanding common stock of C-Cube, (ii) each director of C-Cube, (iii) the chief executive officer and the four other most highly compensated executive officers of C-Cube as of December 31, 2000, whose salary and incentive compensation for the fiscal year ended December 31, 2000 exceeded $100,000, and (iv) all executive officers and directors of C-Cube as a group: SHARES OWNED ---------- NUMBER OF PERCENTAGE FIVE-PERCENT STOCKHOLDERS, DIRECTORS AND EXECUTIVE OFFICERS(1) SHARES OF CLASS ---------- --------- ---------- FIVE-PERCENT STOCKHOLDERS: Entities affiliated with J. & W. Seligman & Co. Incorporated..... 4,089,017 7.8% 100 Park Avenue -- 8th Floor New York, New York 10017 DIRECTORS AND EXECUTIVE OFFICERS: Alexandre A. Balkanski(2)..... 1,772,139 3.4% Umesh Padval(3)..... 337,942 * T.J. Rodgers(4)..... 170,000 * Didier LeGall(5)..... 137,230 * Frederick Brown IV(6)..... 118,842 * Howard Bailey(7)..... 100,000 * Saeid Moshkelani(8)..... 56,456 * Baryn S. Futa(9)..... 30,000 * Patrick Henry(10)..... 33,183 * Gregorio Reyes(11)..... 50,000 * All executive officers and directors as a group (10 persons)(12)..... 2,805,792 5.3% ---------- * Represents less than 1%. (1) The persons named in this table have the sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to community property laws where applicable and to the information contained in the footnotes to this table. Unless otherwise indicated, the business address of each of the beneficial owners listed in this table is 1778 McCarthy Boulevard, Milpitas, California 95035. (2) Includes 10,000 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (3) Includes 334,966 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (4) Includes 10,000 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (5) Includes 123,204 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (6) Includes 114,260 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (7) Includes 100,000 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (8) Includes 54,267 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. 90 96 (9) Includes 10,000 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (10) Includes 31,378 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (11) Includes 10,000 shares subject to options that are presently exercisable or will become exercisable within 60 days of March 30, 2001. (12) Includes an aggregate of 798,075 shares subject to options that are presently exercisable or will become exercisable by all executive officers and directors as a group within 60 days of March 30, 2001, including those shares listed in footnotes 2-11. UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS The following unaudited pro forma combined condensed financial information combines LSI Logic's and C-Cube's historical audited consolidated financial statements for the twelve months ended December 31, 2000, giving effect to the merger as if it had occurred as of the beginning of the period for the statement of operations and as of December 31, 2000 for the balance sheet. The unaudited pro forma combined condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the consolidated financial position or results of operations for future periods or the results that actually would have been realized had LSI Logic and C-Cube been a consolidated company during the periods presented. The unaudited pro forma combined condensed financial statements, including the notes thereto, are qualified in their entirety by reference to, and should be read in conjunction with the historical consolidated financial statements and the notes thereto of LSI Logic which were previously reported in LSI Logic's Annual Report on Form 10-K for the year ended December 31, 2000, which are hereby incorporated by reference, and the consolidated financial statements and the notes thereto for the year ended December 31, 2000 of C-Cube included elsewhere in this prospectus. The following unaudited pro forma combined condensed financial statements give effect to the merger of LSI Logic and C-Cube using the purchase method of accounting and the assumptions and adjustments described below. The allocation of the purchase price will be finalized following completion of the merger and finalization of independent appraisals to determine the fair value of tangible and identifiable intangible assets, including in-process research and development. Based on an analysis of fair value, the excess of the purchase

price over the fair value of net tangible assets on C-Cube's balance sheet will then be allocated to identifiable intangible assets and goodwill. LSI Logic is currently in the process of obtaining the data necessary to determine the fair value of tangible and identifiable intangible assets, including in-process research and development. For both in-process and developed technology, LSI Logic is focused on determining C-Cube's forecasted revenues and costs as well as their stage of completion or remaining product life by individual project or product. The types of projects in process relate to digital set-top box, DVD and CODEC-based applications such as personal video recording, home media servers, recordable DVD, residential gateway and streaming video. The total estimated amount of goodwill and identified intangible assets is $647 million with an estimated average useful life of approximately six years. Because the valuation has not been completed, the actual amount of goodwill and identifiable intangible assets, and the related average useful life, could vary from these estimates. 91 97 UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS TABLE OF CONTENTS PAGE ---- Unaudited Pro Forma Combined Condensed Balance Sheet..... 93 Unaudited Pro Forma Combined Condensed Statement of Operations..... 94 Unaudited Notes to Pro Forma Combined Condensed Financial Statements..... 95 92 98 LSI LOGIC UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET (IN THOUSANDS) HISTORICAL ---------- DECEMBER 31, 2000 PRO FORMA ---------- ADJUSTMENTS PRO FORMA LSI LOGIC C-CUBE (NOTE 2) COMBINED ---------- -------- ---------- ---------- ASSETS Cash, cash equivalents and short-term investments..... $1,133,242 $ 52,534 $ -- $1,185,776 Accounts receivable, net..... 522,729 23,273 -- 546,002 Inventories..... 290,375 17,505 -- 307,880 Prepaid expenses and other current assets..... 125,894 21,620 -- 147,514 ---------- -------- -------- ---------- Total current assets..... 2,072,240 114,932 -- 2,187,172 Property and equipment, net..... 1,278,683 17,908 -- 1,296,591 Goodwill and other intangibles..... 580,861 26,179 646,749(A) 1,253,789 Other assets..... 265,703 63,540 -- 329,243 ---------- -------- -------- ---------- Total assets..... $4,197,487 $222,559 $646,749 $5,066,795 ========== ======== ======== ========== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities..... $ 625,904 $ 55,277 $ 14,144(B) $ 695,325 Current portion of long-term obligations..... 1,030 28,744 -- 29,774 ---------- -------- -------- ---------- Total current liabilities..... 626,934 84,021 14,144 725,099 Total long-term obligations and deferred tax liabilities..... 1,066,674 1,299 -- 1,067,973 Minority interest in subsidiaries..... 5,742 543 -- 6,285 Stockholders' equity: Common stock..... 1,771,734 136,209 700,221(C) 2,608,164 Retained earnings..... 672,152 2,244 (69,373)(D) 605,023 Accumulated other comprehensive income..... 54,251 (1,757) 1,757(E) 54,251 ---------- -------- -------- ---------- Total stockholders' equity..... 2,498,137 136,696 632,605 3,267,438 ---------- -------- -------- ---------- Total liabilities and stockholders' equity..... $4,197,487 $222,559 $646,749 $5,066,795 ========== ======== ======== ========== The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements. 93 99 LSI LOGIC UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) HISTORICAL ---------- YEAR ENDED DECEMBER 31, 2000 PRO FORMA ---------- ADJUSTMENTS PRO FORMA LSI LOGIC C-CUBE (NOTE 3) COMBINED ---------- -------- ---------- ---------- Revenues..... $2,737,667 $265,049 $ -- $3,002,716 ---------- -------- ---------- ---------- Costs and expenses: Cost of revenues..... 1,568,332 119,581 -- 1,687,913 Research and development..... 378,936 71,892 -- 450,828 Selling, general and administrative..... 306,962 52,486 -- 359,448 Acquired in-process research and development..... 77,438 -- -- 77,438 Restructuring of operations and other non- recurring items, net..... 2,781 -- -- 2,781 Amortization of non-cash deferred stock compensation(*)..... 41,113 15,146 18,515(A) 74,774 Amortization of intangibles..... 72,648 1,004 107,791(B) 181,443 ---------- -------- --------- ---------- Total costs and expenses..... 2,448,210 260,109 126,306 2,834,625 ---------- -------- --------- ---------- Income/(loss) from operations..... 289,457 4,940 (126,306) 168,091 Interest expense..... (41,573) (3,058) -- (44,631) Interest income and other, net..... 51,766 6,338 -- 58,104 Gain on sale of equity securities..... 80,100 4,583 -- 84,683 ---------- -------- --------- ---------- Income/(loss) before income taxes and minority interest..... 379,750 12,803 (126,306) 266,247 Provision for income taxes..... 142,959 3,407 -- 146,366 ---------- -------- --------- ---------- Income before minority interest..... 236,791 9,396 (126,306) 119,881 Minority interest in net income of subsidiaries..... 191 72 -- 263 ---------- -------- --------- ---------- Income from continuing operations(**)..... $ 236,600 $ 9,324 $(126,306) $ 119,618

========== ======== ========= ========== Basic earnings per share: Income from continuing operations..... $ 0.76 -- $ 0.34 ========== ========== Diluted earnings per share: Income from continuing operations..... $ 0.70 -- $ 0.32 ========== ========== Shares used in computing per share amounts: Basic..... 310,813 39,561(C) 350,374 ========== ========== Diluted..... 354,337 24,344(D) 378,681 ========== ========== ---------- (*) Amortization of non-cash deferred stock compensation, if not shown separately, of $2.3 million, $44.7 million and $27.8 million would have been included in cost of revenues, research and development, and selling, general and administrative expenses respectively, for the year ended December 31, 2000. (**) For the fiscal year ended December 31, 2000, C-Cube reported discontinued operations associated with DiviCom. See Note 2 of the Notes to the Consolidated Financial Statements of C-Cube Microsystems for the year ended December 31, 2000 included elsewhere in this Prospectus. The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements. 94 100 LSI LOGIC NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS (IN THOUSANDS) NOTE 1. BASIS OF PRESENTATION On March 26, 2001, LSI Logic signed a definitive merger agreement ("merger agreement") to acquire C-Cube in a transaction to be accounted for as a purchase. In accordance with the merger agreement, LSI Logic has agreed to commence an exchange offer whereby it will offer 0.79 of a share of LSI Logic common stock for each outstanding share of C-Cube common stock. Under the terms of the merger agreement, the exchange offer will be followed by a merger in which LSI Logic would acquire, at the same exchange ratio, the remaining shares of C-Cube common stock not previously acquired in the exchange offer. Upon completion of the merger, LSI Logic has agreed to assume all outstanding options and warrants to purchase C-Cube common stock and convert them into options and warrants to purchase shares of LSI Logic common stock. The merger is subject to customary closing conditions, including the tender for exchange of at least a majority of C-Cube's outstanding shares of common stock (including for purposes of the calculation of the majority of shares, certain outstanding options and warrants to purchase C-Cube shares) and the expiration or termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act and applicable foreign antitrust laws. The purchase price of the C-Cube acquisition has been estimated to be approximately $897 million, which has been determined as follows (in thousands): Value for common shares issued..... $740,987 Fair value of options assumed..... 133,448 Fair value of warrants assumed..... 8,283 Estimated direct acquisition costs..... 14,143 -------- Total purchase price..... $896,861 ======== LSI Logic has agreed to issue approximately 39.6 million shares of its common stock, 12.5 million options and 0.8 million warrants in exchange for the outstanding common shares, options and warrants of C-Cube, respectively. This data is based upon C-Cube outstanding shares on the date the merger agreement was signed. The exact number of shares, options and warrants to be issued for the purchase of C-Cube will be affected by option grants to new C-Cube employees and exercises of currently outstanding options and warrants, and, therefore, the final purchase price will be different from the amounts presented in these unaudited pro forma combined condensed financial statements. Common stock has been valued using an average price of LSI Logic common stock for a few days before and after the announcement of the merger. The fair value of the options and warrants assumed was determined using the Black-Scholes method. In accordance with FASB Interpretation No. 44 ("FIN 44"), "Accounting for Transactions Involving Stock Compensation -- an Interpretation of APB 25," that portion of the intrinsic value of unvested options of C-Cube relating to the vesting period following completion of the transaction has been allocated to deferred stock compensation. Deferred stock compensation will be amortized over the estimated vesting of the related options. For purposes of preparing the unaudited pro forma combined condensed financial statements, LSI Logic estimated the intrinsic value of the unvested options using the average stock price used for valuing the common stock. Upon completion of the merger, LSI Logic has agreed to determine the final amount of deferred stock compensation based on the closing price of its common stock on the date of completion of the merger, and, therefore, the final amount of deferred stock compensation will be different from the amounts presented in these unaudited pro forma combined condensed financial statements. The purchase price for pro forma purposes has been allocated to tangible assets acquired and liabilities assumed based on the fair value of C-Cube's assets and liabilities. LSI Logic's management has 95 101 LSI LOGIC NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS) engaged an independent appraiser to value the intangible assets, including amounts allocable to C-Cube's in-process research and development. The in-process research and development will be expensed immediately. For the purposes of the unaudited pro forma combined condensed balance

sheet, the acquired in-process research and development has been assigned a value of $67 million based on management estimates. The in-process research and development charge of $67 million is not reflected in the unaudited pro forma combined condensed statement of operations. The exact amount of the in-process research and development charge will be determined upon completion of the independent appraisal and may be different from the amount presented in these unaudited pro forma combined condensed financial statements. The in-process research and development charge relates to C-Cube's products in development for which technological feasibility has not been established. The allocation of purchase price is estimated as follows (in thousands): Tangible net assets acquired..... $136,696 Intangible assets, including goodwill..... 646,749 Acquired in-process research and development..... 67,129 Deferred stock compensation..... 46,287 -------- Total purchase price..... $896,861 ======== The unaudited pro forma combined condensed balance sheet reflects the acquisition of C-Cube as of December 31, 2000. The unaudited pro forma combined condensed statement of operations reflects the acquisition of C-Cube as if such acquisition had occurred at the beginning of the period presented. NOTE 2. UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET The following adjustments were applied to the historical balance sheets of LSI Logic and C-Cube at December 31, 2000 to arrive at the unaudited pro forma combined condensed balance sheet: (a) To record estimated value of intangible assets, including goodwill. (b) To record the estimated transaction costs of $14.1 million. Estimated transaction costs include all costs directly attributable to the transaction including, but not limited to, fees for the financial advisors, accountants and attorneys and other related costs. (c) To record the increase in stockholders' equity of LSI Logic of $883 million as a result of the issuance of common shares and fair value of the LSI Logic options and warrants issued in exchange for outstanding shares, options and warrants of C-Cube and to eliminate C-Cube's historical common stock as a result of the purchase transaction. (d) To reflect the estimated one-time charge for acquired in-process research and development of approximately $67 million and to eliminate the historical retained earnings of C-Cube as a result of the purchase transaction. (e) To eliminate C-Cube's historical accumulated other comprehensive income. NOTE 3. UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS The following adjustments were applied to the historical audited statements of operations for LSI Logic and C-Cube for the year ended December 31, 2000 to arrive at the unaudited pro forma combined condensed statement of operations as though the acquisition took place on January 1, 2000. 96 102 LSI LOGIC NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS (CONTINUED) (IN THOUSANDS) (a) Adjustment to recognize amortization of deferred stock compensation over the remaining vesting period of the options assumed. (b) Adjustment to recognize amortization of identified intangibles arising from the merger over their estimated useful lives of 6 years. NOTE 4. UNAUDITED PRO FORMA COMBINED INCOME PER SHARE FROM CONTINUING OPERATIONS The following adjustments were applied to the historical audited statements of operations for LSI Logic and C-Cube for the year ended December 31, 2000 to arrive at the unaudited pro forma combined income per share as though the acquisition took place on January 1, 2000. (c) Adjustment to reflect the estimated number of LSI Logic common shares to be issued in exchange for C-Cube common shares. (d) Adjustment to reflect the estimated number of shares to be issued in exchange for C-Cube common shares of 39.6 million plus common equivalents from C-Cube options assumed of 6.0 million and warrants assumed of 0.8 million less common equivalent shares of 22.0 million and interest expense of $11 million, net of taxes associated with the 1999 LSI Logic Convertible Notes excluded from the calculation because of their anti-dilutive effect only on the unaudited pro forma combined condensed diluted earnings per share. 97 103 DESCRIPTION OF LSI LOGIC CAPITAL STOCK The following description of the terms of the capital stock of LSI Logic is not complete and is qualified by reference to the description of LSI Logic's common stock contained in its registration statement on Form 8-A dated August 29, 1989, including any amendments or reports filed for the purpose of updating such description, and the description of LSI Logic's Amended and Restated Preferred Shares Rights Agreement in its Registration Statement on Form 8-A-12G/A dated December 8, 1998, which are incorporated in this prospectus by reference. See "Where You Can Find More Information" on page 102. AUTHORIZED CAPITAL STOCK Under the LSI Logic restated certificate of incorporation, LSI Logic's authorized capital stock consists of (i) 1,300,000,000 shares of common stock, par value $0.01 per share, and (ii) 2,000,000 shares of preferred stock, par value $0.01 per share. As of April 20, 2001, there were 323,028,043 shares of common stock issued and outstanding and there were no shares of preferred stock issued and outstanding. LSI Logic's board of directors is authorized to provide for the issuance from time to time of LSI Logic preferred stock in a series and, as to each series, to fix the designation, powers, preferences and rights of the

shares of the series and the qualifications, limitations or restrictions on the series, including: - the number of shares constituting the series and the distinctive designation of the series; - the dividend rate, whether dividends will be cumulative and the priority of the payment of dividends on shares of that series; - whether the series will have voting rights, and the terms of the voting rights; - whether the series will have conversion privileges, and the conversion terms and conditions; - whether the series will be redeemable and the redemption terms; - whether the series will have a sinking fund for the redemption or purchase of shares; - the rights of the series in the event of liquidation, dissolution or winding up of LSI Logic; and - any other relative or participating rights, preferences and limitations of the series. If LSI Logic's board of directors provides for the issuance of shares of LSI Logic preferred stock and determines that the preferred stock is to have some or all of the features listed above, there may be an adverse effect on the availability of earnings for distribution to the holders of LSI Logic common stock or for other corporate purposes. STOCKHOLDER RIGHTS PLAN For a description of the rights to acquire LSI Logic preferred stock that are attached to shares of LSI Logic common stock, see the section entitled "Comparison of Rights of LSI Logic Stockholders and C-Cube Stockholders -- Stockholder Rights Plan." TRANSFER AGENT AND REGISTRAR EquiServe Trust Company, N.A. is the transfer agent and registrar for LSI Logic common stock. COMPARISON OF RIGHTS OF LSI LOGIC STOCKHOLDERS AND C-CUBE STOCKHOLDERS Upon completion of the transaction, stockholders of C-Cube will become stockholders of LSI Logic. As LSI Logic stockholders, the rights of former C-Cube stockholders will be governed by the LSI Logic restated certificate of incorporation and bylaws, which differ in certain material respects from C-Cube's certificate of incorporation and bylaws. Both LSI Logic and C-Cube are incorporated in the state of Delaware; therefore, the rights of former C-Cube stockholders will continue to be governed by the Delaware General Corporation Law. 98 104 Described below is a summary comparison of material differences between the rights of an LSI Logic stockholder under the current LSI Logic restated certificate of incorporation and bylaws and the rights of a C-Cube stockholder under the current C-Cube certificate of incorporation and bylaws. Copies of these documents will be sent to holders of shares of C-Cube common stock upon request. A summary by its nature is not complete. LSI Logic encourages you to refer to the relevant portions of the LSI Logic restated certificate of incorporation and bylaws, the C-Cube certificate of incorporation and bylaws and the relevant provisions of Delaware law. PERCENTAGE OF VOTING STOCK; INFLUENCE OVER AFFAIRS Upon completion of the transaction, the percentage ownership of LSI Logic by each former C-Cube stockholder will be substantially less than each stockholder's current percentage ownership of C-Cube. Accordingly, former C-Cube stockholders will have a significantly smaller voting influence over the affairs of LSI Logic than they currently enjoy over the affairs of C-Cube. AMENDMENT TO THE CERTIFICATE OF INCORPORATION The Delaware General Corporation Law provides that, unless a greater vote is required by the certificate of incorporation, amendment, adoption or repeal of provisions of the certificate of incorporation requires the board of directors to adopt a resolution setting forth the amendment, adoption or repeal, and then present it to the stockholders to be voted upon. The amendment, adoption or repeal of the certificate of incorporation must then be approved by a majority of the outstanding stock entitled to vote, and a majority of the outstanding stock of each class entitled to vote. The stockholders of the outstanding shares of a class shall be entitled to vote as a class upon proposed amendments, as described in Section 242 of the Delaware General Corporation Law. LSI LOGIC. The LSI Logic restated certificate of incorporation may be amended, altered, changed or repealed in accordance with the Delaware General Corporation Law. C-CUBE. The C-Cube Certificate of Incorporation may generally be amended, altered, changed or repealed in accordance with the Delaware General Corporation Law. However, the affirmative vote of at least 80% of the outstanding voting power of all shares of C-Cube entitled to vote at an election of directors, voting together as a single class, is required to alter, amend, adopt any provision inconsistent with or repeal the provisions of the C-Cube certificate of incorporation relating to the ability of the stockholders to act by written consent, the authorization required to call a special meeting, or the size and composition of C-Cube's board of directors. AMENDMENT TO THE BYLAWS The Delaware General Corporation Law states that stockholders entitled to vote have the power to adopt, amend or repeal the bylaws of a corporation. A corporation, in its certificate, may also confer this power on the board of directors in addition to the stockholders. LSI LOGIC. The LSI Logic bylaws may be adopted, amended or repealed by the board of directors or the stockholders entitled to vote. C-CUBE. The C-Cube bylaws may be adopted, amended or repealed by the board of directors or the stockholders entitled to vote, except that any proposed alteration or repeal of, or the adoption of any bylaw inconsistent with any provision of the bylaws relating to stockholders' annual and special meetings (including notice provisions), action by written consent of stockholders and directors

(including the number, election, term and removal) shall require the affirmative vote of at least 80% of the voting power of all voting stock then outstanding, voting together as a single class. CLASSIFICATION OF DIRECTORS Under the Delaware General Corporation Law, corporations may elect to have a classified board, whereby only a portion of a corporation's directors are elected at each annual meeting. 99 105 LSI LOGIC. LSI Logic's board of directors currently consists of seven members. Each member of the board of directors stands for election at each meeting. C-CUBE. C-Cube's board of directors currently consists of five members. C-Cube's bylaws provide that the board of directors shall be classified into three classes, as nearly equal in size as possible. One class of directors stands for election at each annual meeting of the stockholders. NOMINATION OF DIRECTORS LSI LOGIC. A stockholder must make any nomination for a director in writing to the secretary of LSI Logic between 60 and 90 days prior to the annual meeting of the stockholders. In the event that less than 65 days' notice of the meeting is given to stockholders, any nomination must be delivered not later than the close of business on the seventh day following the day on which the notice of the meeting was mailed. C-CUBE. A stockholder must make any nomination for a director in writing to the secretary of C-Cube not less than 120 days in advance of the anniversary of the preceding year's annual meeting. In the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, any nomination for a director must be made not earlier than the later of 120 days in advance of the annual meeting or 10 days following the day on which public announcement of the date of the annual meeting is first made. STOCKHOLDER PROPOSALS LSI LOGIC. A stockholder may bring business before the a meeting of stockholders, provided that the stockholder delivers notice in writing to the secretary of LSI Logic between 60 and 90 days prior to the meeting. In the event that the less than 65 days' notice of the meeting is given to stockholders, any notice must be delivered not later than the close of business on the seventh day following the day on which the notice of the meeting was mailed. C-CUBE. A stockholder may bring business before the annual meeting of stockholders, provided that the stockholder delivers notice in writing to the secretary of C-Cube not less than 120 days in advance of the first anniversary of the preceding year's annual meeting. In the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, any notice must be made not earlier than the later of 120 days in advance of the annual meeting or ten days following the day on which public announcement of the date of the annual meeting is first made. SPECIAL MEETING OF STOCKHOLDERS The Delaware General Corporation Law states that a special meeting of stockholders may be called by the board of directors or by such person or persons as may be authorized by the certificate of incorporation or the bylaws. LSI LOGIC. The LSI Logic bylaws provide that a special meeting of stockholders may be called at any time only by the board of directors, by the chairman of the board of directors, by the president or by the chief executive officer. C-CUBE. The C-Cube certificate of incorporation provides that a special meeting of stockholders may only be called by the board of directors or by the chairman of the board of directors, and no business other than that in the notice of the special meeting may be transacted at any special meeting. CUMULATIVE VOTING The Delaware General Corporation Law provides that the certificate of incorporation of any corporation may provide for cumulative voting. LSI LOGIC. The LSI Logic restated certificate of incorporation states that stockholders may cumulatively vote their shares, and are therefore entitled to the number of votes equal to the number of 100 106 votes which the stockholder would be entitled to cast for the election of directors with respect to the stockholder's shares of stock multiplied by the number of directors to be elected, and the stockholder may cast all of such votes for a single candidate or distribute them among the number of directors to be elected, or for any two or more of them as the stockholder sees fit. C-CUBE. The C-Cube certificate of incorporation does not provide for cumulative voting. ACTION BY WRITTEN CONSENT Under the Delaware General Corporation Law, unless otherwise provided in the certificate of incorporation, any action required to be taken at an annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, by an action by written consent of the stockholders otherwise entitled to vote. LSI LOGIC. The LSI Logic bylaws state that the stockholders may act by written consent on any matter which would otherwise be voted on in an annual or special meeting of the stockholders. C-CUBE. The C-Cube certificate of incorporation states that any action required or permitted to be taken by the stockholders must be effected at a duly called annual or special meeting of the stockholders and may not be effected by an action by written consent. STOCKHOLDER RIGHTS PLAN LSI LOGIC. On December 15, 1988, LSI Logic's board of directors declared a dividend of one preferred stock purchase right for each outstanding share of LSI Logic common stock to the stockholders of record on that date. The preferred stock purchase rights are governed by the Amended and

Restated Preferred Shares Rights Agreement, dated as of November 20, 1998, between LSI Logic and BankBoston, N.A. Under the terms of the stockholders rights plan, the preferred stock purchase rights will become exercisable upon the occurrence of certain "triggering events," including the acquisition by an acquiring person of 20% of the outstanding shares of LSI Logic common stock. The preferred stock purchase rights also entitle the stockholders to acquire stock of the "acquiring person" under certain circumstances. The existence of the stockholder rights plan may discourage or render more difficult an acquisition of LSI Logic that is deemed undesirable by LSI Logic's board of directors. C-CUBE. C-Cube does not have a stockholder rights plan. LEGAL MATTERS Cooley Godward LLP will pass on the validity of the shares of LSI Logic common stock to be issued to C-Cube stockholders in the transaction. Certain tax consequences of the transaction will be passed upon for LSI Logic by Cooley Godward LLP and for C-Cube by Wilson Sonsini Goodrich & Rosati, Professional Corporation. Wilson Sonsini Goodrich & Rosati, Professional Corporation, incorporated LSI Logic in 1980 and has acted as their outside legal counsel since that time. Larry W. Sonsini has been a member of LSI Logic's board of directors since 2000. In addition, Mr. Sonsini has been a member of the law firm of Wilson Sonsini Goodrich & Rosati since 1969, where he currently serves as the Chairman of the Board and Chief Executive Officer. Wilson Sonsini Goodrich & Rosati has also represented C-Cube in general corporate matters and in various transactions since its initial public offering in 1994. Because of Mr. Sonsini's personal involvement in the recent transaction between Harmonic Inc. and C-Cube, among other things, Mr. Sonsini and Mr. Corrigan believed it to be in the best interests of all parties involved for Wilson Sonsini Goodrich & Rosati to act as outside legal counsel to C-Cube for this transaction and for LSI Logic to seek separate outside legal counsel. Recognizing the potential conflicts of interest posed, both C-Cube and LSI Logic executed appropriate conflict waivers. In addition, since the date of engagement as outside legal counsel by C-Cube in this transaction, Mr. Sonsini has not participated as a member of LSI 101 107 Logic's board of directors, or otherwise on behalf of LSI Logic, in any discussion, negotiation or vote regarding the exchange offer or the merger. EXPERTS The financial statements incorporated into this Prospectus by reference to LSI Logic's Annual Report on Form 10-K for the year ended December 31, 2000, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. The consolidated financial statements of C-Cube as of December 31, 2000 and 1999, and for the three years ended December 31, 2000, 1999 and 1998, included in this Prospectus and the related financial statement schedule included elsewhere in the registration statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing. WHERE YOU CAN FIND MORE INFORMATION LSI Logic and C-Cube file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934. You may read and copy this information at the following locations of the Securities and Exchange Commission: Public Reference Room 450 Fifth Street, N.W. Suite 1024 Washington, D.C. 20549 North East Regional Office 7 World Trade Center Room 1300 New York, New York 10048 Midwest Regional Office 500 West Madison Street Suite 1400 Chicago, Illinois 60661-2511 You may also obtain copies of this information by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Suite 1024, Washington, D.C. 20549, at prescribed rates. The Securities and Exchange Commission also maintains an Internet worldwide website that contains reports, proxy statements and other information about issuers, like LSI Logic and C-Cube, who file electronically with the Securities and Exchange Commission. The address of that site is http://www.sec.gov. LSI Logic has filed a registration statement on Form S-4 to register with the Securities and Exchange Commission the shares of LSI Logic common stock to be issued pursuant to the transaction. This prospectus is a part of that registration statement. As allowed by Securities and Exchange Commission rules, this prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement. In addition, LSI Logic has also filed with the Securities and Exchange Commission a statement on Schedule TO pursuant to Rule 14d-3 under the Securities Exchange Act of 1934, to furnish additional information about the exchange offer. You may obtain copies of the Form S-4 and the Schedule TO, and any amendments to those documents, in the manner described above. The Securities and Exchange Commission allows LSI Logic to "incorporate by reference" information into this prospectus, which means that it can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. This

prospectus incorporates by reference the documents described below that LSI Logic has previously filed with the Securities and Exchange Commission. These documents contain important information about LSI Logic and its financial condition. 102 108 The following documents listed below that LSI Logic has previously filed with the Securities and Exchange Commission are incorporated by reference: - LSI Logic's Annual Report on Form 10-K for the year ended December 31, 2000; - LSI Logic's Current Report on Form 8-K dated April 4, 2001; - LSI Logic's Definitive Proxy Statement on Schedule 14A dated March 26, 2001; - The description of LSI Logic common stock contained in its registration statement on Form 8-A dated August 29, 1989, including any amendments or reports filed for the purpose of updating the description; and - The description of LSI Logic's Amended and Restated Preferred Shares Rights Agreement in its Registration Statement on Form 8-A-12G/A dated December 8, 1998. All documents that LSI Logic files pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 from the date of this prospectus to the last date that shares are accepted for exchange pursuant to the exchange offer or the merger, or the date that the exchange offer is terminated shall also be deemed to be incorporated by reference into this prospectus. DOCUMENTS INCORPORATED BY REFERENCE ARE AVAILABLE FROM LSI LOGIC WITHOUT CHARGE UPON REQUEST TO LSI LOGIC CORPORATION, INVESTOR RELATIONS, LSI LOGIC CORPORATION, 1551 MCCARTHY BOULEVARD, MILPITAS, CALIFORNIA 95035, PHONE: (408) 433-8000. IN ORDER TO ENSURE TIMELY DELIVERY, ANY REQUEST SHOULD BE SUBMITTED NO LATER THAN MAY 3, 2001. IF YOU REQUEST ANY INCORPORATED DOCUMENTS FROM LSI LOGIC, LSI LOGIC WILL MAIL THEM TO YOU BY FIRST CLASS MAIL, OR ANOTHER EQUALLY PROMPT MEANS, WITHIN ONE BUSINESS DAY AFTER LSI LOGIC RECEIVES YOUR REQUEST. LSI Logic has not authorized anyone to give any information or make any representation about the exchange offer or the merger that is different from, or in addition to, that contained in this prospectus or in any of the materials that LSI Logic has incorporated by reference into this prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the exchange offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies. LSI Logic, the LSI Logic logos and all other LSI Logic product and service names are registered trademarks or trademarks of LSI Logic Corporation in the USA and in other select countries. C-Cube and, the C-Cube logos and all other C-Cube product and service names are registered trademarks or trademarks of C-Cube Microsystems Inc. in the USA and in other select countries. "(R)" and "(TM)" indicate USA registration and USA trademarks, respectively. Other third party logos and product/trade names are registered trademarks or trade names of their respective companies. 103 109 INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE PAGE ---- Financial Statements: Independent Auditors' Report..... F-2 Consolidated Balance Sheets at December 31, 2000 and 1999..... F-3 Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998..... F-4 Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998... F-5 Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998..... F-6 Notes to Consolidated Financial Statements..... F-7 Financial Statement Schedule: Independent Auditors' Report..... F-24 Schedule II -- Valuation and Qualifying Accounts and Reserves..... F-25 All other schedules are omitted because they are not required, are not applicable, or the information is included in the financial statements or notes thereto. F-1 110 INDEPENDENT AUDITORS' REPORT To the Board of Directors and Stockholders of C-Cube Microsystems Inc.: We have audited the accompanying consolidated balance sheets of C-Cube Microsystems Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, such

consolidated financial statements present fairly, in all material respects, the financial position of C-Cube Microsystems Inc. at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. /s/ Deloitte & Touche LLP San Jose, California January 18, 2001 (March 26, 2001 as to Note 18) F-2 111 C-CUBE MICROSYSTEMS INC. CONSOLIDATED BALANCE SHEETS ASSETS DECEMBER 31, DECEMBER 31, 2000 1999 ------------ ------------ (IN THOUSANDS, EXCEPT PAR VALUE AMOUNTS) Current assets: Cash and equivalents..... $ 49,736 $123,145 Short-term investments..... 2,798 167,403 Accounts receivable, net of allowances: 2000 -- $4,068, 1999 -- $8,737..... 23,273 12,516 Inventories..... 17,505 8,966 Other current assets..... 21,620 17,395 -------- -------- Total current assets..... 114,932 329,425 Property and equipment -- net..... 17,908 20,355 Production capacity rights..... 23,560 4,985 Distribution rights -- net..... 1,153 1,318 Purchased technology -- net..... 1,466 2,307 Deferred taxes..... 62,519 2,871 Other assets..... 1,021 1,526 Net assets of discontinued operations..... -- 101,157 -------- -------- Total..... $222,559 $463,944 ======== ======== LIABILITIES AND STOCKHOLDERS' EQUITY Current liabilities: Accounts payable..... $ 19,435 $ 24,138 Other accrued liabilities..... 29,979 17,925 Income taxes payable..... 5,863 2,855 Current portion of long-term obligations..... 28,744 727 -------- -------- Total current liabilities..... 84,021 45,645 Long-term obligations..... 1,299 18,846 -------- -------- Total liabilities..... 85,320 64,491 Minority interest in subsidiary..... 543 471 Stockholders' equity: Preferred stock, $0.001 par value, 10,000 shares authorized..... -- -- Common stock, $0.001 par value, 200,000 shares authorized; shares outstanding: 2000 -- 49,717, 1999 -- 42,441..... 136,209 323,756 Accumulated other comprehensive loss..... (1,757) (2,014) Retained earnings..... 2,244 77,240 -------- -------- Total stockholders' equity..... 136,696 398,982 -------- -------- Total..... $222,559 $463,944 ======== ======== See notes to consolidated financial statements. F-3 112 C-CUBE MICROSYSTEMS INC. CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, ---------- 2000 1999 1998 -------- -------- -------- (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Net revenues..... $265,049 $222,148 $209,082 -------- -------- -------- Costs and expenses: Cost of product revenues..... 119,581 88,235 85,751 Research and development: Research and development..... 59,553 54,260 52,823 Warrant issuance..... 12,632 -- -- Selling, general and administrative: Selling, general and administrative..... 47,516 37,238 36,312 Stock-based compensation and merger/spin-off related payroll taxes..... 20,827 -- -- -------- -------- -------- Total..... 260,109 179,733 174,886 -------- -------- -------- Income from operations..... 4,940 42,415 34,196 Other income..... 7,863 9,229 2,488 -------- -------- -------- Income before minority interest and extraordinary item..... 12,803 51,644 36,684 Income tax expense..... 3,407 14,550 9,806 -------- -------- -------- Income before minority interest and extraordinary item..... 9,396 37,094 26,878 Minority interest in net income (loss) of subsidiary..... 72 442 (337) -------- -------- -------- Income before extraordinary item..... 9,324 36,652 27,215 Extraordinary gain on repurchase of convertible notes (net of tax)..... -- -- 3,494 -------- -------- -------- Income from continuing operations..... 9,324 36,652 30,709 -------- -------- -------- Discontinued operations: Income (loss) from discontinued operations of DiviCom (net of tax)..... (10,087) 20,626 15,580 Loss on disposal of DiviCom (net of tax)..... (6,190) -- -- -------- -------- -------- Net income (loss)..... $ (6,953) $ 57,278 $ 46,289 ======== ======== ======== Basic earnings per share: Income from continuing operations before extraordinary item..... $ 0.20 $ 0.92 $ 0.73 Extraordinary item (net of tax)..... -- -- 0.09 -------- -------- -------- Income from continuing operations..... 0.20 0.92 0.82 -------- -------- -------- Income (loss) from discontinued operations (net of tax)... (0.22) 0.52 0.42 Loss on disposal of DiviCom (net of tax)..... (0.13) -- -- -------- -------- -------- Income (loss) from discontinued operations..... (0.35) 0.52 0.42 -------- -------- -------- Net income (loss) per share..... $ (0.15) $ 1.44 $ 1.24 ======== ======== ======== Diluted earnings per share: Income from continuing operations before extraordinary item..... $ 0.17 $ 0.84 $ 0.72

Extraordinary item (net of tax)..... -- -- 0.09 -------- -------- -------- Income from continuing operations..... 0.17 0.84 0.81 -------- -------- -------- Income (loss) from discontinued operations (net of tax)... (0.19) 0.46 0.38 Loss on disposal of DiviCom (net of tax)..... (0.11) -- -- -------- -------- -------- Income (loss) from discontinued operations..... (0.30) 0.46 0.38 -------- -------- -------- Net income (loss) per share..... $ (0.13) $ 1.30 $ 1.19 ======== ======== ======== Shares used in computation: Basic..... 47,503 39,891 37,382 ======== ======== ======== Diluted..... 53,853 44,571 40,754 ======== ======== ======== See notes to consolidated financial statements. F-4 113 C-CUBE MICROSYSTEMS INC. CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY ACCUMULATED COMMON STOCK OTHER RETAINED ---------- COMPREHENSIVE EARNINGS SHARES AMOUNT LOSS (DEFICIT) TOTAL ------ --------- ---------- --------- --------- (IN THOUSANDS) BALANCES, DECEMBER 31, 1997..... 36,787 $ 203,728 $(1,939) $(26,327) $ 175,462 ------ --------- ------- -------- --------- Components of comprehensive income: Net income..... 46,289 46,289 Accumulated translation adjustments..... 41 41 Unrealized loss on investments..... (57) (57) --------- Total comprehensive income..... 46,273 Common stock issued under stock plans..... 1,474 20,111 20,111 Tax benefit from employee stock transactions..... 1,426 1,426 ------ --------- ------- -------- --------- BALANCES, DECEMBER 31, 1998..... 38,261 225,265 (1,955) 19,962 $ 243,272 ------ --------- ------- -------- --------- Components of comprehensive income: Net income..... 57,278 57,278 Accumulated translation adjustments..... 202 202 Unrealized loss on investments..... (261) (261) --------- Total comprehensive income..... 57,219 Common stock issued under stock plans..... 4,119 67,740 67,740 Tax benefit from employee stock transactions..... 28,938 28,938 Conversion of convertible debt into common stock..... 61 1,813 1,813 ------ --------- ------- -------- --------- BALANCES, DECEMBER 31, 1999..... 42,441 323,756 (2,014) 77,240 $ 398,982 ------ --------- ------- -------- --------- Components of comprehensive income (loss): Net loss..... (6,953) (6,953) Accumulated translation adjustments..... (628) (628) Unrealized gain on investments..... 885 885 --------- Total comprehensive income (loss)..... (6,696) Conversion of convertible debt into common stock..... 17,026 17,026 Tax benefit from employee stock transactions..... 86,174 86,174 Common stock issued under stock plans..... 6,801 110,775 110,775 Proceeds from sale of non-voting common stock..... 475 9,391 9,391 Warrant issuance..... 12,632 12,632 Accelerated vesting of stock options..... 17,170 17,170 Transfer of net assets to Harmonic..... (33,114) (68,043) (101,157) Additional cash transferred to Harmonic..... (34,775) (34,775) Income tax paid on spin-off of DiviCom..... (431,370) (431,370) Deferred tax asset related to increase in tax basis on spin-off of DiviCom..... 58,544 58,544 ------ --------- ------- -------- --------- BALANCES, DECEMBER 31, 2000..... 49,717 $ 136,209 $(1,757) $ 2,244 $ 136,696 ====== ========= ======= ======== ========= See notes to consolidated financial statements. F-5 114 C-CUBE MICROSYSTEMS INC. CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, ---------- 2000 1999 1998 --------- --------- --------- (IN THOUSANDS) Cash flows from operating activities: Net income (loss)..... $ (6,953) $ 57,278 $ 46,289 Adjustments to reconcile net income to net cash provided by operating activities: Extraordinary gain on repurchase of convertible notes... -- -- (3,494) Gain from sale of marketable securities..... (4,607) (33) -- Minority interest in subsidiary..... 72 443 (337) Depreciation and amortization..... 13,001 15,733 16,306 Deferred income taxes..... (2,009) (7,834) 8,633 Warrant issuance..... 12,632 -- -- Compensation expense recorded on accelerated vesting of stock options..... 17,170 -- -- Changes in assets and liabilities: Receivables..... (10,887) (3,054) 10,190 Inventories..... (8,585) (692) (145) Prepaid and other assets..... (10,783) (568) (2,209) Accounts payable..... (4,514) 12,929 5,460 Income taxes payable..... 3,215 (8,993) 9,646 Deferred contract revenue..... -- (1,731) 1,731 Accrued liabilities..... 12,028 5,782 4,664 --------- --------- --------- Net cash provided (used) by operating activities..... 9,780 69,260 96,734 Net cash provided (used) by discontinued operations..... 7,455 (29,067) (14,463) --------- --------- --------- Net cash provided by operating activities..... 17,235 40,193 82,271 --------- --------- --------- Cash flows from investing activities: Sales and maturities of short-term investments..... 173,109 203,174 51,736 Purchases of short-term investments..... (3,011) (269,060) (104,447) Capital expenditures..... (6,799) (17,435) (14,832) Production capacity rights..... (20,000)

11,700 -- Other assets..... 85 (3,244) (211) --------- --------- --------- Net cash provided (used) by investing activities..... 143,384 (74,865) (67,754) --------- --------- --------- Cash flows from financing activities: Bank borrowings..... 40,000 -- 39,541 Repayment of bank borrowings..... (13,000) -- (39,541) Loan from Harmonic..... 117,980 -- -- Repayment of Harmonic loan..... (117,980) -- -- Payment of purchase consideration..... -- -- (1,125) Payments of capital lease obligations..... (564) (295) (387) Repurchase of convertible subordinated notes..... (10) (3,271) (56,099) Additional cash transferred to Harmonic..... (34,775) -- -- Tax benefit from employee stock transactions..... 86,174 -- -- Proceeds from sale of non-voting stock..... 9,391 -- -- Income tax paid on spin-off of DiviCom..... (431,371) -- -- Common stock issued under stock plans..... 110,775 67,740 20,111 --------- --------- --------- Net cash provided (used) by financing activities..... (233,380) 64,174 (37,500) --------- --------- --------- Exchange rate impact on cash and equivalents..... (648) 463 (331) --------- --------- --------- Net increase (decrease) in cash and equivalents..... (73,409) 29,965 (23,314) Cash and equivalents, beginning of period..... 123,145 93,180 116,494 --------- --------- --------- Cash and equivalents, end of period..... $ 49,736 $ 123,145 $ 93,180 ========= ========= ========= Supplemental schedule of noncash investing and financing activities: Equipment acquired under lease..... $ 1,251 $ 1,133 $ 861 Conversion of convertible debt into common stock..... 17,026 1,813 -- Transfer of net assets to Harmonic..... 101,157 -- -- Deferred tax asset related to increase in tax basis on spin-off of DiviCom..... 58,544 -- -- Cash paid during the period for: Interest..... $ 2,087 $ 1,484 $ 4,410 Income taxes..... 38,957 13,199 1,092 See notes to consolidated financial statements. F-6 115 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION C-Cube Microsystems Inc. (the "Company" or "C-Cube") was founded in July 1988. The Company operates as a leading provider of both digital video semiconductor solutions that implement international standards for digital video, including MPEG-1 and MPEG-2. C-Cube entered into an Amended and Restated Agreement and Plan of Merger and Reorganization with Harmonic Inc. on December 9, 1999. In accordance with this agreement, on May 2, 2000, C-Cube's semiconductor division was spun-off into an independent company, C-Cube Semiconductor Inc., and on May 3, 2000, C-Cube Microsystems Inc., consisting primarily of its DiviCom division, was merged with Harmonic Inc. C-Cube Semiconductor Inc. was then renamed C-Cube Microsystems Inc. (the "Company" or "C-Cube") with the approval of Harmonic, Inc., to maintain customer continuity and the brand identity of C-Cube's semiconductor products. The transaction was accounted for as if the semiconductor division were the continuing entity. Accordingly, as required by Accounting Principles Board Opinion No. 30 and Emerging Issues Task Force Issue No. 95-18, the results of operations of the Semiconductor division (the continuing entity) are reported separately from the results of operations of the DiviCom division (the discontinued entity). The results of operations in prior periods have been restated and certain prior period amounts have been reclassified to conform to the current period presentation. These restatements and reclassifications had no effect on net income or stockholders' equity. CONSOLIDATION The consolidated financial statements include the Company, its wholly owned subsidiaries and C-Cube Japan, Inc. (a 65% owned Japanese subsidiary) after elimination of intercompany accounts and transactions. CASH AND EQUIVALENTS AND SHORT-TERM INVESTMENTS All highly liquid debt instruments purchased with an original maturity of three months or less are classified as cash equivalents. Management determines the classification of debt and equity securities at the time of purchase and reevaluates the classification at each balance sheet date. Short-term investments are classified as available-for-sale when the Company generally has the ability and intent to hold such securities to maturity, but, in certain circumstances, may potentially dispose of such securities prior to their maturity to implement management strategies. Securities available-for-sale are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. All available-for-sale securities are classified as current assets. INVENTORIES Inventories are stated at the lower of cost (first-in, first-out) or market. Cost is computed using standard costs which approximate actual cost on a first-in, first-out basis. PROPERTY AND EQUIPMENT Property and equipment are stated at cost. Depreciation is provided using the straight-line method over estimated useful lives of three years. Equipment under capital leases are amortized over the shorter of their estimated useful lives or three years. Leasehold improvements are amortized over the lease term. F-7 116 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999

AND 1998 REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE The Company records product sales to customers and distributors at the time of shipment. Certain of the Company's agreements with its distributors permit limited stock rotation and provide for price protection. Allowances for returns and adjustments, including price protection, are provided at the time sales are recorded. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the Securities and Exchange Commission. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. SAB 101 is effective for the fiscal quarter beginning October 1, 2000. The adoption of SAB 101 did not have a material impact on the consolidated financial statements. RESEARCH AND DEVELOPMENT Research and development expenses include costs and expenses associated with the development of the Company's design methodology and the design and development of new products, including initial nonrecurring engineering and product verification charges from foundries. Research and development is expensed as incurred. INCOME TAXES The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes," which prescribes the use of the asset and liability approach whereby deferred tax liabilities and assets are calculated for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities, net operating loss and tax credit carryforwards. ESTIMATES 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 reported amounts of assets, liabilities, revenues and expenses as of the dates and for the periods presented. Actual results could differ from those estimates. FAIR VALUE OF FINANCIAL INSTRUMENTS Financial instruments include cash equivalents, short-term investments and a promissory note. Cash equivalents and short-term investments are stated at fair value based on quoted market prices. The estimated fair value of all other financial instruments at December 31, 2000 and 1999 was not materially different from the values presented in the consolidated balance sheets. CONCENTRATION OF CREDIT RISK Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments, accounts receivable and financial instruments used in hedging transactions. By policy, the Company places its investments only with financial institutions meeting its credit guidelines and, other than U.S. Government Treasury instruments, limits the amounts invested in any one institution or in any type of instrument. Almost all of the Company's accounts receivable are derived from sales to manufacturers and distributors in the consumer electronics industry. F-8 117 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 The Company performs ongoing credit evaluations of its customers' financial condition and manages its exposure to losses from bad debts by limiting the amount of credit extended whenever deemed necessary and generally does not require collateral. At December 31, 2000, 33% and 17% of the Company's accounts receivables were from two customers. No other customers accounted for more than 10% of accounts receivable. At December 31, 1999, three customers accounted for greater than 10% of accounts receivable and were 18%, 12% and 12% of the balance. The geographic distribution of receivables is as follows: DECEMBER 31, ---------- 2000 1999 ---- ---- Europe..... 49% 38% Asia (excluding Japan)..... 24 25 Japan..... 12 29 North America..... 15 8 --- --- Total..... 100% 100% === === FOREIGN CURRENCY TRANSLATION The functional currency of C-Cube Japan is the Japanese yen. Accordingly all assets and liabilities of C-Cube Japan are translated at the current exchange rate at the end of the period and revenues and costs at average exchange rates in effect during the period. Gains and losses from foreign currency translation are recorded as a separate component of stockholders' equity. FORWARD EXCHANGE CONTRACTS In the normal course of business, the Company has exposure to foreign currency fluctuations arising from foreign currency purchases and inter-company sales, among other things. The Company enters into forward exchange contracts to neutralize the impact of foreign currency fluctuations on assets and liabilities. Gains and losses on forward exchange contracts and the related receivables are recorded in other income. The costs of entering into such contracts are not material to the Company's financial results. The fair value of exchange contracts is determined by obtaining quoted market prices of comparable contracts at the balance sheet date, adjusted by interpolation where necessary for maturity differences. The Company's risk in these contracts is the cost of replacing, at current market rates, these contracts in the event of default by the other party. These contracts are executed with creditworthy financial

institutions and are denominated in the currency of major industrial nations. At December 31, 2000, the Company had $3.9 million of outstanding foreign exchange contracts to sell Japanese yen. The estimated fair values of these contracts at December 31, 2000 were not materially different from the net carrying values. These contracts mature through January 2001. Unrealized gains on forward exchange contracts at December 31, 2000 were not material. At December 31, 1999, the Company had $3.1 million of outstanding foreign exchange contracts to sell Japanese yen, $1.5 million of outstanding foreign exchange contracts to sell Great Britain pounds and $0.2 million of outstanding foreign exchange contracts to sell French francs. The estimated fair values of these contracts at December 31, 1999 were not materially different from the net carrying values. These contracts matured through January 2000. Unrealized gains on forward exchange contracts at December 31, 1999 were not material. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," which F-9 118 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after June 15, 2000. The Company adopted SFAS 133 on January 1, 2001. The adoption of this statement did not have a material impact on the consolidated financial statements. INTANGIBLES The Company amortizes distribution rights over 15 years and other intangible assets over 5 years. The Company reviews intangibles and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of intangibles and other long-lived assets is measured by comparison of its carrying amount to future net cash flows the intangibles and other long-lived assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the intangible or other long-lived asset exceeds its fair market value, as determined by discounted cash flows using a discount rate reflecting the Company's average cost of funds. EARNINGS PER SHARE Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. STOCK-BASED COMPENSATION The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees." In connection with the merger and spin-off, the Company recorded stock-based compensation expense, within selling, general and administrative, of $15.5 million related to the accelerated vesting of options for certain employees of the Company. RECLASSIFICATIONS Certain reclassifications have been made to prior year balances in order to conform to the current year presentation. NOTE 2. DISCONTINUED OPERATIONS The results of discontinued operations are presented on two line items on the face of the Consolidated Statements of Income. For the current year, loss from operations of DiviCom represents the net loss of DiviCom operations through the date of merger of $10.1 million. Revenues and taxes for this period were $36.8 million and $6.8 million, respectively. For the year ended December 31, 1999 revenues and taxes were $185.5 million and $10.2 million. Revenues and taxes for the year ended December 31, 1998 were $142.7 million and $9.1 million respectively. Loss on disposal of DiviCom of $6.2 million includes direct costs, net of taxes, associated with the merger/spin-off transactions that were incurred by the Company. F-10 119 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 3. SHORT-TERM INVESTMENTS Short-term investments are $2.8 million as of December 31, 2000 and $167.4 million as of December 31, 1999, including the following available-for-sale securities. UNREALIZED UNREALIZED AMORTIZED HOLDING HOLDING MARKET COST GAINS LOSSES VALUE --------- ---------- ---------- -------- (IN THOUSANDS) DECEMBER 31, 2000: U.S. government agencies..... $ 1,960 $ 40 $ -- $ 2,000 Debt securities..... 506 -- (1) 505 Corporate stock..... 50 243 -- 293 -------- ---- ----- -------- Total short-term investments..... $ 2,516 $283 $ (1) $ 2,798 ======== ==== ===== ======== DECEMBER 31, 1999 Commercial paper..... $ 87,368 $ 3 $ (61) $ 87,310 Municipal bonds..... 36,552 4 (202) 36,354 U.S. government agencies..... 23,397 1 (101) 23,297 Corporate bonds..... 20,564 -- (122) 20,442 -------- ---- ----- -------- Total short-term investments..... $167,881 $ 8 $(486) $167,403 ======== ==== ===== ======== As of December 31, 2000, all of the Company's debt

investments had remaining maturities of one year or less. NOTE 4. INVENTORIES Inventories consist of: DECEMBER 31, ---------- 2000 1999 ------- ------ (IN THOUSANDS) Raw materials..... $ 7,213 $1,238 Work-in-process..... 1,130 3,563 Finished goods..... 9,162 4,165 ------- ------ Total..... $17,505 $8,966 ======= ====== NOTE 5. PROPERTY AND EQUIPMENT Property and equipment consist of: DECEMBER 31, ---------- 2000 1999 -------- -------- (IN THOUSANDS) Equipment under capital lease..... $ 4,472 $ 1,230 Machinery and equipment -- principally computers..... 44,863 47,766 Furniture and fixtures..... 5,845 3,823 Leasehold improvements..... 6,664 7,548 -------- -------- Total..... 61,844 60,367 Accumulated depreciation and amortization..... (43,936) (40,012) -------- -------- Property and equipment -- net..... $ 17,908 $ 20,355 ======== ======== F-11 120 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 6. PRODUCTION CAPACITY RIGHTS In the fourth quarter of 1999, the Company signed a production capacity agreement with United Microelectronics Corporation (UMC) to provide chip production capacity in the years 2000 to 2002, for which it paid a $20.0 million refundable payment in January 2000, classified as non-current asset. This deposit earns interest at 4% per year, allows for certain discounts on purchased capacity based upon the quantities purchased and is refundable after 90 days notice by the Company. The agreement does not commit the Company to purchase chips, but does guarantee the availability of a set capacity of chips at "not to exceed" prices. In the second quarter of 1996, the Company expanded and formalized its relationship with Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) to provide wafer production capacity in the years 1996 to 2001. The agreement with TSMC provided that TSMC would produce and ship wafers to the Company at specified prices and required the Company to make two advance payments totaling $49.0 million. An advance payment of $24.5 million was made in June 1996. In May 1997, the Company amended its agreement with TSMC which resulted in a reduction of the Company's future wafer purchase commitments and the forgiveness of the second advance payment of $24.5 million. In January 1999, the Company signed a second amendment to its agreement with TSMC which resulted in a refund to the Company of $11.7 million and an extension of the term of the agreement to 2003. Advance payments associated with wafer production capacity rights are amortized over the shorter of the contract period or the actual delivery of wafers in relation to the minimum number of wafers to be purchased under the agreement. At December 31, 2000, remaining production capacity rights were $5.7 million, of which $2.1 million was included in other current assets and $3.6 million was classified as a non-current asset. NOTE 7. LINE OF CREDIT As of December 31, 2000 the Company had a $27.0 million bank line of credit ($27.0 million outstanding at December 31, 2000) that expires on May 31, 2002. The first $6.0 million of borrowed funds bear interest at LIBOR plus 2.0% (8.4% at December 31, 2000), with additional borrowings bearing interest at the bank's prime rate (9.5% at December 31, 2000). The line of credit agreement requires that the Company, among other things, maintain a minimum tangible net worth and certain financial ratios and is collateralized by the current assets of the Company. At December 31, 2000, the Company was not in compliance with one of its covenants. The bank has waived compliance with this requirement for the fiscal year ended December 31,2000. On January 4, 2001 the line of credit was revised. Under the terms of the revised line of credit agreement, $22.0 million bears interest at LIBOR plus 2% (8.4% as of January 4, 2001) and $5.0 million bears interest at the bank's prime rate (9.0% as of January 04, 2001), with all other loan terms remaining the same. F-12 121 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 8. LONG-TERM OBLIGATIONS Long-term obligations consist of : DECEMBER 31, ---------- 2000 1999 -------- ------- (IN THOUSANDS) Bank line of credit..... $ 27,000 $ -- Convertible notes (see below)..... -- 17,570 Capital lease obligations (see Note 9)..... 2,381 1,382 Other long-term obligations..... 662 621 -------- ------- 30,043 19,573 Current portion..... (28,744) (727) -------- ------- Long-term portion..... $ 1,299 $18,846 ======== ======= In November 1995, the Company completed a public debt offering of $86.3 million of convertible subordinated notes (the "notes") that matured in 2005. Interest was payable semi-annually at 5.875% per annum. The notes became convertible at the option of the note holders into the Company's common stock at an initial conversion price of $30.70 per share, subject to adjustment. Beginning in November 1997, the notes became redeemable at the option of the Company at an initial redemption price of 104.7% of the principal amount. During 2000 all note holders elected the option to convert their notes into shares of the Company's common stock at a price of $30.70. The price was

equivalent to 103.5% of the principal amount. The loss on conversion of the notes was not material to the Company. During 1999, the Company repurchased $3.4 million of the notes at 95.5% of the principal amount, with accrued interest to the date of repurchase. During 1998, the Company repurchased $63.5 million of the face value of the notes at 88.4% of the principal amount, with accrued interest to the date of repurchase, and recognized an extraordinary gain of $3.5 million, or $0.09 per diluted share, net of related income taxes of $2.4 million. NOTE 9. COMMITMENTS AND CONTINGENCIES Equipment with a cost of $6.2 million and $5.0 million and accumulated depreciation of $2.8 million and $0.8 million was leased under capital leases at December 31, 2000 and 1999, respectively. In addition, the Company rents office and research facilities under operating lease agreements that expire through July 2007. F-13 122 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 Future minimum annual operating and capital lease commitments at December 31, 2000 are as follows: OPERATING CAPITAL --------- ------- (IN THOUSANDS) 2001..... 4,610 1,620 2002..... 4,150 743 2003..... 4,016 114 2004..... 3,853 -- 2005..... 3,312 -- Thereafter..... 2,393 -- ------- ------- Total minimum lease payments..... $22,334 2,477 ======= Amount representing interest..... (96) ------- Present value of minimum lease payments..... 2,381 Current portion..... (1,697) ------- Long-term portion..... $ 684 ======= Rent expense for operating leases was approximately $3.6 million, $3.0 million and $2.3 million for the years ended December 31, 2000, 1999 and 1998, respectively. The Company has been named as a defendant in a securities class-action complaint filed in the United States district court for the northern district of California. The plaintiffs in this action purport to represent the class of all persons who purchased common stock between January 19th, 2000 and May 3, 2000 in the entity then known as C-Cube Microsystems (see Note 1). The complaint alleges that the Company is liable for the acts and statements for the entity known as C-Cube Microsystems prior to May 3, 2000 even though the Company did not legally exist prior to May 3, 2000. This case is in its early stages and the Company believes that the allegations contained in the complaint are without merit and intends to defend the action vigorously. From time-to-time the Company is party to certain litigation or legal claims. Management has reviewed all pending legal matters and believes that the resolution of such matters will not have a significant adverse effect on the Company's financial position or results of operations. NOTE 10. STOCKHOLDERS' EQUITY Preferred Stock The number of shares of preferred stock authorized to be issued is 10,000,000 with a par value of $0.001 per share. Preferred stock may be issued from time-to-time in one or more series. The Board of Directors is authorized to provide for the rights, preferences, privileges and restrictions of the shares of such series. As of December 31, 2000, no shares of preferred stock had been issued. Common Stock The Company has authorized 25,450,000 shares of its common stock for issuance to founders, employees and others as designated by the Board of Directors through the Company's stock option plans or through stock purchase agreements. F-14 123 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 Warrant issuance On February 10, 2000, C-Cube entered into a Securities Purchase Agreement ("Agreement") with Thomson Multimedia S.A., a French societe anonyme, whereby, on May 8, 2000, C-Cube issued and sold to Thomson 474,747 shares of non-voting common stock at a price of $19.78 per share and issued to Thomson a warrant to purchase 949,494 shares of common stock. The warrants were fully vested upon issuance and will become exercisable at a price of $19.78 per share one week prior to the expiration date of May 8, 2007, or in part prior to the expiration date upon the achievement of certain milestones. The Company calculated the fair value of the warrants using the Black-Scholes options pricing model with the following weighted-average assumptions: expected life, 7 years; stock volatility, 69%; risk-free interest rate, 6.82%, and no dividends during the expected term. The Company recorded a charge, within research and development, of $12.6 million in the second quarter of 2000. Employee Stock Option Plans The Company's stock option plans (the "Plans") authorize the issuance of 25,000,000 shares of common stock (included in the 25,450,000 authorized shares discussed above) for the grant of incentive or nonstatutory stock options and the direct award or sale of shares to employees, directors, contractors and consultants. Under the Plans, options are generally granted at fair value at the date of grant. Such options become exercisable over periods of one to five years and expire up to 10 years from the grant date. Option activity under the Plans was as follows: WEIGHTED AVERAGE NUMBER EXERCISE OF SHARES PRICE ----------- -------- Outstanding, December 31, 1997 (3,699,655 exercisable at a weighted average price of $12.93)..... 11,914,546 17.80 Granted (weighted average fair value of $11.82)..... 5,416,528

18.60 Exercised..... (1,250,803) (13.14) Canceled..... (1,861,978) (19.95) ---------- ------ Outstanding, December 31, 1998 (4,982,647 exercisable at a weighted average price of $18.23)..... 14,218,293 18.23 Granted (weighted average fair value of $16.84)..... 5,123,368 25.52 Exercised..... (3,816,514) (16.28) Canceled..... (2,242,618) (19.81) ---------- ------ Outstanding, December 31, 1999 (3,848,998 exercisable at a weighted average price of $17.88)..... 13,282,529 21.34 Granted (weighted average fair value of $23.31)..... 20,559,134 31.43 Exercised..... (5,848,395) (17.98) Canceled..... (11,558,039) (29.36) ---------- ------ Outstanding, December 31, 2000..... 16,435,229 12.77 ========== ====== F-15 124 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 Additional information regarding options outstanding as of December 31, 2000 is as follows: OPTIONS OUTSTANDING ---------- WEIGHTED AVERAGE OPTIONS EXERCISABLE REMAINING ---------- CONTRACTUAL WEIGHTED WEIGHTED RANGE OF NUMBER LIFE AVERAGE NUMBER AVERAGE EXERCISE PRICES OUTSTANDING (YEARS) EXERCISE PRICE EXERCISABLE EXERCISE PRICE ---------- ---------- ---------- ---------- ---------- ---------- $ 5.80 - $ 7.33 2,204,186 7.56 $ 6.52 415,057 $ 6.53 7.38 - 7.73 3,354,136 7.79 7.62 702,130 7.62 7.76 - 8.09 1,821,910 6.44 8.01 563,120 8.03 8.11 - 12.76 2,394,470 8.12 9.95 530,754 10.04 12.76 - 17.50 2,504,200 9.16 15.56 436,451 14.85 17.56 - 20.42 2,074,115 9.22 18.61 302,399 18.51 20.44 - 40.43 2,082,212 9.20 25.58 291,637 25.16 ---------- ---------- ---- ------ --------- ------ $ 5.80 - $40.43 16,435,229 8.22 $12.77 3,241,548 $11.52 ========== ========= C-Cube's 2000 Stock Option Plans include Employee Stock Option Plan and Director Option Plan. The Employee Stock Option Plan has an annual increase on January 1, 2001, equal to 3% of shares outstanding. Employee Stock Purchase Plan The Company has an employee stock purchase plan, under which eligible employees may authorize payroll deductions of up to 10% of their compensation (as defined in the plan) to purchase common stock at a price equal to 85% of the lower of the fair market values as of the beginning of the offering period or end of the purchase period. Stock issued under the plan was 316,000, 328,000 and 223,000 shares in 2000, 1999 and 1998 at weighted average prices of $17.77, $17.16 and $15.52, respectively. The weighted average fair market value of the 2000, 1999 and 1998 awards was $24.02, $7.96 and $7.06, respectively. At December 31, 2000, 1,039,635 shares of common stock were available for issuance under this plan. Additional Stock Plan Information As discussed in Note 1, the Company continues to account for its stock-based awards using the intrinsic value method in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements which are granted with exercise prices equal to the fair market value at grant date. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method as of the beginning of fiscal 1995. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 5.8 in 2000, 5.8 in 1999 and 5.6 in 1998; stock volatility, 49% in 2000, 68% in 1999 and 68% in 1998; risk free interest rates, 5.2% in 2000, 5.5% in 1999 and 5.2% in 1998; and no dividends during the expected term. The Company's F-16 125 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 calculations are based on a single option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the 2000, 1999 and 1998 awards had been amortized to expense over the vesting period of the awards, pro forma net income (loss) would have been $(56.0) million ($(1.04) per share), $25.7 million ($0.66 per share) in 1999 and $15.2 million ($0.52 per share) in 1998. Per share amounts above represent diluted earnings per share under SFAS 128 (see Note 1). Employee Benefit Plan The Company has a 401(k) tax-deferred savings plan under which participants may contribute up to 20% of their compensation, subject to certain Internal Revenue Service limitations. The Company is not required to contribute and has not contributed to the plan to date. F-17 126 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS

ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 11. EARNINGS PER SHARE The following table sets forth the computation of basic and diluted earnings per share: YEARS ENDED DECEMBER 31, ---------- 2000 1999 1998 -------- ------- ------- (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Numerator: Continuing operations: Income from continuing operations before extraordinary item..... $ 9,324 $36,652 $27,215 Extraordinary item..... -- -- 3,494 -------- ------- ------- Numerator for basic earnings per share from continuing operations..... 9,324 36,652 30,709 Add back interest expense after tax related to convertible shares..... -- 750 2,242 -------- ------- ------- Numerator for diluted earnings per share from continuing operations..... 9,324 37,402 32,951 Discontinued operations: Income from discontinued operations of DiviCom (net of tax)..... (10,087) 20,626 15,580 Loss on disposal of DiviCom (net of tax)..... (6,190) -- -- -------- ------- ------- Numerator for diluted earnings per share from discontinued operations..... $(16,277) $20,626 $15,580 ======== ======= ======= Denominator: Weighted-average shares -- denominator for basic earnings per share..... 47,503 39,891 37,382 Convertible shares..... -- 645 1,871 Dilutive common stock equivalents, using treasury stock method..... 6,350 4,035 1,501 -------- ------- ------- Denominator for diluted earnings per share..... 53,853 44,571 40,754 ======== ======= ======= Basic earnings per share from continuing operations..... $ 0.20 $ 0.92 $ 0.82 ======== ======= ======= Basic earnings per share from discontinued operations.... $ (0.35) $ 0.52 $ 0.42 ======== ======= ======= Basic earnings per share..... $ (0.15) $ 1.44 $ 1.24 ======== ======= ======= Diluted earnings per share from continuing operations.... $ 0.17 $ 0.84 $ 0.81 ======== ======= ======= Diluted earnings per share from discontinued operations..... $ (0.30) $ 0.46 $ 0.38 ======== ======= ======= Diluted earnings per share..... $ (0.13) $ 1.30 $ 1.19 ======== ======= ======= Options to purchase 4,956,000 shares have been excluded from the computation as their effect would have been anti-dilutive. F-18 127 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 12. COMPREHENSIVE INCOME The Company has presented its comprehensive income in the Statement of Changes in Stockholders' Equity. The following are the components of accumulated other comprehensive loss: DECEMBER 31, ---------- 2000 1999 ------- ------- (IN THOUSANDS) Unrealized gain (loss) on investments..... $ 407 $ (478) Accumulated translation adjustments..... (2,164) (1,536) ------- ------- Total..... $(1,757) $(2,014) ======= ======= NOTE 13. INCOME TAXES The provision for income taxes is as follows: YEARS ENDED DECEMBER 31, ---------- 2000 1999 1998 ------- ------- ------- (IN THOUSANDS) Current: Federal..... $ 6,115 $ 5,761 $ 8,625 State..... (3,214) 826 1,332 Foreign..... 1,262 1,970 2,143 ------- ------- ------- Total..... 4,163 8,557 12,100 ======= ======= ======= Deferred: Federal..... (722) (152) (2,166) State..... (34) 6,145 (128) Foreign..... -- -- -- ------- ------- ------- Total..... (756) 5,993 (2,294) ------- ------- ------- Total..... $ 3,407 $14,550 $ 9,806 ======= ======= ======= The tax benefit associated with dispositions from employee stock plans reduced taxes currently payable by $86.2 million, $28.9 million and $1.4 million for 2000, 1999 and 1998, respectively. The Company incurred a tax liability of $431.4 million as a result of separating DiviCom from C-Cube. DiviCom was subsequently merged into Harmonic, Inc. The liability reduced stockholders' equity. F-19 128 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 Income tax expense differs from the amount computed by applying the federal statutory income tax rate to income before taxes as follows: YEARS ENDED DECEMBER 31, ---------- 2000 1999 1998 ------- ------- ------- (IN THOUSANDS) Tax expense computed at federal statutory rate..... $ 4,416 $18,075 $12,839 State income taxes, net of federal effect..... 149 (532) 382 Tax credits..... (8,049) (2,191) (1,574) Foreign operations taxed at different rates..... (1,563) (2,267) (2,533) Non-deductible expenses..... -- 267 -- Repatriation of foreign subsidiary earnings..... 7,746 -- -- Other..... 708 1,198 692 ------- ------- ------- Income tax expense..... $ 3,407 $14,550 $ 9,806 ======= ======= ======= The components of the net deferred tax asset as of December 31 were as follows: 2000 1999 ------- -------- (IN THOUSANDS) Deferred tax assets: Accruals and reserves recognized in different periods..... $ 5,879 $ 5,076 Tax credit carryforwards..... 10,240 12,731 Deferred revenue..... 204 163 Purchased

technology..... -- 655 Tax basis depreciation and amortization..... 46,712 2,098 ------- -------- Total..... 63,035 20,723 ------- -------- Deferred tax liabilities: Unrepatriated foreign earnings..... -- (10,757) ------- -------- Total..... -- (10,757) ------- -------- Net deferred tax assets..... $63,035 $ 9,966 ======= ======== At December 31, 2000, the Company has tax credit carryforwards of approximately $14 million expiring through 2007. U.S. income taxes were not provided on a cumulative total of approximately $6 million and $20 million of undistributed earnings from foreign subsidiaries for the years ending December 31, 2000 and 1999, respectively. The Company intends to reinvest these earnings indefinitely in foreign operations. It is not practicable to estimate the income tax liability that might be incurred upon the remittance of such earnings. NOTE 14. EXTRAORDINARY ITEM During 1998, the Company repurchased $63.5 million of the face value of the Company's 5.875% subordinated convertible notes due 2005 (the "notes") at 88.4% of the principal amount, with accrued interest to the date of repurchase, and recognized an extraordinary gain of $3.5 million, or $0.09 per diluted share, net of related income taxes of $2.4 million. F-20 129 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 15. ROYALTIES The Company is required to pay royalties based on a percentage of the net sales of products developed under certain development agreements. Royalty expense was $1.6 million, $1.8 million and $0.6 million in 2000, 1999, 1998, respectively. NOTE 16. GEOGRAPHIC INFORMATION AND MAJOR CUSTOMERS The company operates in primarily one industry segment: the development and marketing of powerful, highly integrated, standards-based digital video compression and decompression semiconductors. This technology has enabled the development of a significant number of new or enhanced applications in the consumer electronics and communications markets including VideoCD and DVD players, desktop video production systems, decoders for digital set-top boxes and broadcast and professional encoders. Geographic Information Revenues are broken out geographically by the ship-to location of the customer. YEARS ENDED OR AS OF DECEMBER 31, ---------- 2000 1999 1998 ---------- ---------- ---------- NET NET NET REVENUES PROPERTY REVENUES PROPERTY REVENUES PROPERTY -------- -------- -------- -------- -------- -------- (IN THOUSANDS) North America..... $ 34,133 $17,106 $ 39,363 $19,118 $ 38,253 $17,661 China..... 65,265 367 78,818 563 119,536 916 Europe..... 72,138 110 33,147 156 16,633 78 Japan..... 33,465 281 35,064 436 15,953 483 Other Asia..... 56,394 41 34,452 78 18,630 93 Rest of World..... 3,654 3 1,304 4 77 39 -------- ------- -------- ------- -------- ------- Total..... $265,049 $17,908 $222,148 $20,355 $209,082 $19,270 ======== ======= ======== ======= ======== ======= Major Customers During 2000, two customers of the Company accounted for $29.9 million and $28.1 million, each 11% of the Company's revenues. In 1999, there was no customer accounted for 10% or more of net revenues. In 1998, one customer of the company accounted for $21.9 million, or 10% of the Company's revenue. F-21 130 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 17. QUARTERLY DATA (UNAUDITED) 2000 1999 ---------- ---------- FOURTH THIRD SECOND FIRST FOURTH THIRD SECOND FIRST QUARTER QUARTER QUARTER QUARTER QUARTER QUARTER QUARTER QUARTER ------- ------- -------- ------- ------- ------- ------- ------- (IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE AMOUNTS) Net revenues..... $73,982 $69,022 $ 61,043 $61,002 $64,047 $52,307 $47,507 $58,287 ------- ------- -------- ------- ------- ------- ------- ------- Costs and expenses: Cost of product revenues..... 34,627 31,051 27,149 26,754 25,140 20,749 18,700 23,646 Research and development: Research and development..... 14,877 15,453 15,070 14,154 14,421 13,464 13,062 13,313 Warrant issuance..... -- -- 12,632 -- -- -- -- -- Selling, general and administrative: Selling, general and administrative..... 13,301 12,568 10,897 10,748 10,244 9,139 8,436 9,419 Stock based compensation and merger/spin-off related payroll taxes..... -- -- 17,414 3,413 -- -- -- -- ------- ------- -------- ------- ------- ------- ------- ------- Total..... 62,805 59,072 83,162 55,069 49,805 43,352 40,198 46,378 ------- ------- -------- ------- ------- ------- ------- ------- Income (loss) from operations..... 11,177 9,950 (22,119) 5,933 14,242 8,955 7,309 11,909 Other income (expense), net..... (34) 4,020 101 3,775 3,112 2,488 1,937 1,692 ------- ------- -------- ------- ------- ------- ------- ------- Income (loss) before income taxes and minority interest..... 11,143 13,970 (22,018) 9,708 17,354 11,443 9,246 13,601 Income tax expense (benefit)..... 2,969 3,664 (5,847) 2,621 4,954 3,090 2,604 3,902 ------- ------- -------- ------- ------- ------- ------- ------- Income (loss) before minority

interest..... 8,174 10,306 (16,171) 7,087 12,400 8,353 6,642 9,699 Minority interest in net income (loss) of subsidiary..... (96) (96) 257 7 61 148 261 (28) ------- ------- -------- ------- ------- ------- ------- ------- Income (loss) from continuing operations..... 8,270 10,402 (16,428) 7,080 12,339 8,205 6,381 9,727 Discontinued operations Income (loss) from discontinued operations of DiviCom (net of tax)..... -- -- (11,639) 1,552 6,281 5,828 5,284 3,233 Gain (loss) on disposal of DiviCom (net of tax)..... -- -- 1,158 (7,348) -- -- -- -- ------- ------- -------- ------- ------- ------- ------- ------- Net income (loss)..... $ 8,270 $10,402 $(26,909) $ 1,284 $18,620 $14,033 $11,665 $12,960 ======= ======= ======== ======= ======= ======= ======= ======= Basic earnings (loss) per share:(1) Income (loss) from continuing operations..... 0.17 0.21 (0.35) 0.16 0.30 0.20 0.16 0.25 Income (loss) from discontinued operations (net of tax)..... -- -- (0.25) 0.04 0.15 0.15 0.13 0.08 Income (loss) on disposal of DiviCom (net of tax)..... -- -- 0.02 (0.17) -- -- -- -- ------- ------- -------- ------- ------- ------- ------- ------- Net income (loss) per share per share..... $ 0.17 $ 0.21 $ (0.58) $ 0.03 $ 0.45 $ 0.35 $ 0.29 $ 0.33 ======= ======= ======== ======= ======= ======= ======= ======= Diluted earnings per share:(1) Income (loss) from continuing operations..... 0.16 0.19 (0.35) 0.14 0.26 0.19 0.15 0.24 Income (loss) from discontinued operations (net of tax)..... -- -- (0.25) 0.03 0.14 0.13 0.12 0.08 Gain (loss) on disposal of DiviCom (net of tax)..... -- -- 0.02 (0.15) -- -- -- -- ------- ------- -------- ------- ------- ------- ------- ------- Net income (loss) per share per share..... $ 0.16 $ 0.19 $ (0.58) $ 0.02 $ 0.40 $ 0.32 $ 0.27 $ 0.32 ======= ======= ======== ======= ======= ======= ======= ======= Basic shares used in computation(1)..... 49,597 49,328 47,203 43,884 41,459 40,097 39,338 38,668 ======= ======= ======== ======= ======= ======= ======= ======= Diluted shares used in computation(1)..... 51,511 53,528 47,203 49,449 47,424 45,021 42,925 41,344 ======= ======= ======== ======= ======= ======= ======= ======= Gross margin percentage..... 53.2% 55.0% 55.5% 56.1% 60.7% 60.3% 60.6% 59.4% ---------- (1) See Note 1 of Notes to Consolidated Financial Statements for an explanation of the computation of net income per share. F-22 131 C-CUBE MICROSYSTEMS INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 NOTE 18. SUBSEQUENT EVENTS On March 26, 2001 the Company entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement") with LSI Logic Corporation ("LSI") and Clover Acquisition Corp. ("Merger Sub"), a wholly-owned subsidiary of LSI. Under the terms of the Reorganization Agreement, Merger Sub will commence an exchange offer (the "Offer") to exchange 0.79 shares of common stock, par value $0.01 per share, of LSI (the "LSI Common Stock"), for each outstanding share of C-Cube common stock, par value $0.001 per share. Holders of C-Cube common stock tendering their shares in the Offer will receive cash in lieu of any fractional shares of LSI Common Stock to which they would otherwise be entitled. The consummation of the Offer is subject to, among other things, at least a majority of shares of our common stock (including for purposes of the calculation of the majority of shares, certain outstanding options and warrants to purchase C-Cube shares) being validly tendered and not withdrawn prior to the expiration of the Offer and the expiration or termination of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act and applicable foreign antitrust laws. Pursuant to the Reorganization Agreement, following the completion of the Offer and the satisfaction or waiver of certain other conditions, Merger Sub will be merged into us (the "Merger") and C-Cube will be the surviving corporation. In the Merger, each outstanding share of C-Cube common stock (other than shares held by C-Cube as treasury stock, by LSI or Merger Sub and by stockholders who perfect appraisal rights under Delaware law, which will be available if Merger Sub owns ninety percent (90%) or more of the outstanding shares of C-Cube common stock following the consummation of the Offer) will be converted into the right to receive the same consideration as paid to C-Cube stockholders who tendered their common stock in the Offer. In the event that a third party makes a proposal to acquire C-Cube or if the no solicitation provisions contained in the Reorganization Agreement are materially breached, and thereafter the Reorganization Agreement is terminated, under certain circumstances C-Cube will be required to pay a $33 million termination fee to LSI. The closing is anticipated to take place during the second quarter of 2001. Based on the closing price of LSI common stock on March 23, 2001, the last trading day prior to the announcement of the transaction, the transaction was valued at approximately $878 million. The transaction is expected to be accounted for under the purchase method of accounting and to qualify as a "tax-free" reorganization for federal income tax purposes. F-23 132 INDEPENDENT AUDITORS' REPORT To the Board of Directors and Stockholders of C-Cube Microsystems Inc.: We have audited the consolidated financial statements of C-Cube Microsystems Inc. as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, and have issued our report thereon dated

January 18, 2001 (March 26, 2001 as to Note 18). Our audits also included the consolidated financial statement schedule of C-Cube Microsystems Inc., listed in the Index at Item 14(a)(2). This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein. /s/ Deloitte & Touche LLP DELOITTE & TOUCHE LLP San Jose, California January 18, 2001 (March 26, 2001 as to Note 18) F-24 133 SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998 ADDITIONS ---------- BALANCE AT CHARGED TO CHARGED TO DEDUCTIONS BALANCE BEGINNING COSTS AND OTHER FROM AT END OF PERIOD EXPENSES ACCOUNTS RESERVES OF PERIOD ---------- ---------- ---------- ---------- --------- (IN THOUSANDS) YEAR ENDED DECEMBER 31, 2000: Sales returns and other allowances..... $ 6,063 $11,093 $ -- $14,150 $ 3,006 Allowance for doubtful accounts.... 2,674 800 -- 2,412 1,062 Warranty..... 300 1,536 -- 300 1,536 YEAR ENDED DECEMBER 31, 1999: Sales returns and other allowances..... $11,251 $ 5,623 $ -- $10,811 $ 6,063 Allowance for doubtful accounts.... 2,674 -- -- -- 2,674 Warranty..... 551 97 -- 348 300 YEAR ENDED DECEMBER 31, 1998: Sales returns and other allowances..... $ 5,436 $11,984 $ -- $ 6,169 $11,251 Allowance for doubtful accounts.... 2,525 153 -- 4 2,674 Warranty..... 392 159 -- -- 551 F-25 134 SCHEDULE I INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS OF LSI LOGIC AND CLOVER ACQUISITION CORP The following tables set forth the name, age and present principal occupation or employment, and material occupations, positions, offices or employment for the past five years, of each director and executive officer of LSI Logic and Clover Acquisition Corp. The business address and telephone number of each such person is LSI Logic Corporation, 1551 McCarthy Boulevard, Milpitas, California 95035, (408) 433-8000. During the last five years, neither LSI Logic nor Clover Acquisition Corp., nor, to the best knowledge of LSI Logic or Clover Acquisition Corp., any of the persons listed below: - has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors); or - was a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of such laws. All of the persons listed below are citizens of the United States, except Giuseppe Staffaroni, who is a citizen of Italy. LSI LOGIC EXECUTIVE OFFICERS NAME AND BUSINESS ADDRESS AGE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE YEAR EMPLOYMENT HISTORY ---------- --- ---------- Wilfred J. Corrigan..... 63 Mr. Corrigan, a founder of LSI Logic, has served as the Chief Executive Officer and a director of LSI Logic since it was founded in January 1981. Mr. Corrigan also serves on the boards of directors of several privately held corporations. John D'Errico..... 57 Mr. D'Errico has been LSI Logic's Executive Vice President, Storage Components since August 2000. From August 1998 to August 2000, Mr. D'Errico was Vice President, Colorado Operations. Mr. D'Errico joined LSI Logic in 1984 and has held various senior management and executive positions at LSI Logic's manufacturing facilities in the U.S. and Japan. Most recently, Mr. D'Errico served as LSI Logic's Vice President and General Manager, Pan-Asia from April 1997 to August 1998, and Vice President, JSI from July 1994 to April 1997. Bruce Entin..... 49 Mr. Entin has been LSI Logic's Executive Vice President, Networking Infrastructure Group since January 2001. Mr. Entin has been with LSI Logic for more than 16 years, and most recently served as Vice President and General Manager of LSI Logic's Internet Computing Division from January 2000 to January 2001. From 1996 through 1998, Mr. Entin served as LSI Logic's Vice President, Customer Marketing, and in 1999, he served as Vice President, Worldwide Marketing. I-1 135 NAME AND BUSINESS ADDRESS AGE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE YEAR EMPLOYMENT HISTORY ---------- --- ---------- Thomas Georgens..... 41 Mr. Georgens has been LSI Logic's Executive Vice President, SAN System, since November 2000. In August 1998, upon the acquisition of Symbios, Inc., a storage company, Mr. Georgens was named Senior Vice President and General Manager, SAN Systems. Mr. Georgens joined Symbios in 1996, where he served as Vice President and General Manager of Storage Systems until its acquisition by LSI Logic. Before joining Symbios, Mr. Georgens was employed by EMC Corporation, where he served as Director of Engineering Operations for the Systems Group and later as Director of Internet Marketing. Bryon Look..... 47 Mr. Look has been LSI Logic's Executive Vice

President and Chief Financial Officer since November 2000. Mr. Look joined LSI Logic in March 1997 as Vice President, Corporate Development. Prior to joining LSI Logic, during a 21-year career at Hewlett-Packard Company, a computer company, Mr. Look held a variety of management positions in finance and research and development, with the most recent position being Manager of Business Development for Hewlett-Packard's corporate development department. W. Richard Marz..... 57 Mr. Marz has been LSI Logic's Executive Vice President, Geographic Markets since May 1996, prior to which, since joining LSI Logic in 1995, Mr. Marz was Senior Vice President, North American Marketing and Sales. Before joining LSI Logic, Mr. Marz was long-time senior sales and marketing executive at Advanced Micro Devices, Inc., a semiconductor manufacturer. David G. Pursel..... 55 Mr. Pursel was named LSI Logic's Vice President, General Counsel and Secretary in June 2000. Mr. Pursel joined LSI Logic in February 1996 as Associate General Counsel, Chief Intellectual Property Counsel and Assistant Secretary. Prior to his tenure with LSI Logic, Mr. Pursel held legal positions with Advanced Micro Devices, Digital Equipment Corporation and The Boeing Company. Giuseppe Staffaroni..... 49 Mr. Staffaroni has served as LSI Logic's Executive Vice President, Broadband since November 2000, having served as Vice President and General Manager of the Broadband Communications Group since November 1999. Mr. Staffaroni joined LSI Logic in 1990 as director of engineering in LSI Logic's Milan, Italy design center. From January 1996 to October 1997, he was LSI Logic's Director of Marketing, and from November 1997 to October 1999, he was Vice President and General Manager of the Communications Product Division. Prior to joining LSI Logic, Mr. Staffaroni held management positions at Texas Instruments and AT&T Microelectronics. I-2 136 NAME AND BUSINESS ADDRESS AGE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE YEAR EMPLOYMENT HISTORY ---------- --- ---------- Joseph M. Zelayeta..... 54 Mr. Zelayeta was named LSI Logic's Executive Vice President, Worldwide Operations in September 1997. Prior to that time, Mr. Zelayeta served as LSI Logic's Senior Vice President of Research and Development and General Manager of U.S. Operations between August 1995 and September 1997. Employed with LSI Logic since 1981, Mr. Zelayeta has held management and executive positions in research and development and manufacturing operations since 1986. Lewis C. Wallbridge..... 57 Mr. Wallbridge has served as LSI Logic's Vice President, Human Resources since prior to 1996. LSI LOGIC DIRECTORS NAME AND BUSINESS ADDRESS AGE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE YEAR EMPLOYMENT HISTORY ---------- --- ---------- Wilfred J. Corrigan..... 63 Mr. Corrigan, a founder of LSI Logic, has served as the Chief Executive Officer and a director of LSI Logic since it was founded in January 1981. Mr. Corrigan also serves on the boards of directors of several privately held corporations. T.Z. Chu..... 66 Mr. Chu has been a director of LSI Logic since 1992. Mr. Chu served as President of Hoefer Pharmacia Biotech, Inc., a biotechnology company, from March 1995 until his retirement in February 1997. From August 1993 until March 1995, Mr. Chu served as President and Chief Executive Officer of Hoefer Scientific Instruments, a manufacturer of scientific instruments. Malcom R. Currie..... 74 Dr. Currie has been a director of LSI Logic since 1992. Dr. Currie has served as Chief Executive Officer of Currie Technologies, Inc., a manufacturer of electric propulsion systems for bicycles and other light vehicles, since February 1997. Dr. Currie served as Chairman and Chief Executive Officer of Hughes Aircraft Company (now called Hughes Electronics), an electronics manufacturer, from March 1988 until his retirement in July 1992. He presently serves on the Board of Directors for Investment Company of America, ENOVA Systems, Inc., Regal One Corp., Inamed CNP, and Greystone Technologies, and as member (former Chairman) of the Board of Trustees of the University of Southern California. James H. Keyes..... 60 Mr. Keyes has been a director of LSI Logic since 1983. Mr. Keyes has served as Chairman and Chief Executive Officer of Johnson Controls, Inc., an automotive systems and facility management and control company, since January 1993. Mr. Keyes also serves on the Boards of Directors of Pitney Bowes Inc. and the Chicago Federal Reserve Board. I-3 137 NAME AND BUSINESS ADDRESS AGE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE YEAR EMPLOYMENT HISTORY ---------- --- ---------- R. Douglas Norby..... 65 Mr. Norby has been a director of LSI Logic since 1993. Mr. Norby has served as Chief Financial Officer of Novalux, Inc. since December 2000. Prior to his tenure with Novalux, Mr. Norby served as Executive Vice President and Chief Financial Officer of LSI Logic from November 1996 to November 2000. Prior to that time, Mr. Norby served as Senior Vice President and Chief Financial Officer of Mentor Graphics Corporation, an electronic design automation company, from July 1993 to October 1996. Mr. Norby is also on the Board of Directors of Alexion Pharmaceuticals, Inc. Matthew J.

O'Rourke..... 62 Mr. O'Rourke has been a director of LSI Logic since 1999. Mr. O'Rourke was a partner with the accounting firm Price Waterhouse LLP from 1972 until his retirement in June 1996. Prior to his retirement, he served as Managing Partner at Price Waterhouse's New York National Office from 1994 to 1996 and as Managing Partner for Northern California from 1988 to 1994. Since his retirement, Mr. O'Rourke has been engaged as an independent business consultant. Mr. O'Rourke is also a member of the Board of Directors of Read-Rite Corporation and Infonet Services Corporation. Larry W. Sonsini..... 60 Mr. Sonsini has been a director of LSI Logic since 2000. Mr. Sonsini has been a partner of the law firm of Wilson Sonsini Goodrich & Rosati, Professional Corporation, since 1969 and has served as its Chairman and Chief Executive Officer for more than the past five years. Mr. Sonsini serves on the Board of Directors of the following public companies: Brocade Communications Systems, Inc., Commerce One, Inc., Echelon Corporation, Lattice Semiconductor Corporation, Novell, Inc., Tibco Software, Inc. and PIXAR, Inc. CLOVER ACQUISITION CORP. DIRECTORS AND EXECUTIVE OFFICERS NAME AND BUSINESS ADDRESS AGE PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE YEAR EMPLOYMENT HISTORY ---------- --- ---------- Bryon Look..... 47 Mr. Look has been a director of Clover Acquisition Corp. and its President and Chief Financial Officer since March 27, 2001. In addition, Mr. Look has been LSI Logic's Executive Vice President and Chief Financial Officer since November 2000. Mr. Look joined LSI Logic in March 1997 as Vice President, Corporate Development. Prior to joining LSI Logic, during a 21-year career at Hewlett-Packard Company, a computer company, Mr. Look held a variety of management positions in finance and research and development, with the most recent position being Manager of Business Development for Hewlett-Packard's corporate development department. David G. Pursel..... 55 Mr. Pursel has been a director of Clover Acquisition Corp. and its Secretary since March 27, 2001. In addition, Mr. Pursel was named LSI Logic's Vice President, General Counsel and Secretary in June 2000. Mr. Pursel joined LSI Logic in February 1996 as Associate General Counsel, Chief Intellectual Property Counsel and Assistant Secretary. Prior to his tenure with LSI Logic, Mr. Pursel held legal positions with Advanced Micro Devices, Digital Equipment Corporation and The Boeing Company. I-4 138 ANNEX A

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---------- AGREEMENT AND PLAN OF REORGANIZATION BY AND AMONG C-CUBE MICROSYSTEMS INC., LSI LOGIC CORPORATION AND CLOVER ACQUISITION CORP. DATED AS OF MARCH 26, 2001

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subsidiary of Parent ("MERGER SUB"). WITNESSETH WHEREAS, the respective Boards of Directors of Parent, Merger Sub and the Company have approved this Agreement, and declared advisable that Merger Sub make an exchange offer (the "Offer") to exchange shares of common stock, par value $0.01 per share, of Parent ("Parent Shares" or "Parent Common Stock"), for shares of common stock, par value $0.001 per share, of the Company ("Company Common Stock") and have approved the merger of Merger Sub with and into the Company (the "Merger") upon the terms and subject to the conditions of this Agreement and in accordance with the General Corporation Law of the State of Delaware ("DGCL"); WHEREAS, concurrently with the execution of this Agreement, and as a condition and inducement to Parent's willingness to enter into this Agreement, certain stockholders of the Company are entering into Stockholder Agreements in substantially the form attached hereto as Exhibit A (the "Stockholder Agreements"); and WHEREAS, it is intended that, for United States federal income tax purposes, the Offer and the Merger (together, the "Transaction") shall be treated as an integrated transaction and shall qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). NOW, THEREFORE, in consideration of the representations, warranties, covenants, agreements and conditions set forth herein, and intending to be legally bound hereby, the parties hereto agree as follows: ARTICLE I THE OFFER AND THE MERGER SECTION 1.1 The Offer. (a) Provided that this Agreement shall not have been terminated in accordance with Section 7.1 hereof, Merger Sub shall, as promptly as practicable after the date hereof (and Merger Sub shall use commercially reasonable efforts to, within ten (10) business days after the date hereof), commence the Offer. Each Share accepted by Merger Sub pursuant to the Offer shall be exchanged for the right to receive a fraction of share of Parent Common Stock (the "Exchange Ratio") equal to 0.79. The initial expiration date of the Offer shall be the twentieth business day following commencement of the Offer. The Offer shall be subject to the condition that there shall be validly tendered in accordance with the terms of the Offer prior to the expiration date of the Offer (as it may be extended in accordance with the requirements of this Section 1.1(a)) and not withdrawn a number of shares of Company Common Stock which, together with the shares of Company Common Stock then owned by Parent and Merger Sub (if any), represents at least a majority of the sum of (i) the total number of shares of Company Common Stock outstanding immediately prior to the expiration of the Offer (as it may be extended in accordance with the requirements of this Section 1.1(a)), and (ii) a number of shares of Company Common Stock determined by Parent up to a maximum of the total number of shares of Company Common Stock issuable upon the exercise or conversion of all options, warrants, rights and convertible securities (if any) that will be vested by the Outside Date (as defined in Section 7.1(b)(ii) hereof) (the number of shares determined by adding the shares referred to in clause "(i)" and clause "(ii)" of this sentence being hereinafter referred to as the "Fully Diluted Shares") (and the condition previously referred to in this sentence being referred to as the "Minimum Condition") and to the other conditions set forth in Annex I hereto. Parent and Merger Sub expressly reserve the right to waive the conditions to the Offer and to make any change in the terms or conditions of the Offer; provided, however, that without the prior written A-1 143 consent of the Company, no change may be made which decreases the number of shares of Company Common Stock sought in the Offer, changes the form or amount of consideration to be paid, imposes conditions to the Offer in addition to those set forth in Annex I, changes or waives the Minimum Condition or any of the conditions set forth in clauses (2), (4), (5) or (7) of Annex I, extends the Offer (except as set forth in the following two sentences), or makes any other change to any of the terms and conditions to the Offer which is adverse to the holders of shares of Company Common Stock. Subject to the terms of the Offer and this Agreement and the satisfaction (or waiver to the extent permitted by this Agreement) of the conditions to the Offer, Merger Sub shall accept for payment all shares of Company Common Stock validly tendered and not withdrawn pursuant to the Offer as soon as practicable after the applicable expiration date of the Offer (as it may be extended in accordance with the requirements of this Section 1.1(a)) and shall pay for all such shares of Company Common Stock promptly after acceptance; provided, however, that (x) Merger Sub shall extend the Offer for successive extension periods not in excess of ten (10) business days per extension if, at the scheduled expiration date of the Offer or any extension thereof, any of the conditions to the Offer shall not have been satisfied or waived, until such time as such conditions are satisfied or waived, and (y) Merger Sub may extend the Offer if and to the extent required by the applicable rules and regulations of the Securities and Exchange Commission ("SEC") or The New York Stock Exchange (the "NYSE"). In addition, Merger Sub may extend the Offer after the acceptance of shares of Company Common Stock thereunder for a further period of time by means of a subsequent offering period under Rule 14d-11 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). No fraction of a share of Parent Common Stock will be issued in connection with the

exchange of Parent Common Stock for shares of Company Common Stock upon consummation of the Offer, but in lieu thereof each tendering stockholder who would otherwise be entitled to receive a fraction of a share of Parent Common Stock (after aggregating all fractional shares of Parent Common Stock that otherwise would be received by such stockholder) in the Offer shall receive from Parent an amount of cash (rounded up to the nearest whole cent), without interest, equal to the product obtained by multiplying such fraction by the average closing sale price of one (1) share of Parent Common Stock on the NYSE during the ten (10) trading days ending on the trading day immediately prior to the expiration of the Offer (as it may be extended in accordance with the requirements of this Section 1.1(a)). (b) As soon as practicable after the date of this Agreement, Parent shall prepare and file with the SEC a registration statement on Form S-4 to register the offer and sale of Parent Common Stock pursuant to the Offer (the "Registration Statement"). The Registration Statement will include a preliminary prospectus containing the information required under Rule 14d-4(b) promulgated under the Exchange Act (the "Preliminary Prospectus"). As soon as practicable on the date of commencement of the Offer, Parent and Merger Sub shall (i) file with the SEC a Tender Offer Statement on Schedule TO with respect to the Offer which will contain or incorporate by reference all or part of the Preliminary Prospectus and form of the related letter of transmittal and summary advertisement, if any (together with any supplements or amendments thereto, collectively the "Offer Documents"), and (ii) cause the Offer Documents to be disseminated to holders of shares of Company Common Stock. The Company shall promptly furnish to Parent and Merger Sub all information concerning the Company, the Company's Subsidiaries and the Company's stockholders that may be required or reasonably requested in connection with any action contemplated by this Section 1.1(b). Parent, Merger Sub and the Company each agree promptly to correct any information provided by it for use in the Registration Statement or the Offer Documents if and to the extent that such information shall have become false or misleading in any material respect. Parent and Merger Sub agree to take all steps necessary to cause the Offer Documents as so corrected to be filed with the SEC and to be disseminated to holders of shares of Company Common Stock , in each case as and to the extent required by applicable federal securities laws. The Company and its counsel shall be given a reasonable opportunity to review and comment on the Schedule TO, the Registration Statement and the Offer Documents prior to their being filed with the SEC. Parent agrees to provide the Company and its counsel with any comments Parent, Merger Sub or their counsel may receive in writing from the SEC or its staff with respect to the Offer Documents as soon as practicable after receipt of such written comments. A-2 144 SECTION 1.2 Company Action. (a) The Company hereby represents that its Board of Directors, at a meeting duly called and held on or prior to the date hereof, has by unanimous vote (i) determined that this Agreement and the transactions contemplated hereby, including the Offer and the Merger, are advisable and are fair to and in the best interests of the Company and its stockholders, (ii) approved and adopted this Agreement and the transactions contemplated hereby, including the Offer and the Merger and the Stockholder Agreements and the transactions contemplated thereby, which approval constitutes approval under Section 203 of the DGCL such that the Offer, the Merger, this Agreement and the other transactions contemplated hereby, and the Stockholder Agreements and the transactions contemplated thereby, are not and shall not be subject to any restriction pursuant to Section 203 of the DGCL, and (iii) resolved to recommend acceptance of the Offer and approval and adoption of this Agreement by the Company's stockholders (the unanimous recommendations referred to in this clause (iii) are collectively referred to in this Agreement as the "Recommendations"). (b) As soon as practicable on the day that the Offer is commenced, the Company will file with the SEC and disseminate to holders of shares of Company Common Stock a Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9") which shall include the opinion of Credit Suisse First Boston Corporation ("Credit Suisse First Boston") referred to in Section 3.17 hereof and, subject to Section 5.4 hereof, shall include the Recommendations. Parent shall promptly furnish to the Company all information concerning Parent, Parent's Subsidiaries and Parent's stockholders that may be required or reasonably requested in connection with any action contemplated by this Section 1.2(b). Subject to Section 5.4 hereof, the Company hereby consents to the inclusion of the Recommendations in the Offer Documents and agrees that none of the Recommendations shall be withdrawn, modified or changed in a manner adverse to Parent or Merger Sub, and no resolution by the Board of Directors of the Company or any committee thereof to withdraw, modify or change any of the Recommendations in a manner adverse to Parent or Merger Sub shall be adopted or proposed (it being understood that, for purposes of this Agreement, a Recommendation shall be deemed to be withdrawn, modified or changed in a manner adverse to Parent and Merger Sub if such Recommendation ceases to be unanimous). Notwithstanding the foregoing, prior to the Appointment Time (as defined in Section 1.3(a) hereof), the Board of Directors of the Company may withhold, withdraw, modify or

change in a manner adverse to Parent, or fail to make, its Recommendations in accordance with the terms of Section 5.4 hereof. The Company, Parent and Merger Sub each agree promptly to correct any information provided by it for use in the Schedule 14D-9 if and to the extent that such information shall have become false or misleading in any material respect. The Company agrees to take all steps necessary to cause the Schedule 14D-9 as so corrected to be filed with the SEC and to be disseminated to holders of shares of Company Common Stock, in each case as and to the extent required by applicable federal securities laws. Parent and its counsel shall be given a reasonable opportunity to review and comment on the Schedule 14D-9 prior to its being filed with the SEC. The Company agrees to provide Parent and its counsel with any comments the Company or its counsel receives in writing from the SEC or its staff with respect to the Schedule 14D-9 as soon as practicable after receipt of such written comments. (c) The Company will promptly furnish Parent and Merger Sub with a list of its stockholders, mailing labels and any available listing or computer file containing the names and addresses of all record holders of shares of Company Common Stock and lists of securities positions of shares of Company Common Stock held in stock depositories, in each case as of the most recent practicable date, and will provide to Parent and Merger Sub such additional information (including, without limitation, updated lists of stockholders, mailing labels and lists of securities positions) and such other assistance as Parent or Merger Sub may reasonably request in connection with the Offer. Subject to the requirements of applicable law, and except for such steps as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer, Parent and Merger Sub shall hold in confidence the information contained in any such labels, listings and files, shall use such information only in connection with the Offer and the Merger and, if this Agreement shall be terminated, shall, upon request, deliver to the Company all copies of such information then in their possession. A-3 145 SECTION 1.3 Directors. (a) Effective upon the acceptance for payment by Merger Sub of shares of Company Common Stock pursuant to the Offer (the "Appointment Time"), Parent shall be entitled to designate the number of directors, rounded up to the next whole number, on the Company's Board of Directors that equals the product of (i) the total number of directors on the Company's Board of Directors (giving effect to the election of any additional directors pursuant to this Section 1.3) and (ii) the percentage that the number of shares of Company Common Stock owned by Parent or Merger Sub (including shares of Company Common Stock accepted for payment) bears to the total number of shares of Company Common Stock outstanding, and the Company shall take all action reasonably necessary to cause Parent's designees to be elected or appointed to the Company's Board of Directors, including, without limitation, at the option of Parent, increasing the number of directors, or seeking and accepting resignations of incumbent directors, or both; provided, however, that prior to the Effective Time, the Company's Board of Directors shall always have at least two members who were directors of the Company prior to consummation of the Offer (each, a "Continuing Director"). If the number of Continuing Directors is reduced to fewer than two for any reason prior to the Effective Time, the remaining and departing Continuing Directors shall be entitled to designate a person to fill the vacancy. Notwithstanding anything in this Agreement to the contrary, if Parent's designees are elected to the Company's Board of Directors prior to the Effective Time, the affirmative vote of a majority of the Continuing Directors shall be required for the Company to (a) amend or terminate this Agreement or agree or consent to any amendment or termination of this Agreement, (b) waive any of the Company's rights, benefits or remedies hereunder, (c) extend the time for performance of Parent's and Merger Sub's respective obligations hereunder, or (d) approve any other action by the Company which is reasonably likely to adversely affect the interests of the stockholders of the Company (other than Parent, Merger Sub and their affiliates (other than the Company and its Subsidiaries)) with respect to the transactions contemplated by this Agreement. (b) The Company's obligations to appoint designees to its Board of Directors shall be subject to Section 14(f) of the Exchange Act and Rule 14f-l promulgated thereunder. The Company shall promptly take all actions required pursuant to this Section 1.3 and Rule 14f-l in order to fulfill its obligations under this Section 1.3 and shall include in the Schedule 14D-9 such information with respect to the Company and its officers and directors as is required under Section 14(f) and Rule 14f-l. Parent will supply to the Company in writing and be solely responsible for any information with respect to itself and its nominees, officers, directors and affiliates required by Section 14(f) and Rule 14f-1. SECTION 1.4 The Merger. (a) Upon the terms and subject to the conditions of this Agreement, and in accordance with the DGCL, at the Effective Time (as defined hereinafter), Merger Sub shall be merged with and into the Company, whereupon the separate existence of Merger Sub shall cease, and the Company shall continue as the surviving corporation (sometimes referred to herein as the "Surviving Corporation"). (b) Concurrently with the Closing (as defined in Section 1.8 hereof), the Company and Parent shall cause a certificate of merger (the "Certificate of Merger") with respect to the Merger to be

executed and filed with the Secretary of State of the State of Delaware (the "Secretary of State") as provided in the DGCL. The Merger shall become effective on the date and time at which the Certificate of Merger has been duly filed with the Secretary of State or at such other date and time as is agreed between the parties and specified in the Certificate of Merger, and such date and time is hereinafter referred to as the "Effective Time." (c) The Merger shall have the effects set forth in the DGCL. Without limiting the generality of the foregoing and subject thereto, from and after the Effective Time, the Surviving Corporation shall possess all rights, privileges, immunities, powers and franchises and be subject to all of the obligations, restrictions, disabilities, liabilities, debts and duties of the Company and Merger Sub. A-4 146 SECTION 1.5 Effect on Company Common Stock. At the Effective Time: (a) Cancellation of Shares of Company Common Stock. Each share of the Company Common Stock held by the Company as treasury stock and each share of the Company Common Stock owned by Parent or Merger Sub immediately prior to the Effective Time shall automatically be cancelled and retired and cease to exist, and no consideration or payment shall be delivered therefor or in respect thereto. All shares of Company Common Stock to be converted into Parent Shares pursuant to this Section 1.5 shall, by virtue of the Merger and without any action on the part of the holders thereof, cease to be outstanding, be cancelled and retired and cease to exist; and each holder of a certificate (representing prior to the Effective Time any such shares of Company Common Stock) shall thereafter cease to have any rights with respect to such shares of Company Common Stock, except the right to receive (i) the Parent Shares into which such shares of Company Common Stock have been converted, (ii) any dividend and other distributions in accordance with Section 1.6(c) hereof, and (iii) any cash, without interest, to be paid in lieu of any fraction of any Parent Shares in accordance with Section 1.6(d) hereof. (b) Conversion of Shares of Company Common Stock. Subject to Sections 1.5(d) and 1.6(d) hereof, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Common Stock referred to in the first sentence of Section 1.5(a) hereof and Dissenting Shares (as defined in Section 1.9 hereof) shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into that number of Parent Shares equal to the Exchange Ratio (together with the cash in lieu of fractional shares of Parent Common Stock as specified below) (the number of Parent Shares equal to the Exchange Ratio and the cash payable in lieu of fractional shares as specified below being referred to as the "Merger Consideration"). (c) Capital Stock of Merger Sub. Each share of common stock, $0.001 par value per share, of Merger Sub (the "Merger Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into one (1) validly issued, fully paid and nonassessable share of common stock, $0.001 par value per share, of the Surviving Corporation. Each certificate evidencing ownership of such shares of Merger Sub Common Stock shall evidence ownership of shares of capital stock of the Surviving Corporation. (d) Adjustments to Exchange Ratio. The Exchange Ratio shall be adjusted to reflect appropriately the effect of any stock split, reverse stock split, stock dividend (including any dividend or distribution of securities convertible into or exercisable or exchangeable for Company Common Stock or Parent Common Stock), extraordinary cash dividend, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to Company Common Stock or Parent Common Stock occurring or having a record date on or after the date hereof and prior to the Effective Time. (e) Assumption of Company Options. At the Effective Time, each issued and outstanding option to purchase or otherwise acquire Company Common Stock (whether or not vested) ("Company Options") issued pursuant to the Company's 2000 Stock Plan or the Director Stock Option Plan (the "Option Plans") or otherwise, will be assumed by Parent in connection with the Merger. Each Company Option so assumed by Parent under this Agreement (the "Assumed Options") shall continue to have, and be subject to, the same terms and conditions set forth in the Option Plans and/or as provided in the respective option agreements immediately prior to the Effective Time (including, without limitation, any vesting schedule or repurchase rights), except that (i) each Company Option will be exercisable for that number of Parent Shares equal to the product of the number of shares of Company Common Stock that were issuable upon exercise of such Company Option immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded down to the nearest whole number of Parent Shares, and (ii) the per share exercise price for the Parent Shares 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 Company Option was exercisable immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent. Parent shall comply with the terms of all such Company Options and use commercially reasonable efforts to ensure, to the extent required by and subject to the provisions of, the Option Plans, and to the extent permitted under the Code, that any Company Options that qualified for A-5 147 tax treatment as incentive stock options under Section 422 of the Code prior to the Effective

Time continue to so qualify after the Effective Time. Parent shall take all corporate actions necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of assumed Company Options on the terms set forth in this Section 1.5(e). (f) Termination of Company Employee Stock Purchase Plan. Prior to the Effective Time, the Company's Employee Stock Purchase Plan (the "Company ESPP") shall be terminated. The rights of participants in the Company ESPP with respect to any offering period then underway under the Company ESPP shall be determined by treating the last business day prior to, or if administratively advisable, last payroll date of the Company immediately prior to, the Effective Time, as the last day of such offering period and by making such other pro-rata adjustments as may be necessary to reflect the shortened offering period but otherwise treating such shortened offering period as a fully effective and completed offering period for all purposes under the Company ESPP. Prior to the Effective Time, the Company shall take all actions (including, if appropriate, amending the terms of the Company ESPP) that are necessary to give effect to the transactions contemplated by this Section 1.5(f). Parent agrees that, from and after the Effective Time, the employees of the Company who become employees of Parent or any of its Subsidiaries may participate in the employee stock purchase plan sponsored by Parent (the "Parent ESPP"), subject to the terms and conditions of the Parent ESPP, and that service with the Company shall be treated as service with Parent for determining eligibility of the Company's employees under the Parent ESPP. Parent agrees to create a special offering period under the Parent ESPP so that the employees of the Company who become employees of Parent or any of its Subsidiaries can participate in the Parent ESPP within fifteen (15) days from the Closing Date. (g) Assumption of Company Warrant. At the Effective Time, the outstanding warrant issued by the Company to Thomson Multimedia S.A. (the "Warrant") will be assumed by Parent in connection with the Merger. The Warrant shall continue to have, and be subject to, the same terms and conditions set forth therein (including, without limitation, the vesting schedule set forth therein), except that (i) the Warrant will be exercisable for that number of shares of Parent Common Stock equal to the product of the number of shares of Company Common Stock that were issuable upon exercise of the Warrant immediately prior to the Effective Time multiplied by the Exchange Ratio, rounded up to the nearest whole number of shares of Parent Common Stock, and (ii) the per share exercise price for the Parent Shares issuable upon exercise of the Warrant will be equal to the quotient determined by dividing the exercise price per share of Company Common Stock at which the Warrant was exercisable immediately prior to the Effective Time by the Exchange Ratio, rounded up to the nearest whole cent. SECTION 1.6 Exchange of Certificates. (a) Prior to the mailing of any proxy or information statement of the Company prepared in connection with the Merger (the "Proxy Statement"), such bank, trust company, Person or Persons (as defined hereinafter) as shall be designated by Parent and reasonably acceptable to the Company shall act as the depositary and exchange agent for the delivery of the Merger Consideration in exchange for shares of Company Common Stock (the "Exchange Agent") in connection with the Merger. At or promptly following the Effective Time, Parent shall deposit, or cause to be deposited, with the Exchange Agent the Merger Consideration for the benefit of the holders of shares of Company Common Stock which are converted into Parent Shares pursuant to Section 1.5(b) hereof (together with cash as required to (i) pay any dividends or distributions with respect thereto in accordance with Section 1.6(c) hereof and (ii) make payments in lieu of fractional Parent Shares, pursuant to Section 1.6(d) hereof, being hereinafter referred to as the "Exchange Fund"). For purposes of this Agreement, "Person" means any natural person, firm, individual, corporation, limited liability company, partnership, association, joint venture, company, business trust, trust or any other entity or organization, whether incorporated or unincorporated, including a government or political subdivision or any agency or instrumentality thereof. (b) As of or promptly following the Effective Time but in no event later than ten (10) business days thereafter, the Surviving Corporation shall cause the Exchange Agent to mail (and to make available for collection by hand) to each holder of record of a certificate or certificates, which immediately prior to the A-6 148 Effective Time represented outstanding shares of Company Common Stock (other than Dissenting Shares) (the "Certificates"), (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent and which shall be in the form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration into which the number of shares of Common Stock previously represented by such Certificates shall have been converted pursuant to this Agreement (which instructions shall provide that at the election of the surrendering holder, Certificates may be surrendered, and the Merger Consideration in exchange therefor collected, by hand delivery). Upon surrender of a Certificate for cancellation to the Exchange Agent, together with a letter of transmittal duly completed and validly

executed in accordance with the instructions thereto, and such other documents as may be required pursuant to such instructions, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration for each share of Common Stock formerly represented by such Certificate, to be mailed (or made available for collection by hand if so elected by the surrendering holder) within ten (10) business days of receipt thereof (but in no case prior to the Effective Time), and the Certificate so surrendered shall be forthwith cancelled. The Exchange Agent shall accept such Certificates upon compliance with such reasonable terms and conditions as the Exchange Agent may impose to effect an orderly exchange thereof in accordance with normal exchange practices. No interest shall be paid or accrued for the benefit of holders of the Certificates on the cash payable pursuant to subsections (c) and (d) below upon the surrender of the Certificates. (c) No cash payment in lieu of fractional Parent Shares shall be paid to any Person pursuant to Section 1.6(d) hereof until such Person's Certificate is surrendered in accordance with this Article I. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid, without interest, to the Person in whose name the Parent Shares being issued in respect of such Certificate are to be registered (i) at the time of such surrender, the amount of any cash payable in lieu of fractional Parent Shares to which such holder is entitled pursuant to Section 1.6(d) hereof and the proportionate amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to Parent Shares, and (ii) at the appropriate payment date or as promptly as practicable thereafter, the proportionate amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such Parent Shares. (d) Notwithstanding any other provision of this Agreement, no fraction of a Parent Share will be issued and no dividend or other distribution, stock split or interest with respect to Parent Shares shall relate to any fractional Parent Shares, and such fractional interest shall not entitle the owner thereof to vote or to any rights as a security holder of the Parent Shares. In lieu of any such fractional security, each stockholder who would otherwise be entitled to receive a fraction of a share of Parent Common Stock (after aggregating all fractional shares of Parent Common Stock that otherwise would be received by such stockholder) shall receive from Parent an amount of cash (rounded to the nearest whole cent), without interest, equal to the product obtained by multiplying such fraction by the average closing sale price of one (1) share of Parent Common Stock on the NYSE during the ten (10) trading days ending on the trading day immediately prior to the effective date of the Merger. (e) Any portion of the Exchange Fund which remains undistributed to the holders of the Certificates for one (1) year after the Effective Time shall be delivered to Parent, upon demand, and any holders of shares of Company Common Stock prior to the Merger who have not theretofore complied with this Article I shall thereafter look for payment of their claim, as general creditors thereof, only to Parent for their claim for Parent Shares, any cash without interest, to be paid, in lieu of any fractional Parent Shares and any dividends or other distributions with respect to Parent Shares to which such holders may be entitled. (f) None of Parent, the Company or the Exchange Agent shall be liable to any Person in respect of any Parent Shares held in the Exchange Fund (or any cash, dividends or other distributions payable in respect thereof) delivered to a public official pursuant to any applicable abandoned property, escheat or A-7 149 similar law. If any Certificates shall not have been surrendered prior to one (1) year after the Effective Time (or immediately prior to such earlier date on which (i) any Parent Shares, (ii) any cash in lieu of fractional Parent Shares or (iii) any dividends or distributions with respect to Parent Shares in respect of such Certificate would otherwise escheat to or become the property of any Governmental Entity (as defined in Section 3.3(b) hereof)), any such Parent Shares, cash, dividends or distributions in respect of such Certificate shall, to the extent permitted by applicable law, become the property of Parent, free and clear of any claims or interest of any Person previously entitled thereto. SECTION 1.7 Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond, in such reasonable amount as the Surviving Corporation may direct (but consistent with past practice of the Company), as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Parent Shares to which the holder thereof is entitled pursuant to this Article I. SECTION 1.8 Merger Closing. Subject to the satisfaction or waiver of the conditions set forth in Article VI hereof, the closing of the Merger (the "Closing") will take place at 10:00 a.m., California time, on a date to be specified by the parties hereto, and no later than the second business day after the satisfaction or waiver of the conditions set forth in Article VI hereof that are to be satisfied other than on the day of the Closing, at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, 650 Page Mill Road, Palo Alto, California, unless

another time, date or place is agreed to in writing by the parties hereto (such date, the "Closing Date"). SECTION 1.9 Dissenting Shares. If the Merger is effectuated pursuant to Section 253 of the DGCL, shares of Company Common Stock outstanding immediately prior to the Effective Time and held by a holder who is entitled to demand and properly demands appraisal for such shares of Company Common Stock in accordance with DGCL (the "Dissenting Shares") shall not be converted into a right to receive Parent Shares, unless such holder fails to perfect or withdraws or otherwise loses his or her right to appraisal. If after the Effective Time such holder fails to perfect or withdraws or loses his or her right to appraisal, such shares of Company Common Stock shall be treated as if they had been converted as of the Effective Time into a right to receive the Merger Consideration without any interest thereon. The Company shall give Parent prompt notice of any demands received by the Company for appraisal of shares of Company Common Stock, and Parent shall have the right to participate in all negotiations and proceedings with respect to such demands. The Company shall not, except with the prior written consent of Parent, make any payment with respect to, or settle or offer to settle, any such demands. Any amounts paid to a holder pursuant to a right of appraisal will be paid by the Company out of its own funds and will not be reimbursed by Parent or any affiliate of Parent. ARTICLE II THE SURVIVING CORPORATION SECTION 2.1 Certificate of Incorporation. At the Effective Time, subject to Section 5.5 hereof, the Certificate of Incorporation of the Surviving Corporation shall be amended and restated in its entirety to be the same as the Certificate of Incorporation of Merger Sub, as in effect immediately prior to the Effective Time (except that the name of the Surviving Corporation shall remain C-Cube Microsystems Inc.), and such Certificate of Incorporation of the Surviving Corporation, as so amended and restated, shall be the Certificate of Incorporation of the Surviving Corporation until thereafter amended in accordance with the DGCL and such Certificate of Incorporation. SECTION 2.2 Bylaws. At the Effective Time, subject to Section 5.5 hereof, the Bylaws of the Surviving Corporation shall be amended and restated to read the same as the Bylaws of Merger Sub, as in effect immediately prior to the Effective Time, until thereafter amended in accordance with the DGCL, A-8 150 the Certificate of Incorporation of the Surviving Corporation and such Bylaws, provided, however, that all references in such Bylaws to Merger Sub shall be amended to refer to C-Cube Microsystems Inc. SECTION 2.3 Officers and Directors. (a) From and after the Effective Time, the officers of Merger Sub at the Effective Time shall be the officers of the Surviving Corporation, until their respective successors are duly elected or appointed and qualified in accordance with applicable law. (b) The Board of Directors of the Surviving Corporation effective as of, and immediately following, the Effective Time shall consist of the directors of Merger Sub immediately prior to the Effective Time. ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY The Company represents and warrants to Parent and Merger Sub, subject to such exceptions as are specifically disclosed in writing in the disclosure schedule supplied by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule"), which disclosure shall provide an exception to or otherwise qualify the representations or warranties of the Company specifically referred to in such disclosure schedule and such other representations and warranties to the extent such disclosure shall reasonably appear to be applicable to such other representations or warranties as follows: SECTION 3.1 Corporate Existence and Power. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and has all corporate powers and all governmental licenses, authorizations, consents and approvals (collectively, "Licenses") required to carry on its business as now conducted except for failures to have any such License which would not, in the aggregate, have a Company Material Adverse Effect (as defined hereinafter). The Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned, leased or operated by it or the nature of its activities makes such qualification necessary, except in such jurisdictions where failures to be so qualified would not reasonably be expected to, in the aggregate, have a Company Material Adverse Effect. As used herein, the term "Company Material Adverse Effect" means a material adverse effect on or change in the financial condition, business, assets or results of operations of the Company and its Subsidiaries, taken as a whole; provided, however, that in no event shall any effect that directly results from (i) any change in general economic conditions that does not affect the Company and its Subsidiaries, taken as a whole, in a substantially disproportionate manner, (ii) any adverse change affecting the semiconductor industry generally that does not affect the Company and its Subsidiaries, taken as a whole, in a substantially disproportionate manner, (iii) any failure by the Company to meet revenue and earnings estimates in and of itself, and (iv) the announcement or pendency of this Agreement constitute, or be considered in determining the existence of, a Company Material Adverse Effect. The Company has heretofore made available to Parent true and complete copies of the Certificate of Incorporation and the Bylaws of the Company

as currently in effect. SECTION 3.2 Corporate Authorization. (a) The Company has the requisite corporate power and authority to execute and deliver this Agreement and, subject to approval of the Company's stockholders, as set forth in Section 3.2(b) hereof and as contemplated by Section 5.2 hereof, to perform its obligations hereunder. The execution and delivery of this Agreement and the performance of the Company's obligations hereunder have been duly and validly authorized, and this Agreement has been approved, by the Board of Directors of the Company and no other corporate proceedings, on the part of the Company, other than the approval of the Company's stockholders, are necessary to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by the Company and constitutes, assuming due authorization, execution and delivery of this Agreement by Parent and Merger Sub, a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. A-9 151 (b) Under applicable law, the Certificate of Incorporation and the rules of The Nasdaq National Market, the affirmative vote of the holders of a majority of the shares of Company Common Stock outstanding on the record date, established by the Board of Directors of the Company in accordance with the Bylaws of the Company, applicable law and this Agreement, is the vote required to approve the Merger and adopt this Agreement. SECTION 3.3 Consents and Approvals; No Violations. (a) Neither the execution and delivery of this Agreement nor the performance by the Company of its obligations hereunder will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or the Bylaws of the Company; (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or obligation to repurchase, repay, redeem or acquire or any similar right or obligation) under any of the terms, conditions or provisions of any Company Contract or (iii) assuming that the filings, registrations, notifications, authorizations, consents and approvals referred to in subsection (b) below have been obtained or made, as the case may be, violate any order, injunction, decree, statute, rule or regulation of any Governmental Entity to which the Company or any of its Subsidiaries is subject, excluding from the foregoing clauses (ii) and (iii) such requirements, defaults, breaches, rights or violations (A) that would not, in the aggregate, reasonably be expected to have a Company Material Adverse Effect and would not have a material adverse effect on the ability of the Company to perform its obligations hereunder or (B) that become applicable as a result of the business or activities in which Parent or any of its affiliates is or proposes to be engaged or any acts or omissions by, or facts specifically pertaining to, Parent. (b) No filing or registration with, notification to, or authorization, consent or approval of, any government or any agency, court, tribunal, commission, board, bureau, department, political subdivision or other instrumentality of any government (including any regulatory or administrative agency), whether federal, state, multinational (including, but not limited to, the European Community), provincial, municipal, domestic or foreign (each, a "Governmental Entity") or other Person is required in connection with the execution and delivery of this Agreement by the Company or the performance by the Company of its obligations hereunder, except (i) the filing of the Certificate of Merger in accordance with the DGCL; (ii) compliance with any applicable requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "HSR Act"), or any foreign laws regulating competition, antitrust, investment or exchange controls; (iii) compliance with any applicable requirements of the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "Securities Act") and the Exchange Act; (iv) compliance with any applicable requirements of state blue sky or takeover laws and (v) such other consents, approvals, orders, authorizations, notifications, registrations, declarations and filings (A) the failure of which to be obtained or made would not, in the aggregate, reasonably be expected to have a Company Material Adverse Effect and would not have a material adverse effect on the ability of the Company to perform its obligations hereunder or (B) that become applicable as a result of the business or activities in which Parent or any of its affiliates is or proposes to be engaged or any acts or omissions by, or facts specifically pertaining to, Parent. SECTION 3.4 Capitalization. The authorized capital stock of the Company consists of 200,000,000 shares of Company Common Stock and 10,000,000 shares of preferred stock, par value $0.001 per share, of the Company (the "Company Preferred Stock"). As of March 20, 2001, there were (i) 50,077,762 shares of Company Common Stock issued and outstanding and (ii) no shares of Preferred Stock issued and outstanding. All shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any preemptive rights. None of the outstanding shares of Company Common Stock is subject to any right of first refusal in favor of the Company. Neither the Company nor any Subsidiary of the Company is a party to or is bound by any Contract pursuant to which any Person has any registration rights with respect to any Company Securities. A-10 152 As of March 1, 2001, there were outstanding Company Options to purchase 15,958,441 shares of

Company Common Stock and outstanding warrants exercisable for 949,494 shares of Company Common Stock. As of March 1, 2001, 500,000 shares of Company Common Stock are reserved for future issuance pursuant to the Company ESPP. Schedule 3.4 of the Company Disclosure Schedule sets forth the following information with respect to each Company Option outstanding as of the date of this Agreement: (i) the particular plan (if any) pursuant to which such Company Option was granted; (ii) the name of the optionee; (iii) the number of shares of Company Common Stock subject to such Company Option; (iv) the exercise price of such Company Option; (v) the date on which such Company Option was granted; and (vi) the applicable vesting schedule, and the extent to which such Company Option is vested and exercisable as of the date of this Agreement. The Company has delivered to Parent accurate and complete copies of all stock option plans pursuant to which the Company or any Subsidiary of the Company has ever granted stock options, and the forms of all stock option agreements evidencing such options. The Company has made available to Parent accurate and complete copies of the Warrant. Schedule 3.4 of the Company Disclosure Schedule sets forth the extent to which the Warrant has vested as of the date hereof. Except as set forth in this Section 3.4, and for changes since March 1, 2001 resulting from the exercise of Company Options outstanding on such date, there are outstanding (i) no shares of capital stock or other voting securities of the Company, (ii) no securities of the Company or any Subsidiary of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company and (iii) no options or other rights to acquire from the Company, and no obligation of the Company to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company (the items in clauses (i), (ii) and (iii) being referred to collectively as the "Company Securities"). There are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Company Securities. No Subsidiary of the Company owns any capital stock or other voting securities of the Company. SECTION 3.5 Subsidiaries. (a) Each Subsidiary of the Company that is actively engaged in any business or owns any material assets (each, an "Active Company Subsidiary") (i) is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, (ii) has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and (iii) is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction where the character of the property owned or leased by it or the nature of its activities makes such qualification necessary, except for failures of this representation and warranty to be true which would not, in the aggregate, have a Company Material Adverse Effect. For purposes of this Agreement, "Subsidiary" means with respect to any Person, any corporation or other legal entity of which such Person owns, directly or indirectly, more than 50% of the outstanding stock or other equity interests, the holders of which are entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity. All Subsidiaries of the Company and their respective jurisdictions of incorporation are identified in Schedule 3.5 of the Company Disclosure Schedule. (b) All of the outstanding shares of capital stock of each Subsidiary of the Company are duly authorized, validly issued, fully paid and nonassessable, and such shares are owned by the Company or by a Subsidiary of the Company free and clear of any Liens (as defined in this Section 3.5) or limitations on voting rights. There are no subscriptions, options, warrants, calls, rights, convertible securities or Contracts of any character relating to the issuance, transfer, sale, delivery, voting or redemption (including any rights of conversion or exchange under any outstanding security or other instrument) for any of the capital stock or other equity interests of any of such Subsidiaries. There are no Contracts requiring the Company or any of its Subsidiaries to make contributions to the capital of, or lend or advance funds to, any Subsidiaries of the Company. For purposes of this Agreement, "Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. A-11 153 SECTION 3.6 SEC Documents. The Company has filed all required reports, proxy statements, registration statements, forms and other documents with the SEC since May 3, 2000 (the "Company SEC Documents"). As of their respective dates, and giving effect to any amendments thereto, (a) the Company SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the applicable rules and regulations of the SEC promulgated thereunder and (b) none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. SECTION 3.7 Financial Statements. The financial statements of the Company (including, in each case, any notes and schedules thereto) included in the Company SEC Documents and the audited consolidated balance sheet of the Company and its Subsidiaries for the year ended December 31, 2000 (the "Interim

Balance Sheet") and the related statement of operations and cash flows of the Company and its Subsidiaries for the period then ended, as provided to Parent, (a) were prepared from the books and records of the Company and its Subsidiaries, (b) comply as to form in all material respects with all applicable accounting requirements and the rules and regulations of the SEC with respect thereto, (c) are in conformity with United States generally accepted accounting principles ("GAAP"), applied on a consistent basis (except in the case of unaudited statements, as permitted by the rules and regulations of the SEC) during the periods involved and (d) fairly present, in all material respects, the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments which were not and are not expected to be, individually or in the aggregate, material in amount). SECTION 3.8 Disclosure Documents. Neither the Schedule 14D-9 nor the Proxy Statement, nor any of the information supplied or to be supplied by the Company or its Subsidiaries or Representatives for inclusion or incorporation by reference in the Offer Documents, the Registration Statement or the Post- Effective Amendment will, at the respective times any such documents or any amendments or supplements thereto are filed with the SEC, are first published, sent or given to stockholders or become effective under the Securities Act or, in the case of the Proxy Statement, at the time of the Company Special Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Schedule 14D-9 and the Proxy Statement will comply as to form in all material respects with the requirements of all applicable laws, including the Exchange Act and the rules and regulations thereunder. No representation or warranty is made by the Company with respect to statements made or incorporated by reference in any such documents based on information supplied by Parent or Merger Sub for inclusion or incorporation by reference therein. SECTION 3.9 Absence of Undisclosed Liabilities. Except as set forth in the financial statements (and the notes thereto) contained in the Company SEC Documents filed through the date of this Agreement and in the Interim Balance Sheet, and except for liabilities and obligations incurred in the ordinary course of business since the date of the Interim Balance Sheet, neither the Company nor any of its Subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) except for those that would not, in the aggregate, reasonably be expected to have a Company Material Adverse Effect. SECTION 3.10 Absence of Material Adverse Changes, etc. Since December 31, 2000, there has not been a Company Material Adverse Effect and no event has occurred or circumstance has arisen that would reasonably be expected to have a Company Material Adverse Effect. Without limiting the foregoing, except as contemplated by this Agreement, since December 31, 2000, (i) the Company and its Subsidiaries have conducted their business in the ordinary course of business and (ii) there has not been: (a) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of capital stock of the Company or any Subsidiary of the Company, or any repurchase, redemption or other acquisition by the Company or any Subsidiary (other than any wholly owned A-12 154 Subsidiary) of the Company of any outstanding shares of capital stock or other equity securities of, or other ownership interests in, the Company or of any Subsidiary of the Company; (b) any amendment of any provision of the Certificate of Incorporation, Bylaws or similar organizational documents of, or of any material term of any outstanding security issued by, the Company or any Subsidiary (other than any wholly owned Subsidiary) of the Company; (c) any incurrence, assumption or guarantee by the Company or any Subsidiary of the Company of any indebtedness for borrowed money other than borrowings under existing short term credit facilities not in excess of $500,000 in the aggregate; (d) any change in any method of accounting or accounting practice by the Company or any Subsidiary of the Company, except for any such change required by reason of a change in GAAP; (e) any (i) establishment, adoption or amendment of any Plan (as defined in Section 3.12 hereof); (ii) grant of any severance, termination or similar pay to any director, officer or employee of the Company or any Subsidiary of the Company, (iii) employment, deferred compensation or other similar Contract (or any amendment to any such existing Contract) with any director, officer or employee of the Company or any Subsidiary of the Company entered into, (iv) increase in benefits payable under any existing severance, termination pay or similar policies or employment Contract or (v) increase in compensation, bonus or other benefits payable to directors, officers or employees of the Company or any Subsidiary of the Company, in each case other than with respect to employees (other than officers of the Company or any Subsidiary of the Company) in the ordinary course of business consistent with past practice; (f) sale, issuance or grant of Company Securities other than pursuant to Options outstanding as of December 31, 2000 and the issuance of Options after such date in the ordinary course of business (and the issuance of Company Securities pursuant thereto); (g) acquisition, lease, license or disposition of assets

material to the Company and its Subsidiaries, except for sales of inventory in the ordinary course of business consistent with past practice, or any acquisition or disposition of capital stock of any third party, or any merger or consolidation or similar transaction with any third party, by the Company or any Subsidiary of the Company; (h) entry by the Company, or any Subsidiary of the Company, into any joint venture, partnership or similar Contract with any Person other than a wholly owned Subsidiary of the Company; (i) any capital expenditure by the Company or any Subsidiary of the Company (except for capital expenditures that, when added to all other capital expenditures made on behalf of the Company since December 31, 2000, have not exceeded the Company's forecasted capital expenditures for such period as previously provided to Parent; or (j) any authorization of, or commitment or agreement to take any of the foregoing actions except as otherwise permitted by this Agreement. SECTION 3.11 Taxes. (a) (1) All federal, state, local and foreign Tax Returns (as defined in Section 3.11(b) hereof) required to be filed by or on behalf of the Company, each of its Subsidiaries, and each affiliated, combined, consolidated or unitary group of which the Company or any of its Subsidiaries is a member (a "Company Group") have been timely filed, and all returns filed are complete and accurate except to the extent any failure to file or any inaccuracies in filed returns would not, individually or in the aggregate, have a Company Material Adverse Effect; (2) all Taxes (as defined hereinafter) due and owing by the Company, any Subsidiary of the Company or any Company Group have been paid, or adequately reserved on the financial statements of the Company in accordance with GAAP, except to the extent any failure to pay or reserve would not, individually or in the aggregate, have a Company Material Adverse Effect; A-13 155 (3) there is no presently pending and, to the knowledge of the Company, contemplated or scheduled and there has not been since May 3, 2000, any audit examination, deficiency, refund litigation, proposed adjustment or matter in controversy involving the Company, any Subsidiary of the Company or any Company Group with respect to any Taxes nor has the Company or any Subsidiary of the Company filed any waiver of the statute of limitations applicable to the assessment or collection of any Tax; (4) all assessments for Taxes due and owing by the Company, any Subsidiary of the Company or any Company Group with respect to completed and settled examinations or concluded litigation have been paid; (5) neither the Company nor any Subsidiary of the Company is a party to any tax indemnity agreement, tax sharing agreement or other Contract under which the Company or any Subsidiary of the Company could become liable to another Person as a result of the imposition of a Tax upon any Person, or the assessment or collection of such a Tax; and (6) the Company and each of its Subsidiaries has complied in all material respects with all rules and regulations relating to the withholding of Taxes. (b) For purposes of this Agreement, (i) "Taxes" means all taxes, levies or other like assessments, charges or fees (including estimated taxes, charges and fees), including, without limitation, income, corporation, advance corporation, gross receipts, transfer, excise, property, sales, use, value-added, license, payroll, withholding, social security and franchise or other governmental taxes or charges, imposed by any Governmental Entity and such term shall include any interest, penalties or additions to tax attributable to such taxes and (ii) "Tax Return" means any report, return, statement or other written information required to be supplied to a taxing authority in connection with Taxes. SECTION 3.12 Employee Benefit Plans. (a) Schedule 3.12(a) of the Company Disclosure Schedule contains a true and complete list of each deferred compensation, incentive compensation, and equity compensation plan; "welfare" plan, fund or program (within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("Erisa")); "pension" plan, fund or program (within the meaning of Section 3(2) of ERISA); each material employment, termination or severance Contract; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by the Company or by any trade or business, whether or not incorporated (each, an "Erisa Affiliate"), that together with the Company would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA. The plans, funds, programs, agreements and arrangements listed on Schedule 3.12(a) of the Company Disclosure Schedule are referred to herein collectively as the "Plans". (b) With respect to each Plan, the Company has heretofore delivered or made available to Parent true and complete copies of the Plan and any amendments thereto (or if the Plan is not a written Plan, a description thereof), any related trust or other funding vehicle, the most recent reports or summaries required under ERISA or the Code and the most recent determination letter received from the Internal Revenue Service with respect to each Plan intended to qualify under Section 401 of the Code. (c) No liability under Title IV or Section 302 of ERISA has been incurred by the Company or any ERISA Affiliate that has not been satisfied in full, other than liability for premiums due the Pension Benefit Guaranty Corporation (which premiums have been paid when due). (d) Each Plan has been operated and administered in all material respects in accordance with its terms and applicable law, rule or regulation, including, but not limited

to, ERISA and the Code. (e) Each Plan intended to be "qualified" within the meaning of Section 401(a) of the Code has received a favorable determination opinion, notification and/or letter from the Internal Revenue Service, or in the case of such a Plan for which a favorable determination, opinion, notification and/or letter has not yet been received, the applicable remedial amendment period under Section 401(b) of the Code has not expired. (f) No Plan provides medical, surgical, hospitalization, death or similar benefits (whether or not insured) for employees or former employees of the Company or any Subsidiary for periods extending beyond their retirement or other termination of service, other than (i) coverage mandated by applicable A-14 156 law, (ii) death benefits under any "pension plan," or (iii) benefits the full cost of which is borne by the current or former employee (or his or her beneficiary), dependant or other covered person. (g) There are no pending, or to the knowledge of the Company, threatened or anticipated, material claims, by any employee or beneficiary covered under any such Plan, or otherwise involving any such Plan (other than routine claims for benefits). (h) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of the Company or any ERISA Affiliate to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer. (i) All employee benefit plans that are subject to the laws of any jurisdiction outside the United States are in material compliance with such applicable laws, including relevant Tax laws, and the requirements of any trust deed under which they were established, except for such exceptions to the foregoing which, in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect. (j) Schedule 3.12(j) of the Company Disclosure Schedule contains a list of all salaried employees of the Company and each of its Subsidiaries as of the date of this Agreement who customarily receive annual compensation in excess of $125,000 per calendar year, and correctly reflects, in all material respects, their salaries, any other material compensation payable to them (including compensation payable pursuant to bonus, deferred compensation or commission arrangements), their dates of employment and their positions. (k) Neither the Company nor any of its Subsidiaries is a party to any collective bargaining contract or other Contract with a labor union involving any of its employees. SECTION 3.13 Litigation; Compliance with Laws. (a) Except as set forth in the Company SEC Documents filed through the date of this Agreement, there is no action, suit or proceeding pending against, or to the knowledge of the Company threatened against, the Company or any Subsidiary of the Company or any of their respective properties before any court or arbitrator or any Governmental Entity which would reasonably be expected to have a Company Material Adverse Effect. (b) The Company and its Subsidiaries are in compliance with all applicable laws, ordinances, rules and regulations of any Governmental Entity applicable to their respective businesses and operations, except for such violations, if any, which, in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect. All governmental approvals, permits and licenses (collectively, "Permits") required to conduct the business of the Company and its Subsidiaries have been obtained, are in full force and effect and are being complied with except for such violations and failures to have Permits in full force and effect, if any, which, individually or in the aggregate, would not reasonably be expected to have a Company Material Adverse Effect. Without limiting the generality of the foregoing, neither the Company nor any of its Subsidiaries, and (to the knowledge of the Company) no director, officer, agent or employee of the Company or any of its Subsidiaries, has made (in a manner that would result in liability to the Company) any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended. SECTION 3.14 Certain Contracts and Arrangements. (a) As used in this Agreement, "Contract" means any legally binding written, oral or other agreement, contract, subcontract, lease, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan, commitment or undertaking, and "Company Contract" means any Contract: (i) to which the Company or any of its Subsidiaries is a party; (ii) by which the Company or any of its Subsidiaries or any asset of the Company or any of its Subsidiaries is bound or under which the Company or any of its Subsidiaries has, or may become subject to, any obligation; or (iii) under which A-15 157 the Company or any of its Subsidiaries has any legally enforceable right. For purposes of this Agreement, each of the following shall be deemed to constitute a "Material Contract": (i) any Contract (A) relating to the employment of, or the performance of services by, any employee or consultant (other than ordinary course, at-will offer letters), (B) pursuant to which the Company or any of its Subsidiaries is or may become obligated to make any severance, termination or similar payment to any current or former employee or director, or (C) pursuant to which the Company or any of its Subsidiaries is or may become obligated to make any bonus or similar

payment (other than payments constituting base salary) in excess of $100,000 to any current or former employee or director; (ii) any Contract relating to the acquisition, transfer, development, sharing or license of any Intellectual Property material to the Company's business (except for any Contract pursuant to which non-customized software is licensed to Company or any of its Subsidiaries under any third party software license generally available to the public, if such software is not incorporated into any product of the Company or any of its Subsidiaries or otherwise redistributed or sublicensed by the Company or any of its Subsidiaries); (iii) any Contract that provides for indemnification of any officer, director, employee or agent; (iv) any Contract imposing any material restriction on the right or ability of the Company or any of its Subsidiaries to compete in any line of business or in any geographic region with any other Person or to transact business or deal in any other manner with any other Person; (v) any Contract (other than Contracts evidencing Company Options) (A) relating to the acquisition, issuance, voting, registration, sale or transfer of any securities, (B) providing any Person with any preemptive right, right of participation, right of maintenance or similar right with respect to any securities, or (C) providing Company or any of its Subsidiaries with any right of first refusal with respect to, or right to repurchase or redeem, any securities; (vi) any Contract (A) to which any Governmental Entity is a party or under which any Governmental Entity has any rights or obligations, or (B) directly benefiting any Governmental Entity (including any subcontract or other Contract between Company or any of its Subsidiaries and any contractor or subcontractor to any Governmental Entity); (vii) any Contract that contemplates or involves the payment or delivery of cash or other consideration in an amount or having a value in excess of $1,000,000 in the aggregate, or contemplates or involves the performance of services having a value in excess of $1,000,000 in the aggregate; (viii) any Contract pursuant to which Company or any of its Subsidiaries distributes or sells any of its products, including distributor agreements and sales representative agreements and similar agreements but excluding those entered into in the ordinary course and cancelable without penalty on notice of 90 days or fewer and excluding purchase orders for less than $1,000,000; (ix) any Contract pursuant to which another Person manufactures or supplies any products, or components thereof, of the Company or any of its Subsidiaries, but excluding those entered into in the ordinary course and cancelable without penalty on notice of 90 days or fewer and excluding purchase orders for less than $1,000,000; (x) any Contract pursuant to which any Intellectual Property of Company or any of its Subsidiaries has been or is required to be placed into escrow for the benefit of any other Person; and (xi) any other Contract that is material to the business of the Company and its Subsidiaries, taken as a whole. (b) Each Company Contract that constitutes a Material Contract is, with respect to the Company or the applicable Subsidiary of the Company and, to the knowledge of the Company with respect to the other party thereto, valid and in full force and effect, and is enforceable in accordance with its terms, subject to A-16 158 (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. (c) Neither the Company nor any of its Subsidiaries has violated or breached, or committed any default under, any Material Contract, except for violations, breaches and defaults that have not had and would not reasonably be expected to have a Company Material Adverse Effect; and, to the best of the knowledge of the Company, no other Person has violated or breached, or committed any default under, any Company Contract, except for violations, breaches and defaults that have not had and would not reasonably be expected to have a Company Material Adverse Effect. To the knowledge of the Company, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) could reasonably be expected to result in (i) a default under any of the provisions of any Company Contract or (ii) the disclosure, release or delivery of any Intellectual Property owned by or exclusively licensed to the Company or any of its Subsidiaries, except in each such case for defaults, disclosures, releases or deliveries that have not had and would not reasonably be expected to have a Company Material Adverse Effect. SECTION 3.15 Environmental Matters. (a) (i) "Cleanup" means all actions required to: (A) cleanup, remove, treat or remediate Hazardous Materials (as defined hereinafter) in the indoor or outdoor environment; (B) prevent the Release (as defined hereinafter) of Hazardous Materials so that they do not migrate, endanger or threaten to endanger public health or welfare or the indoor or outdoor environment; (C) perform pre-remedial studies and investigations and post-remedial monitoring and care; or (D) respond to any government requests for information or documents in any way relating to cleanup, removal, treatment or remediation or potential cleanup, removal, treatment or remediation of Hazardous Materials in the indoor or outdoor environment. (ii) "Environmental Claim" means any claim, action, cause of action, investigation or written notice by any Person alleging potential liability (including, without limitation, potential liability for investigatory costs, Cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out

of, based on or resulting from (A) the presence or Release of any Hazardous Materials at any location, whether or not owned or operated by the Company or any of its Subsidiaries or (B) circumstances forming the basis of any violation of any Environmental Law (as defined hereinafter). (iii) "Environmental Laws" means all federal, state, local and foreign laws and regulations relating to pollution or protection of the environment, including, without limitation, laws relating to Releases or threatened Releases of Hazardous Materials or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, transport or handling of Hazardous Materials. (iv) "Hazardous Materials" means all substances defined as Hazardous Substances, Oils, Pollutants or Contaminants in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. Section 300.5, or defined as such by, or regulated as such under, any Environmental Law. (v) "Release" means any release, spill, emission, discharge, leaking, pumping, injection, deposit, disposal, dispersal, leaching or migration into the environment (including, without limitation, ambient air, surface water, groundwater and surface or subsurface strata) or into or out of any property, including the movement of Hazardous Materials through or in the air, soil, surface water, groundwater or property. (b) (i) To the knowledge of the Company, the Company and its Subsidiaries are in compliance with all applicable Environmental Laws (which compliance includes, but is not limited to, the possession by the Company and its Subsidiaries of all Permits and other governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof), except where failures to be in compliance would not, in the aggregate, reasonably be expected to have a Company Material Adverse Effect. Since May 3, 2000, and prior to the date of this Agreement, neither the Company nor any of its Subsidiaries has received any communication (written or oral), whether from a Governmental Entity, citizens' group, employee or otherwise, alleging that the Company or any of its A-17 159 Subsidiaries is not in such compliance, except where failures to be in compliance would not, in the aggregate, reasonably be expected to have a Company Material Adverse Effect. (ii) There is no Environmental Claim pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries or, to the knowledge of the Company, against any Person whose liability for any Environmental Claim the Company or any of its Subsidiaries has or may have retained or assumed either contractually or by operation of law that would reasonably be expected to have a Company Material Adverse Effect. (iii) There are no present or, to the knowledge of the Company, past, actions, activities, circumstances, conditions, events or incidents, including, without limitation, the Release or presence of any Hazardous Material that could form the basis of any Environmental Claim against the Company or any of its Subsidiaries or, to the knowledge of the Company, against any Person whose liability for any Environmental Claim the Company or any of its Subsidiaries has or may have retained or assumed either contractually or by operation of law that would, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect. (iv) The Company agrees to cooperate with Parent to effect the retention of any Permits or other governmental authorizations under Environmental Laws that will be required to permit the Company to conduct the business as conducted by the Company and its Subsidiaries immediately prior to the Closing Date. SECTION 3.16 Intellectual Property. (a) To the knowledge of the Company, the Company and its Subsidiaries own or have a valid right to use all Intellectual Property (as defined hereinafter) used by or reasonably necessary for the Company and its Subsidiaries to conduct their business as it is currently conducted. Schedule 3.16(a)(i) of the Company Disclosure Schedule sets forth, with respect to each item of Intellectual Property owned by the Company or any of its Subsidiaries and registered with any Governmental Entity, or for which an application has been filed and is currently pending with any Governmental Entity, (i) a brief description of such item of Intellectual Property, and (ii) the names of the jurisdictions covered by the applicable registration or application. The Company and its Subsidiaries have good, valid and exclusive title to all of the Intellectual Property registrations and applications identified or required to be identified in Schedule 3.16(a)(i) of the Company Disclosure Schedule, free and clear of all liens, claims and encumbrances of any nature, except for (i) any lien for current taxes not yet due and payable, and (ii) minor liens that have arisen in the ordinary course of business and that do not (individually or in the aggregate) materially detract from the value of the Intellectual Property subject thereto or materially impair the operations of Company or any of its Subsidiaries. Neither Company nor any of its Subsidiaries has developed jointly with any other Person any Intellectual Property that is material to the business of Company or its Subsidiaries and the loss of which would constitute a Company Material Adverse Effect and with respect to which such other Person has any rights to restrict the Company's use of such Intellectual Property. Neither the Company nor any of its Subsidiaries has licensed any Intellectual Property owned by or exclusively licensed to Company or any of its Subsidiaries and material to the business of the Company or its Subsidiaries to any Person on an exclusive basis. (b) To the knowledge of the

Company: (i) all of the applications and registrations relating to Intellectual Property owned by or exclusively licensed to the Company and its Subsidiaries set forth in Schedule 3.16(a)(i) are subsisting and unexpired, free of all liens, claims, or encumbrances of any nature, and have not been abandoned in any respect; (ii) the Company and its Subsidiaries, and all products manufactured, distributed or sold by the Company or any of its Subsidiaries, have not infringed and do not infringe the intellectual property rights (including, but not limited to, patent rights, copyrights, maskwork rights, trademark and similar rights, and trade secret rights) of any third party in any respect that would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect; (iii) no judgment, decree, injunction, rule or order has been rendered by any Governmental Entity which would or does limit, cancel or question the validity of, or the Company's or its Subsidiaries' rights in and to, any Intellectual Property owned by or exclusively licensed to the Company in any respect that would A-18 160 reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect; and (iv) neither the Company nor any of its Subsidiaries has received notice of any pending or threatened suit, action or proceeding that seeks to limit, cancel or question the validity of, or the Company's or its Subsidiaries' rights in and to, any Intellectual Property, which would reasonably be expected to have, individually or in the aggregate, a Company Material Adverse Effect, and, to the Company's knowledge, there is no basis for any such suit, action or proceeding. To the knowledge of the Company, no other Person is infringing, misappropriating or making any unlawful or unauthorized use of, and no Intellectual Property owned or used by any other Person infringes or conflicts with, any Intellectual Property owned by or exclusively licensed to the Company or any of its Subsidiaries and material to the business of the Company or its Subsidiaries. (c) To the knowledge of the Company, the Company and its Subsidiaries have not used and are not making use of any confidential or proprietary information or trade secrets of any other Person in breach of any Company Contract or in violation of any civil or criminal law. (d) The Company and its Subsidiaries have taken commercially reasonable security measures to protect the secrecy, confidentiality and value of their trade secrets, the loss or public disclosure of which would cause a Company Material Adverse Effect (the "Material Trade Secrets"). Without limiting the generality of the preceding sentence, neither the Company nor any of its Subsidiaries has, to the best of their knowledge, disclosed any of their Material Trade Secrets to any other Person who is not subject to binding confidentiality obligations that restrict the further disclosure of such Material Trade Secrets. Without limiting the generality of the foregoing, to the knowledge of the Company, (i) each current or former employee of the Company or any of its Subsidiaries who is or was involved on behalf of the Company or any of its Subsidiaries in, or who has contributed on behalf of the Company or any of its Subsidiaries to, the creation or development of any material Intellectual Property owned or used by the Company or any of its Subsidiaries has executed and delivered to the Company or the applicable Subsidiary of the Company an agreement (containing no material exceptions to or exclusions from the scope of its coverage deviating from the form referred to below in this clause (i) that is substantially identical to the form of Confidential Information and Invention Assignment Agreement previously delivered by the Company to Parent, and (ii) each current and former consultant and independent contractor to the Company or any of its Subsidiaries who is or was involved on behalf of the Company or any of its Subsidiaries in, or who has contributed on behalf of the Company or any of its Subsidiaries to, the creation or development of any material Intellectual Property owned or used by the Company or any of its Subsidiaries has executed and delivered to the Company or the applicable Subsidiary of the Company an agreement (containing no material exceptions to or exclusions from the scope of its coverage deviating from the form referred to below in this clause (ii) that is substantially identical to the form of Consultant Confidential Information and Invention Assignment Agreement previously delivered by the Company to Parent. To the Company's knowledge, no current or former employee, officer, director, stockholder, consultant or independent contractor has any right, claim or interest in or with respect to any material Intellectual Property owned by or exclusively licensed to the Company or any of its Subsidiaries that restricts the Company's ability to use or otherwise fully exploit such Intellectual Property. To the Company's knowledge, no employee of the Company or any Subsidiary of the Company has entered into any agreement that restricts or limits in any way the scope or type of work in which the employee may be engaged in a manner materially adverse to the Company's business or requires the employee to transfer, assign or disclose any Intellectual Property or information concerning the employee's work for the Company or any Subsidiary of the Company to anyone other than the Company or any Subsidiary of the Company. (e) For purposes of this Agreement "Intellectual Property" shall mean all rights, privileges and priorities provided under U.S., state and foreign law relating to intellectual property, including without limitation all: (x) (1) proprietary inventions, discoveries, processes, formulae, designs, methods, techniques,

procedures, concepts, developments, technology, improvements and modifications thereof and proprietary know-how relating thereto, whether or not patented or eligible for patent protection; (2) copyrights and copyrightable works, including, but not limited to, computer applications, programs, A-19 161 software, netlists, RTL tapeouts, test vectors, reference designs, schematics, databases and related items; (3) trademarks, service marks, trade names, and trade dress, the goodwill of any business symbolized thereby, and all common-law rights relating thereto; (4) trade secrets and other confidential information; and (5) semiconductor chip mask works; (y) all registrations, applications and recordings for any of the foregoing and continuations, continuations-in-part, counterparts, divisionals, reexaminations, and reissues of any of the foregoing; and (z) licenses or other similar agreements granting to the Company or any of its Subsidiaries the rights to use any of the foregoing. SECTION 3.17 Opinion of Financial Advisor. The Company has received the opinion of Credit Suisse First Boston to the effect that, as of the date of such opinion, and based upon and subject to the matters stated therein, the Exchange Ratio is fair from a financial point of view to the holders of Company Common Stock (other than Parent and its affiliates). SECTION 3.18 Board Recommendation. The Board of Directors of the Company has, as of the date of this Agreement, by unanimous vote (i) determined that this Agreement and the transactions contemplated hereby, including the Offer and the Merger, are advisable and are fair to and in the best interests of the Company and its stockholders, (ii) approved and adopted this Agreement and the transactions contemplated hereby, including the Offer and the Merger and the Stockholder Agreements and the transactions contemplated thereby, and (iii) resolved to recommend acceptance of the Offer and approval and adoption of this Agreement by the Company's stockholders. SECTION 3.19 Tax Treatment. Neither the Company nor any of its affiliates has taken any action or knows of any fact, agreement, plan or other circumstance that is reasonably likely to prevent the Transaction from qualifying as a reorganization under the provisions of Section 368(a) of the Code. SECTION 3.20 Finders' Fees. Except for Credit Suisse First Boston, whose fees will be paid by the Company, there is no investment banker, broker, finder or other intermediary which has been retained by, or is authorized to act on behalf of, the Company or any Subsidiary of the Company that would be entitled to any fee or commission from the Company, any Subsidiary of the Company, Parent or any of Parent's affiliates upon consummation of the transactions contemplated by this Agreement. The Company has furnished to Parent accurate and complete copies of all agreements under which any such fees, commissions or other amounts have been paid to or may become payable and all indemnification and other agreements related to the engagement of Credit Suisse First Boston. SECTION 3.21 Section 203 of the Delaware General Corporation Law. The Board of Directors of the Company has taken all actions so that the restrictions contained in Section 203 of the DGCL applicable to a "business combination" (as defined in such Section 203) will not apply to the execution, delivery or performance of this Agreement or the Stockholder Agreements or to the consummation of the Offer or the Merger or the other transactions contemplated by this Agreement or the Stockholder Agreements. ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB Parent and Merger Sub, jointly and severally represent and warrant to the Company, subject to such exceptions as are specifically disclosed in writing in the disclosure schedule supplied by Parent and Merger Sub to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule"), which disclosure shall provide an exception to or otherwise qualify the representations or warranties of Parent specifically referred to in such disclosure and such other representations and warranties to the extent such disclosure shall reasonably appear to be applicable to such other representations or warranties, as follows: SECTION 4.1 Corporate Existence and Power. Each of Parent and Merger Sub is a corporation duly incorporated (or other entity duly organized), validly existing and in good standing under the laws of its jurisdiction of incorporation, has all corporate or other power, as the case may be, and all Licenses required to carry on its business as now conducted except for failures to have any such License which A-20 162 would not, in the aggregate, have a Parent Material Adverse Effect (as defined in this Section 4.1). Parent is duly qualified to do business and is in good standing in each jurisdiction where the character of the property owned, leased or operated by it or the nature of its activities makes such qualification necessary, except for those jurisdictions where failures to be so qualified would not reasonably be expected to, in the aggregate, have a Parent Material Adverse Effect. As used herein, the term "Parent Material Adverse Effect" means a material adverse effect on or change in the financial condition, business, assets or results of operations of Parent and its Subsidiaries, taken as a whole; provided, however, that in no event shall any effect that directly results from (i) any change in general economic conditions that does not affect Parent and its Subsidiaries, taken as a whole, in a substantially disproportionate manner, (ii) any adverse change affecting the semiconductor industry generally that does not affect Parent and its Subsidiaries taken as a whole, in a substantially disproportionate

manner, (iii) any failure by Parent to meet revenue and earnings estimates in and of itself, and (iv) the announcement or pendency of this Agreement, constitute, or be considered in determining the existence of, a Parent Material Adverse Effect. Parent has heretofore delivered or made available to the Company true and complete copies of the governing documents or other organizational documents of like import, as currently in effect, of Parent. SECTION 4.2 Authorization. Each of Parent and Merger Sub has the requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement and the performance of its obligations hereunder have been duly and validly authorized by both the Board of Directors of Parent and the Board of Directors of Merger Sub, and no other proceedings on the part of Parent, including stockholder approval, or on the part of Merger Sub are necessary to authorize the execution, delivery and performance of this Agreement. This Agreement has been duly executed and delivered by Parent and Merger Sub and constitutes, assuming due authorization, execution and delivery of this Agreement by the Company, a valid and binding obligation of Parent and Merger Sub, respectively enforceable against each entity in accordance with its terms. SECTION 4.3 Consents and Approvals; No Violations. (a) Neither the execution and delivery of this Agreement nor the performance by Parent or Merger Sub of its respective obligations hereunder will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or Bylaws (or other governing or organizational documents) of Parent or of Merger Sub, as applicable, or (ii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration or obligation to repurchase, repay, redeem or acquire or any similar right or obligation) under any of the terms, conditions or provisions of any Contract to which Parent or Merger Sub is a party or by which any of them or any of the respective assets used or held for use by any of them may be bound or (iii) assuming that the filings, registrations, notifications, authorizations, consents and approvals referred to in subsection (b) below have been obtained or made, as the case may be, violate any order, injunction, decree, statute, rule or regulation of any Governmental Entity to which Parent or Merger Sub is subject, excluding from the foregoing clauses (ii) and (iii) such requirements, defaults, breaches, rights or violations (A) that would not, in the aggregate, reasonably be expected to have a Parent Material Adverse Effect and would not reasonably be expected to have a material adverse effect on the ability of Parent to consummate the transactions contemplated hereby or (B) that become applicable as a result of any acts or omissions by, or facts specifically pertaining to, the Company. (b) No filing or registration with, notification to, or authorization, consent or approval of, any Governmental Entity is required in connection with the execution and delivery of this Agreement by Parent or by Merger Sub or the performance by either entity of its obligations hereunder, except (i) the filing of the Certificate of Merger in accordance with the DGCL; (ii) compliance with any applicable requirements of the HSR Act or any foreign laws regulating competition, antitrust, investment or exchange controls; (iii) compliance with any applicable requirements of the Securities Act and the Exchange Act; (iv) compliance with any applicable requirements of state blue sky or takeover laws and (v) such other consents, approvals, orders, authorizations, notifications, registrations, declarations and filings (A) the failure of which to be obtained or made would not reasonably be expected to have a Parent Material Adverse Effect and would not have a material adverse effect on the ability of Parent or of Merger Sub to A-21 163 perform its obligations hereunder or (B) that become applicable as a result of any acts or omissions by, or facts specifically pertaining to, the Company. SECTION 4.4 Capitalization. The authorized capital stock of Parent consists of 1,300,000,000 shares of Parent Common Stock and 2,000,000 shares of preferred stock of Parent (the "Parent Preferred Stock"). The authorized capital stock of Merger Sub consists of 1,000 shares of Merger Sub Common Stock, 100 shares of which, as of the date hereof, are issued and outstanding and are held by Parent. As of March 16, 2001, there were (i) 322,528,165 shares of Parent Common Stock issued and outstanding and (ii) no shares of Parent Preferred Stock issued and outstanding. All shares of capital stock of Parent and Merger Sub have been duly authorized and validly issued and are fully paid and nonassessable and were not issued in violation of any preemptive rights. As of March 16, 2001, there were outstanding options to purchase approximately 60,400,000 shares of Parent Common Stock. Except as set forth in this Section 4.4 and except for changes since March 16, 2001, resulting from the exercise of options to purchase shares of Parent Common Stock outstanding on such date, as of the date of this Agreement there are outstanding (i) no shares of capital stock or other voting securities of Parent, (ii) no securities of Parent or any Subsidiary of Parent convertible into or exchangeable for shares of capital stock or voting securities of Parent and (iii) no options or other rights to acquire from Parent, and no obligation of Parent to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of Parent (the items in clauses (i), (ii) and (iii) being referred to collectively as the

"Parent Securities"). As of the date of this Agreement, there are no outstanding obligations of Parent or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Parent Securities. No Subsidiary of Parent owns any capital stock or other voting securities of Parent. SECTION 4.5 SEC Documents. Parent has filed all required reports, proxy statements, registration statements, forms and other documents with the SEC since January 1, 2000 (the "Parent SEC Documents"). As of their respective dates, and giving effect to any amendments thereto, (a) the Parent SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the applicable rules and regulations of the SEC promulgated thereunder and (b) none of the Parent SEC Documents contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. SECTION 4.6 Financial Statements. The financial statements of Parent (including, in each case, any notes and schedules thereto) included in the Parent SEC Documents (a) were prepared from the books and records of Parent and its Subsidiaries, (b) comply as to form in all material respects with all applicable accounting requirements and the rules and regulations of the SEC with respect thereto, (c) are in conformity with GAAP, applied on a consistent basis (except in the case of unaudited statements, as permitted by the rules and regulations of the SEC) and (d) fairly present, in all material respects, the consolidated financial position of Parent and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments which were not and are not expected to be, individually or in the aggregate, material in amount). SECTION 4.7 Disclosure Documents. Neither the Offer Documents nor the Registration Statement nor the Post-Effective Amendment, nor any of the information supplied or to be supplied by Parent or its Subsidiaries or Representatives for inclusion or incorporation by reference in the Schedule 14D-9 or the Proxy Statement will, at the respective times any such documents or any amendments or supplements thereto are filed with the SEC, are first published, sent or given to stockholders or become effective under the Securities Act or, in the case of the Proxy Statement, at the time of the Company Special Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The Offer Documents and the Registration Statement and the Post-Effective Amendment will comply as to form in all material respects with the requirements of all applicable laws, including the Securities Act and the Exchange Act and the rules and regulations thereunder. No representation or warranty is made by Parent or Merger Sub with A-22 164 respect to statements made or incorporated by reference in any such documents based on information supplied by the Company for inclusion or incorporation by reference therein. SECTION 4.8 Absence of Material Adverse Changes, Etc. Since December 31, 2000 there has not been any Parent Material Adverse Effect and no event has occurred or circumstance has arisen that would reasonably be expected to have a Parent Material Adverse Effect. SECTION 4.9 Litigation; Compliance With Laws. (a) Except as set forth in the Parent SEC Documents filed through the date of this Agreement, there is no action, suit or proceeding pending against, or to the knowledge of Parent threatened against, Parent or any Subsidiary of Parent or any of their respective properties before any court or arbitrator or any Governmental Entity which would reasonably be expected to have a Parent Material Adverse Effect. (b) Parent and its Subsidiaries are in compliance with all applicable laws, ordinances, rules and regulations of any federal, state, local or foreign governmental authority applicable to their respective businesses and operations, except for such violations, if any, which, in the aggregate, would not reasonably be expected to have a Parent Material Adverse Effect. All Permits required to conduct the business of Parent and its Subsidiaries have been obtained, are in full force and effect and are being complied with except for such violations and failures to have Permits in full force and effect, if any, which, individually or in the aggregate, would not reasonably be expected to have a Parent Material Adverse Effect. SECTION 4.10 Tax Treatment. Neither Parent nor any of its affiliates has taken any action or knows of any fact, agreement, plan or other circumstance that is reasonably likely to prevent the Transaction from qualifying as a reorganization under the provisions of Section 368(a) of the Code. SECTION 4.11 Interim Operations of Merger Sub. Merger Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement and has not engaged in any business activities or conducted any operations other than in connection with the transactions contemplated by this Agreement. ARTICLE V COVENANTS OF THE PARTIES SECTION 5.1 Conduct of the Business of the Company. Except as (i) contemplated by this Agreement, (ii) set forth on Schedule 5.1 of the Company Disclosure Schedule, or (iii) agreed in writing by Parent, after the date hereof and prior to the Appointment Time, the Company agrees as to itself and its Subsidiaries that the Company and its Subsidiaries shall conduct their respective operations according to the ordinary

course of business consistent with past practice, and each of the Company and its Subsidiaries will use commercially reasonable efforts to preserve intact its present business organization, to keep available the services of its present officers and employees and to maintain satisfactory relationships with licensors, licensees, suppliers, contractors, distributors, customers and others having business relationships with it. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Appointment Time, neither the Company nor any of its Subsidiaries shall, without the prior written consent of Parent (which consent shall not be unreasonably withheld): (a) declare, set aside or pay any dividend or other distribution with respect to any shares of capital stock of the Company or any Subsidiary of the Company (other than dividends or other distributions in the ordinary course of business consistent with past practice from a wholly owned Subsidiary of the Company to the Company), or repurchase, redeem or acquire any outstanding shares of capital stock or other equity securities of, or other ownership interests in, the Company or any Subsidiary of the Company; (b) amend any provision of the Certificate of Incorporation, Bylaws or similar organizational documents of, or any material term of any outstanding security issued by, the Company or any Subsidiary (other than any wholly owned Subsidiary) of the Company; A-23 165 (c) incur, assume or guarantee any indebtedness for borrowed money other than borrowings under existing short term credit facilities not in excess of $500,000 in the aggregate; (d) change any method of accounting or accounting practice by the Company or any Subsidiary of the Company, except for any such change required by reason of a change in GAAP; (e) (i) establish, adopt or amend any employee benefit plan, (ii) grant any severance, termination or similar pay to any director, officer or employee of the Company or any Subsidiary of the Company, (iii) enter into any employment, deferred compensation or other similar Contract (or any amendment to any such existing Contract) with any director, officer or employee of the Company or any Subsidiary of the Company, (iv) increase benefits payable under any existing severance or termination pay or similar policies or employment Contract or (v) increase compensation, bonus or other benefits payable to directors, officers or employees of the Company or any Subsidiary of the Company, in each case other than with respect to employees (other than officers of the Company or any Subsidiary of the Company) in the ordinary course of business consistent with past practice; (f) hire any employee at the level of Vice President or above or with an annual base salary in excess of $150,000, or promote any employee except in order to fill a position vacated after the date of this Agreement; (g) sell, issue or grant (or authorize the sale, issuance or grant of) any Company Securities or securities of any Subsidiary of the Company other than pursuant to (i) Company Options outstanding as of the date of this Agreement; (ii) the Warrant; or (iii) the terms of the Company ESPP; (h) amend or waive any of its rights under, or accelerate the vesting under, any provision of any of the Option Plans, any provision of any agreement evidencing any outstanding Company Option or any restricted stock purchase agreement, or otherwise modify any of the terms of any outstanding option, warrant or other security or any related agreement; (i) acquire, lease, license or dispose of assets material to the Company and its Subsidiaries, except for sales of inventory in the ordinary course of business consistent with past practice, or acquire or dispose of capital stock of any third party or enter into any similar transaction, or merge or consolidate with any third party; (j) enter into any joint venture, partnership or similar agreement with any Person other than a wholly owned Subsidiary of the Company; (k) modify, amend or terminate any Material Contracts, or waive, release or assign any material rights or claims under any Material Contracts, or enter into any Material Contracts, except in the ordinary course of business consistent with past practice; (l) make any capital expenditure (except that the Company may make capital expenditures that, when added to all other capital expenditures made on behalf of the Company after the date of this Agreement and prior to the Appointment Time, do not exceed the Company's forecasted capital expenditures for such period as previously provided to Parent); (m) commence or settle any action, suit or proceeding except for actions, suits or proceedings involving only the receipt of money by the Company or any Subsidiary of the Company or the payment by the Company or any Subsidiary of the Company of no more than $250,000 in the aggregate; or (n) authorize, commit or agree to take any of the foregoing actions except as otherwise permitted by this Agreement. SECTION 5.2 Stockholder Approval; Preparation of Registration Statement and Proxy Statement/ Prospectus. (a) If approval of the Company's stockholders is required by applicable law in order to consummate the Merger other than pursuant to Section 253 of DGCL, Parent and the Company shall, as soon as A-24 166 practicable following the Appointment Time, prepare and the Company shall file with the SEC the Proxy Statement and Parent and the Company shall prepare and Parent shall file with the SEC a post-effective amendment to the Registration Statement (the "Post-Effective Amendment") for the offer and sale of Parent Shares pursuant to the Merger and in which the Proxy Statement will be included as a prospectus. Each of the Company and Parent shall use commercially reasonable

efforts to have the Post-Effective Amendment declared effective under the Securities Act as promptly as practicable after such filing. The Company will use commercially reasonable efforts to cause the Proxy Statement to be mailed to the Company's stockholders as promptly as practicable after the Post-Effective Amendment is declared effective under the Securities Act. Parent shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or filing a general consent to service of process) required to be taken under any applicable state securities laws in connection with the issuance of Parent Shares in the Merger and the Company shall furnish all information concerning the Company and the holders of capital stock of the Company as may be reasonably requested in connection with any such action and the preparation, filing and distribution of the Proxy Statement. No filing of, or amendment or supplement to, or correspondence to the SEC or its staff with respect to, the Post-Effective Amendment will be made by Parent, or with respect to the Proxy Statement will be made by the Company, without providing the other party a reasonable opportunity to review and comment thereon. Parent will advise the Company, promptly after it receives notice thereof, of the time when the Post-Effective Amendment has become effective or any supplement or amendment has been filed, the issuance of any stop order, the suspension of the qualification of the Parent Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Post-Effective Amendment or comments thereon and responses thereto or requests by the SEC for additional information. The Company will advise Parent, promptly after it receives notice thereof, of any request by the SEC for the amendment of the Proxy Statement or comments thereon and responses thereto or requests by the SEC for additional information. If at any time prior to the Effective Time any information relating to the Company or Parent, or any of their respective affiliates, officers or directors, should be discovered by the Company or Parent which should be set forth in an amendment or supplement to either of the Post-Effective Amendment or the Proxy Statement, so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other parties hereto and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by law, disseminated to the stockholders of the Company. (b) If approval of the Company's stockholders is required by applicable law in order to consummate the Merger, other than pursuant to Section 253 of the DGCL, the Company shall establish, prior to or as soon as practicable following the date upon which the Post-Effective Amendment becomes effective, a record date (which shall be prior to or as soon as practicable following the date upon which the Post-Effective Amendment becomes effective) for, duly call, give notice of, convene and hold a meeting of its stockholders (the "Company Special Meeting") for the purpose of considering the approval and adoption of this Agreement and (with the consent of Parent) such other matters as may in the reasonable judgment of the Company be appropriate for consideration at the Company Special Meeting. Once the Company Special Meeting has been called and noticed, the Company shall not postpone or adjourn the Company Special Meeting (other than for the absence of a quorum) without the consent of Parent. The Post-Effective Amendment and the Proxy Statement shall include the opinion of Credit Suisse First Boston referred to in Section 3.17 hereof and, subject to the Company's right, pursuant to Section 5.4 hereof, to withhold, withdraw, modify, change or fail to make the Recommendations, the Board of Directors of the Company shall include in the Post-Effective Amendment and the Proxy Statement the Recommendations. Unless the Board of Directors of the Company shall have withheld, withdrawn, modified, changed or failed to make its Recommendations in compliance with Section 5.4, the Company shall use commercially reasonable efforts to take all actions necessary or advisable to secure the vote or consent of stockholders required by the DGCL to effect the Offer and the Merger. Notwithstanding anything to the contrary contained in this Agreement, the Company's obligation to establish a record date for, call, give notice of, A-25 167 convene and hold the Company Special Meeting in accordance with this Section 5.2(b) shall not be limited by or otherwise affected by the commencement, disclosure, announcement or submission of any Acquisition Proposal (as defined hereinafter). (c) The Company and Parent shall cooperate with one another (i) in connection with the preparation of the Proxy Statement and the Registration Statement, (ii) in determining whether any action by or in respect of, or filing with, any Governmental Entity is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by this Agreement and (iii) in seeking any such actions, consents, approvals or waivers or making any such filings, furnishing information required in connection therewith or with the Proxy Statement and the Registration Statement and seeking timely to obtain any such actions, consents, approvals or waivers. (d)

Notwithstanding clauses (a) and (b) above, if Merger Sub shall own by virtue of the Offer or otherwise at least 90% of the outstanding shares of Company Common Stock, the parties hereto shall take all necessary actions (including actions referred to in clause (a) above, as applicable) to cause the Merger to become effective, as soon as practicable after the expiration of the Offer, as it may be extended in accordance with the requirements of Section 1.1(a) hereof, without a meeting of stockholders of the Company, in accordance with Section 253 of the DGCL. SECTION 5.3 Access to Information; Confidentiality Agreement. Upon reasonable advance notice, between the date hereof and the Closing Date, each of the Company and Parent shall (i) give the other, its respective counsel, financial advisors, auditors and other authorized representatives (collectively, "Representatives") reasonable access during normal business hours to the offices, properties, books and records of such party and its Subsidiaries, (ii) furnish to the other and the other's Representatives such financial and operating data and other information relating to such party, its Subsidiaries and their respective operations as such Persons may reasonably request and (iii) instruct such party's employees, counsel and financial advisors to cooperate with the other in its investigation of the business of such party and its Subsidiaries; provided that any information and documents received by the other party or its Representatives (whether furnished before or after the date of this Agreement) shall be held in accordance with the Confidentiality Agreement dated as of March 16, 2001 between Parent and the Company (the "Confidentiality Agreement"), which, subject to Section 8.10, shall remain in full force and effect until the Effective Time pursuant to the terms thereof, notwithstanding the execution and delivery of this Agreement or the termination hereof. SECTION 5.4 No Solicitation. From the date hereof until the Effective Time or, if earlier, the termination of this Agreement, the Company shall not, whether directly or indirectly through its respective officers, directors, advisors, Representatives or other agents, (a) solicit, initiate or encourage any Acquisition Proposal (as defined hereinafter); (b) engage in discussions or negotiations with, or disclose any non-public information relating to the Company or its Subsidiaries or afford access to the properties, books or records of the Company or its Subsidiaries to, any Person (other than Parent or any designees of Parent) concerning or in connection with an Acquisition Proposal, (c) withhold, withdraw, modify or change in a manner adverse to Parent, or fail to make, any of its Recommendations or approve, endorse or recommend an Acquisition Proposal or (d) release or permit the release of any Person from, or waive or permit the waiver of any provision of, any confidentiality, "standstill" or similar agreement (other than as required pursuant to the terms thereof as in effect on the date hereof) under which the Company or any of its Subsidiaries has any rights, or fail to use commercially reasonable efforts to enforce or cause to be enforced each such agreement at the request of Parent; provided, however, that in each case, if (i) after the date of this Agreement, an unsolicited, bona fide written Acquisition Proposal is made to the Company and is not withdrawn; (ii) the Company provides Parent with prior notice of any meeting of the Company's Board of Directors (which notice shall be given at the same time notice is given to the Company's directors) at which such Board of Directors will consider and determine whether such Acquisition Proposal is, or could reasonably be expected to be, a Superior Proposal (as defined hereinafter); (iii) the Company's Board of Directors believes in good faith, after consultation with the Company's financial advisor, that such Acquisition Proposal is, or could reasonably be expected to be, a A-26 168 Superior Proposal; (iv) the Company's Board of Directors believes in good faith, after consultation with the Company's outside legal counsel, that the failure to engage in such negotiations or discussions, provide such information, so withhold, withdraw, modify, change or fail to make its Recommendations, so approve, endorse or recommend such Acquisition Proposal or release or fail to enforce such "standstill" or similar agreement is inconsistent with the fiduciary duties of the Board of Directors of the Company under applicable law; (v) at or prior to furnishing any such nonpublic information to, entering into discussions or negotiations with, or releasing from a "standstill" or similar agreement, or failing to enforce such a provision against, any Person, the Company gives Parent written notice of the identity of such Person and of the Company's intention to furnish nonpublic information to, enter into discussions or negotiations with, or release from a "standstill" or similar agreement or fail to enforce such a provision against, such Person, and the Company receives from such Person an executed confidentiality agreement (including "standstill" provisions) not substantially less favorable to the Company than the Confidentiality Agreement; and (vi) at the time of or prior to furnishing any such nonpublic information to such Person, the Company furnishes such nonpublic information to Parent (to the extent such nonpublic information has not been previously furnished by the Company to Parent), then the Company may furnish information with respect to the Company and its Subsidiaries to such Person, participate with such Person in negotiations regarding such Acquisition Proposal, enter into discussions or negotiations with, or release from a "standstill" or similar agreement or fail to enforce such a provision against, such Person, withhold,

withdraw, modify or change in a manner adverse to Parent, or fail to make, its Recommendations, or approve, endorse or recommend such Acquisition Proposal, as the case may be. The Company shall immediately cease and cause to be terminated any existing discussions with any Person that relate to any Acquisition Proposal. The Company shall promptly (and in any event within one (1) business day) after receipt of any Acquisition Proposal provide Parent with a copy of any written Acquisition Proposal and the name of the Person making such Acquisition Proposal and a written statement with respect to any non-written Acquisition Proposal received, which statement shall include the identity of the Person making the Acquisition Proposal and the terms thereof. The Company shall promptly (and in any event within one (1) business day) advise Parent of any material modification or proposed modification thereto. For purposes of this Agreement, "Acquisition Proposal" means any offer or proposal for a merger, consolidation, recapitalization, liquidation or other business combination involving the Company or the acquisition or purchase of 15% or more of any class of equity securities of the Company, or any tender offer (including self-tenders) or exchange offer that if consummated would result in any Person beneficially owning 15% or more of any class of any equity securities of the Company, or any transaction involving the sale, lease, license or other disposition (by sale, merger or otherwise) of 15% or more of the book or market value of assets (including, without limitation, securities of any Subsidiary of the Company) of the Company and its Subsidiaries, taken as a whole; provided, however, that for purposes of Section 7.3(a)(ii) hereof, all references in this sentence to "15%" shall be deemed to be replaced with references to "40%." As used herein, a "Superior Proposal" shall mean an unsolicited, bona fide written proposal made by a third party involving the purchase by such third party of a majority of the outstanding Company Securities or 50% or more of the book or market value of the assets (including, without limitation, securities of any Subsidiary of the Company) of the Company and its Subsidiaries taken as a whole which the Company's Board of Directors believes in good faith, after consultation with the Company's financial advisor, (i) is reasonably likely to result in a transaction providing greater benefits to the Company's stockholders than those provided pursuant to this Agreement and (ii) if applicable, is reasonably capable of being financed by the Person making such Acquisition Proposal. Nothing contained in this Agreement shall prohibit the Company or the Company's Board of Directors from taking and disclosing to the Company's stockholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2(a) promulgated under the Exchange Act or from making any disclosure required by applicable law; provided, however, that unless the conditions set forth in clauses (i) through (vi) of the proviso to the first sentence of this Section 5.4 are satisfied, the Company's Board of Directors may not withhold, withdraw, modify or change in a manner adverse to Parent, or fail to make, A-27 169 any of its Recommendations in connection with, or approve, endorse or recommend, any Acquisition Proposal. The Company also will promptly request each Person that has executed, on or after January 1, 2000, a confidentiality agreement in connection with its consideration of an Acquisition Proposal or equity investment to return all confidential information heretofore furnished to such Person by or on behalf of the Company or any of its Subsidiaries. SECTION 5.5 Director and Officer Liability. (a) Parent and the Company agree that all rights to indemnification and all limitations on liability existing in favor of any Indemnitee (as defined in Section 5.5(b) hereof) as provided in the Certificate of Incorporation or Bylaws of the Company or an agreement between an Indemnitee and the Company or a Subsidiary of the Company as in effect as of the date hereof shall survive the Merger and continue in full force and effect in accordance with its terms. (b) After the Effective Time, Parent shall cause the Surviving Corporation to indemnify and hold harmless the individuals who on or prior to the Effective Time were officers or directors of the Company and any of its Subsidiaries (the "Indemnitees") to the same extent as set forth in subsection (a) above. (c) For six (6) years after the Effective Time, the Surviving Corporation shall provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the Effective Time covering each person currently covered by the Company's officers' and directors' liability insurance policy on terms with respect to coverage and amount at least as favorable as those of such policy in effect on the date hereof; provided, however, that in no event shall the Surviving Corporation be required to expend more than an amount per year equal to the lesser of $450,000 or 200% of current annual premiums paid by the Company for such insurance (the "Maximum Amount") to maintain or procure insurance coverage pursuant hereto; provided, further, that if the amount of the annual premiums necessary to maintain or procure such insurance coverage exceeds the Maximum Amount, the Surviving Corporation shall maintain or procure, for such six-year period, the most advantageous policies of directors' and officers' insurance obtainable for an annual premium equal to the Maximum Amount. (d) The obligations of Parent and the Surviving Corporation under this Section 5.5 shall not be terminated or modified in such a manner as to adversely affect any Indemnitee to whom this Section 5.5 applies without the consent

of such affected Indemnitee (it being expressly agreed that the Indemnitees to whom this Section 5.5 applies shall be third party beneficiaries of this Section 5.5). (e) In the event Parent or the Surviving Corporation 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 each case, proper provision shall be made so that the successors and assigns of Parent or the Surviving Corporation, as the case may be, honor the indemnification obligations set forth in this Section 5.5. SECTION 5.6 Commercially Reasonable Efforts. Upon the terms and subject to the conditions of this Agreement, each party hereto shall use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement. SECTION 5.7 Certain Filings. (a) Each party hereto shall file with the Department of Justice and the Federal Trade Commission a Pre-Merger Notification and Report Form pursuant to the HSR Act in respect of the transactions contemplated hereby as soon as practicable (and each party hereto will use its commercially reasonable efforts to cause such filings to be made within five (5) business days after the date of this Agreement), and each party will use commercially reasonable efforts to take or cause to be taken all actions necessary, including to promptly and fully comply with any requests for information from regulatory Governmental Entities, to obtain any clearance, waiver, approval or authorization relating to the HSR Act that is necessary to enable the parties to consummate the transactions contemplated by this Agreement. Without A-28 170 limiting the provisions of this Section 5.7, each party hereto shall use commercially reasonable efforts to promptly make the filings required to be made by it with all foreign Governmental Entities in any jurisdiction in which the parties believe it is necessary or advisable. (b) The Company and Parent shall each use commercially reasonable efforts to resolve such objections, if any, as may be asserted with respect to the Offer or the Merger or any other transaction contemplated by this Agreement under any Antitrust Law (as defined in Section 5.7(d)). If any administrative, judicial or legislative action or proceeding is instituted (or threatened to be instituted) challenging the Offer or the Merger or any other transaction contemplated by this Agreement as violative of any Antitrust Law, the Company and Parent shall each cooperate to contest and resist any such action or proceeding, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) that is in effect and that restricts, prevents or prohibits consummation of the Offer or the Merger or any other transaction contemplated by this Agreement, including, without limitation, by pursuing all reasonable avenues of administrative and judicial appeal. Notwithstanding anything to the contrary in this Agreement, none of Parent, any of Parent's Subsidiaries or the Surviving Corporation shall be required (and the Company shall not, without the prior written consent of Parent, agree, but shall if so directed by Parent, agree) to hold separate or divest any of their respective assets or operations or enter into any consent decree or licensing or other arrangement with respect to any of their assets or operations. (c) Each of the Company and Parent shall promptly inform the other party of any material communication received by such party from the Federal Trade Commission, the Antitrust Division of the Department of Justice or any other governmental or regulatory authority regarding any of the transactions contemplated hereby. (d) "Antitrust Law" means the Sherman Antitrust Act, as amended, the Clayton Antitrust Act, as amended, and all other federal, state and foreign statutes, rules, regulations, orders, decrees, administrative and judicial doctrines, and other laws that are designed or intended to prohibit, restrict or regulate competition or actions having the purpose or effect of monopolization or restraint of trade. SECTION 5.8 Public Announcements. Neither the Company, Parent nor any of their respective affiliates shall issue or cause the publication of any press release or other public announcement with respect to the Offer or the Merger, this Agreement or the other transactions contemplated hereby without the prior written consent of the other party, except as may be required by law or by any listing agreement with, or the policies of, a national securities exchange in which circumstance reasonable efforts to consult will still be required to the extent practicable. SECTION 5.9 Further Assurances. At and after the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company, any other actions to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets of the Company acquired or to be acquired by the Surviving Corporation, as a result of, or in connection with, the Merger. SECTION 5.10 Employee Matters. (a) From and for a period of one year following the date of Closing, Parent shall, at its election, either (i) continue (or cause Parent's Subsidiaries to continue) any Plans to which the Company and/or any of its Subsidiaries is a party, as such

Plans are in effect on the date hereof (the "Company Plans"), or (ii) arrange for each participant in any Company Plans who become employees of Parent or any of its Subsidiaries ("Company Participants") to be eligible to participate in any similar plans or programs of Parent on terms no less favorable than those offered to similarly situated employees of Parent. On and after the date of Closing, employees of the Company and any of its Subsidiaries who become and remain employees of Parent or any of its Subsidiaries shall be treated no less favorably than similarly situated A-29 171 employees of Parent or any of its Subsidiaries with respect to compensation, employee benefits and terms and conditions of employment. (b) No later than one year from the date of Closing, Parent shall, or shall cause Parent's Subsidiaries to, arrange for all Company Participants not then participating to become eligible to be participants in all employee benefit plans of Parent on terms no less favorable than those offered to similarly situated employees of Parent. (c) To the extent service is relevant for purposes of eligibility, participation or vesting under any employee benefit plan, program or arrangement established or maintained by Parent or its Subsidiaries for the benefit of employees of the Surviving Corporation or its Subsidiaries, or for benefit accrual (other than under any defined benefits pension plan and other than where it would result in a duplication of benefits), then, to extent permitted by law and except as set forth on Schedule 5.10 of the Parent Disclosure Schedule, the employees of the Surviving Corporation and its Subsidiaries shall be credited for service accrued prior to the date of Closing with the Company or its Subsidiaries, and with respect to any welfare benefit plans to which such employee may become eligible, Parent and its Subsidiaries shall cause such plans to provide credit for the year of Closing for documented co-payments, deductibles and maximum out-of-pocket payments by such employees and shall, to extent permitted by law, waive all pre-existing condition exclusions and waiting periods, other than limitations or waiting periods that had not been satisfied, under any welfare plans maintained by the Company and its Subsidiaries prior to the date of Closing. SECTION 5.11 Tax-Free Reorganization Treatment. Prior to and after the Appointment Time and through the Effective Time, each of Parent and the Company shall take all reasonable actions necessary to cause the Transaction to qualify as a reorganization under the provisions of Section 368(a) of the Code and to obtain the opinions of counsel referred to in Annex I hereto, and neither party will take any action inconsistent therewith. Each of the Company and Parent shall provide customary tax representation letters prior to the Appointment Time. SECTION 5.12 Blue Sky Permits. Parent shall use commercially reasonable efforts to obtain, prior to the effective date of the Registration Statement, all necessary state securities laws or "blue sky" permits and approvals required to carry out the transactions contemplated by this Agreement, the Offer and the Merger, and will pay all expenses incident thereto, provided, however, that Parent shall not be required (a) to qualify to do business as a foreign corporation in any jurisdiction in which it is not now qualified or (b) to file a general consent to service of process in any jurisdiction. SECTION 5.13 Listing. Parent shall use commercially reasonable efforts to cause the Parent Shares to be issued in the Merger or upon exercise of Assumed Options to be listed on the NYSE, subject to notice of official issuance thereof, prior to the Closing Date. SECTION 5.14 State Takeover Laws. If any "fair price," "business combination" or "control share acquisition" statute or other similar statute or regulation is or may become applicable to the Offer, the Merger, or the Stockholder Agreements, the Company and Parent shall each take such actions as are necessary so that the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of any such statute or regulation on the Offer, the Merger and the Stockholder Agreements. SECTION 5.15 Certain Notifications. Between the date hereof and the Effective Time, each party shall promptly notify the other party hereto in writing after becoming aware of the occurrence of any event which will, or is reasonably likely to, result in the failure to satisfy any of the conditions specified in Annex I hereto or Article VI, as applicable. SECTION 5.16 Voting of Shares. Parent and Merger Sub agree to vote all shares of Company Common Stock acquired in the Offer or otherwise beneficially owned by them or any of their Subsidiaries as of the applicable record date in favor of adoption of this Agreement at the Company Stockholder Meeting. A-30 172 SECTION 5.17 Action by Board of Directors. If the Company delivers the Section 16 Information (as defined in this Section 5.17) to Parent at least 10 days prior to the Effective Time, then, prior to the Effective Time, the Board of Directors of Parent, or an appropriate committee of non-employee directors thereof, shall adopt a resolution consistent with the interpretative guidance of the SEC so that (i) the assumption of the Company Options held by Company Insiders (as defined hereinafter) in the Merger, and (ii) the receipt by Company Insiders of Parent Common Stock in exchange for Company Common Stock pursuant to the Merger, shall in each case be an exempt transaction for purposes of Section 16 of the Exchange Act. For purposes of this Section 5.17, (1) "Company Insider" shall mean any officer or director of the Company who may become a covered person of Parent for purposes

of Section 16 of the Exchange Act and (2) "Section 16 Information" shall mean the following information for each Company Insider: (A) the number of shares of Company Common Stock held by such individual and expected to be exchanged for shares of Parent Common Stock in the Merger; and (B) the number of Company Options held by such individual and expected to be converted into options to purchase shares of Parent Common Stock in connection with the Merger. SECTION 5.18 Form S-8. Parent agrees to file a registration statement on Form S-8 for the shares of Parent Common Stock issuable with respect to the Assumed Options as soon as is reasonably practicable following the Effective Time, but in no event later than five (5) business days following the Effective Time. Parent shall use its commercially reasonable efforts to maintain the effectiveness of such registration statement (and maintain the current status of the prospectus contained therein) for so long as such Assumed Options remain outstanding. SECTION 5.19 Comfort Letter. The Company shall use all reasonable efforts to cause to be delivered to Parent a letter of the Company's independent accountants, dated no more than two business days before the date on which the Registration Statement becomes effective (and reasonably satisfactory in form and substance to Parent), that is customary in scope and substance for "comfort letters" delivered by independent public accountants in connection with registration statements similar to the Registration Statement. ARTICLE VI CONDITIONS TO THE MERGER SECTION 6.1 Conditions to Each Party's Obligations. The respective obligations of the Company, Parent and Merger Sub to consummate the Merger are subject to the satisfaction or, to the extent permitted by applicable law, the waiver on or prior to the Effective Time of each of the following conditions: (a) If required by the DGCL, this Agreement shall have been adopted and the Merger approved by the stockholders of the Company; (b) Merger Sub shall have accepted for exchange and exchanged all of the shares of Company Common Stock tendered pursuant to the Offer; (c) No provision of any applicable law or regulation and no judgment, injunction, order or decree shall prohibit the consummation of the Merger or the other transactions contemplated by this Agreement; and (d) The Registration Statement or the Post-Effective Amendment, as the case may be, shall have become effective under the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order, and any material "blue sky" and other state securities laws applicable to the registration and qualification of the Company Common Stock shall have been complied with. A-31 173 ARTICLE VII TERMINATION SECTION 7.1 Termination. Notwithstanding anything herein to the contrary, this Agreement may be terminated and the transactions contemplated by this Agreement may be abandoned: (a) by the mutual written consent of the Company and Parent; (b) at any time prior to the Effective Time, by either the Company or Parent, if: (i) the Offer shall have expired or been terminated in accordance with the terms of this Agreement without Parent or Merger Sub having accepted for exchange any shares of Company Common Stock pursuant to the Offer; provided, however, that the right to terminate this Agreement under this Section 7.1(b)(i) shall not be available to any party whose action or failure to act has been a principal cause of the expiration or termination of the Offer without shares of Company Common Stock having been accepted for exchange thereunder if such action or failure to act constitutes a breach of this Agreement; (ii) the Offer has not been consummated on or before September 30, 2001 (the "Outside Date"); provided, however, that the right to terminate this Agreement under this Section 7.1(b)(ii) shall not be available to any party whose action or failure to act has been a principal cause of the failure of the Offer to have been consummated on or before such date if such action or failure to act constitutes a breach of this Agreement; or (iii) there shall be any applicable law or regulation that makes consummation of the Offer or the Merger illegal or otherwise prohibited or any judgment, injunction, order or decree of any Governmental Entity having competent jurisdiction enjoining or otherwise prohibiting the Company or Parent from consummating the Offer or the Merger is entered and such judgment, injunction, judgment or order shall have become final and nonappealable; (c) by Parent if, prior to the Appointment Time, (i) the Board of Directors of the Company shall have withdrawn or modified or amended in any respect adverse to Parent any of its Recommendations or shall otherwise have made a disclosure to stockholders of the Company or a public announcement that makes it reasonably apparent that, absent the restrictions of Section 5.4 of this Agreement, the Board of Directors of the Company would so withdraw, modify or amend any of its Recommendations, (ii) the Board of Directors of the Company shall have recommended to the stockholders of the Company any Acquisition Proposal or shall have resolved or announced an intention to do so, (iii) a tender offer or exchange offer for 15% or more of the outstanding shares of Company Common Stock (other than the Offer) is announced or commenced and either (A) the Board of Directors of the Company recommends acceptance of such tender offer or exchange offer by its stockholders, or (B) within ten (10) business days of such commencement, the Board of Directors of the Company shall have failed to recommend against acceptance of such tender offer or exchange offer by its stockholders or (iv) a material breach of

Section 5.4 occurs and Parent provides a written termination notice relating thereto within ten (10) days of Parent becoming aware thereof; (d) by the Company, prior to the Appointment Time (but not less than five business days after Parent's receipt of the written notice referred to in clause (ii) of this Section 7.1(d)), to enter into a definitive acquisition agreement providing for the consummation of a Superior Proposal provided, that: (i) the Company is not in breach of its obligations under Section 5.4 hereof in connection with such Superior Proposal, (ii) the Company shall have notified Parent in writing that the Company has received a Superior Proposal and intends to enter into a definitive acquisition agreement providing for the consummation of such Superior Proposal, attaching the most current version of such agreement to such notice, and (iii) Parent shall not have made, within five (5) business days after receipt of the Company's written notice of its intention to enter into a definitive acquisition agreement providing for the consummation of a Superior Proposal, an offer from Parent that the Board of Directors of the A-32 174 Company determines in good faith, after consultation with its financial advisor and its outside legal counsel, provides greater benefits to the Company's stockholders than such Superior Proposal; (e) by the Company, at any time prior to the Appointment Time, upon a material breach of any covenant or agreement on the part of Parent set forth in this Agreement, or if any representation or warranty of Parent shall have been untrue or inaccurate when made or shall have become untrue or inaccurate such that, in the aggregate, in the case of such representations and warranties, such untruths or inaccuracies would reasonably be expected to have a Parent Material Adverse Effect; provided, however, that if such untruth or inaccuracy in Parent's representations and warranties or breach by Parent is curable by Parent through exercise of commercially reasonable efforts, then the Company may not terminate this Agreement pursuant to this Section 7.1(e) until the earlier of (i) the expiration of a thirty (30)-day period after delivery of written notice from the Company to Parent of such untruth or inaccuracy or breach, or (ii) the date on which Parent ceases to exercise commercially reasonable efforts to cure such untruth or inaccuracy or breach (it being understood that the Company may not terminate this Agreement pursuant to this Section 7.1(e) if such untruth or inaccuracy or breach by Parent is cured during such thirty-day period); or (f) by Parent, at any time prior to the Appointment Time, upon a breach of any covenant or agreement on the part of the Company set forth in this Agreement, or if any representation or warranty of the Company shall have been untrue or inaccurate when made or shall have become untrue or inaccurate such that Merger Sub would not be required to accept for exchange any shares of Company Common Stock tendered pursuant to the Offer by virtue of Sections (b), (c) or (d) of Annex I hereto if the expiration of the Offer occurred on the date the breach, untruth or inaccuracy is communicated in writing to the Company by Parent; provided, however, that if such untruth or inaccuracy in the Company's representations and warranties or breach by the Company is curable by the Company through exercise of commercially reasonable efforts, then Parent may not terminate this Agreement pursuant to this Section 7.1(f) until the earlier of (i) the expiration of a thirty (30) day period after delivery of written notice from Parent to the Company of such untruth or inaccuracy or breach, or (ii) the date on which the Company ceases to exercise commercially reasonable efforts to cure such untruth or inaccuracy or breach (it being understood that Parent may not terminate this Agreement pursuant to this Section 7.1(f) if such untruth or inaccuracy or breach by the Company is cured during such thirty-day period). The party desiring to terminate this Agreement shall give written notice of such termination to the other party. SECTION 7.2 Effect of Termination. Except for any willful breach of this Agreement by any party hereto (which willful breach and liability therefor shall not be affected by the termination of this Agreement or the payment of any Termination Fee (as defined in Section 7.3(a) hereof)), if this Agreement is terminated pursuant to Section 7.1 hereof, then this Agreement shall become void and of no effect with no liability on the part of any party hereto; provided, however, that notwithstanding such termination the agreements contained in Sections 7.2, 7.3 and 8.7 hereof and, subject to Section 8.10, the proviso to Section 5.3 hereof shall survive the termination hereof. SECTION 7.3 Fees; Expenses. (a) The Company agrees to pay Parent in immediately available funds by wire transfer an amount equal to $33 million (the "Termination Fee")if: (i) this Agreement is terminated by Parent pursuant to Section 7.1(c) hereof; (ii) this Agreement is terminated by Parent or the Company, as applicable, pursuant to Section 7.1(b)(i) or Section 7.1(b)(ii) hereof, if (A) following the date hereof and prior to such termination of this Agreement, an Acquisition Proposal shall have been publicly announced and shall not have been publicly and unconditionally withdrawn, and (B) within twelve (12) months following such termination of this Agreement, either (1) the transaction contemplated by any Acquisition Proposal (a "Company Acquisition") is consummated (it being understood that such Acquisition A-33 175 Proposal need not be the same Acquisition Proposal identified in clause (A) of this Section 7.3(a)(ii)), or (2) the Company enters into a definitive agreement providing for a Company Acquisition and such Company Acquisition is later consummated; or (iii) this Agreement is

terminated by the Company pursuant to Section 7.1(d) hereof. (b) The Company shall pay the Termination Fee paid pursuant to this Section 7.3 (if all conditions thereto have been satisfied) (i) at or prior to the termination of this Agreement by the Company in the circumstances described in Section 7.3(a)(iii) hereof, or (ii) not later than one (1) business day after the termination of this Agreement by Parent in the circumstances described in Section 7.3(a)(i) hereof, or (iii) at or prior to the consummation of the applicable Company Acquisition in the case of a Termination Fee payable pursuant to Section 7.3(a)(ii) hereof. (c) All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, provided, however, that Parent and the Company shall share equally all fees and expenses, other than attorneys' and accountants' fees, incurred in connection with (i) the filing, printing and mailing of the Registration Statement, the Preliminary Prospectus, the Offer Documents, the Post-Effective Amendment and the Proxy Statement and any amendments or supplements thereto and (ii) the filing by any of the parties hereto of the Pre-Merger Notification and Report Forms relating to the Offer and the Merger under the HSR Act and the filing of any notice or other document under any applicable foreign Antitrust Law. No party shall pay any expenses of any stockholder of the Company. ARTICLE VIII MISCELLANEOUS SECTION 8.1 Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement to any party hereunder shall be in writing and deemed given upon (a) personal delivery, (b) transmitter's confirmation of a receipt of a facsimile transmission, (c) confirmed delivery by a standard overnight carrier or when delivered by hand or (d) when mailed in the United States by certified or registered mail, postage prepaid, addressed at the following addresses (or at such other address for a party as shall be specified by notice given hereunder): If to the Company, to: C-Cube Microsystems Inc. 1778 McCarthy Boulevard Milpitas, California 95035 Fax: (408) 944-6314 Attention: Chief Executive Officer with a copy to: Wilson Sonsini Goodrich & Rosati Professional Corporation One Market Spear Tower, Suite 3300 San Francisco, California 94105 Fax: (415) 947-2099 Attention: Steve L. Camahort, Esq. A-34 176 If to Parent and Merger Sub, to: LSI Logic Corporation 1551 McCarthy Boulevard Milpitas, California 95035 Fax: (408) 433-6896 Attention: General Counsel with a copy to: Cooley Godward LLP 3000 El Camino Real Five Palo Alto Square Palo Alto, California 94306-2155 Fax: (650) 849-7400 Attention: Richard E. Climan, Esq. Keith A. Flaum, Esq. SECTION 8.2 Survival of Representations and Warranties. The representations and warranties contained herein and in any certificate or other writing delivered pursuant hereto shall not survive the Effective Time. All other covenants and agreements contained herein which by their terms are to be performed in whole or in part, or which prohibit actions, subsequent to the Effective Time, shall survive the Effective Time in accordance with their terms. SECTION 8.3 Interpretation. References herein to the "knowledge" of a party shall mean the actual knowledge of the executive officers of such party. Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation." As used in this Agreement, the term "affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under the Exchange Act. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement. Any matter disclosed pursuant to any Schedule of the Company Disclosure Schedule or the Parent Disclosure Schedule shall not be deemed to be an admission or representation as to the materiality of the item so disclosed. SECTION 8.4 Amendments, Modification and Waiver. (a) Except as may otherwise be provided herein, any provision of this Agreement may be amended, modified or waived by the parties hereto, by action taken by or authorized by their respective Board of Directors, prior to the Closing Date if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Company and Parent or, in the case of a waiver, by the party against whom the waiver is to be effective; provided, however that after the adoption of this Agreement by the stockholders of the Company, no such amendment shall be made except as allowed under applicable law. (b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law. SECTION 8.5 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that neither the Company nor Parent may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other party hereto. Merger Sub may assign any of its rights and delegate or otherwise transfer any of its obligations under this Agreement to any wholly-owned Subsidiary of Parent without the consent of the Company or any other Person. A-35

177 SECTION 8.6 Specific Performance. The parties acknowledge and agree that any breach of the terms of this Agreement would give rise to irreparable harm for which money damages would not be an adequate remedy and accordingly the parties agree that, in addition to any other remedies, each shall be entitled to enforce the terms of this Agreement by a decree of specific performance without the necessity of proving the inadequacy of money damages as a remedy. SECTION 8.7 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) as to all matters, including, but not limited to, matters of validity, construction, effect, performance and remedies. SECTION 8.8 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated herein are not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner. SECTION 8.9 Third Party Beneficiaries. This Agreement is solely for the benefit of the Company and its successors and permitted assigns, with respect to the obligations of Parent under this Agreement, and for the benefit of Parent and its successors and permitted assigns, with respect to the obligations of the Company under this Agreement, and this Agreement shall not, except to the extent necessary to enforce the provisions of Section 5.5 hereof, be deemed to confer upon or give to any other third party any remedy, claim, liability, reimbursement, cause of action or other right. SECTION 8.10 Entire Agreement. This Agreement, including the Annex, the Exhibit and the Schedules hereto, constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes all other prior agreements or understandings, both written and oral, among the parties or any of them with respect to the subject matter hereof; provided, however, that Sections 1 through 7, Sections 9 through 13 and the third paragraph of Section 8 of the Confidentiality Agreement shall not be superseded and shall remain in full force and effect (it being understood that the first two paragraphs of Section 8 of the Confidentiality Agreement, and the "standstill" provisions contained therein, shall be deemed to have terminated as of the date of this Agreement and shall be of no further force or effect); provided, however, that the first two (2) paragraphs of Section 8 of the Confidentiality Agreement shall again become operative in accordance with their terms upon the termination of this Agreement (other than (i) in the case of such a termination of this Agreement pursuant to Section 7.1(c), Section 7.1(d) or Section 7.1(f) or under circumstances pursuant to which the Termination Fee may become payable pursuant to Section 7.3(a)(ii) and (ii) under circumstances pursuant to which such provisions would have terminated by their terms if such provisions had been operative during the period between the date hereof and such termination of this Agreement). SECTION 8.11 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be deemed an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto. SECTION 8.12 Rules of Construction. The parties hereto agree that they have been represented by 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 document will be construed against the party drafting such agreement or document. SECTION 8.13 Submission to Jurisdiction. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined exclusively in any Delaware state or federal court sitting in Newcastle County. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in the Newcastle County for the purpose of any action arising out of or relating to this A-36 178 Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper or that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts. SECTION 8.14 Merger Sub Compliance. Whenever this Agreement requires Merger Sub to take action, such requirement shall be deemed to include an undertaking on the part of Parent to cause Merger Sub to take such action. IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized respective officers as of the date first written above. LSI LOGIC CORPORATION By: /s/ DAVID G. PURSEL ---------- Name: David G. Pursel Title: Vice

President, General Counsel and Secretary C-CUBE MICROSYSTEMS INC. By: /s/ UMESH PADVAL ---------- Name: Umesh Padval Title: President and Chief Executive Officer CLOVER ACQUISITION CORP. By: /s/ DAVID G. PURSEL ---------- Name: David G. Pursel Title: Secretary A-37 179 ANNEX I CONDITIONS TO THE OFFER Notwithstanding any other provision of the Offer, subject to the terms of the Agreement and Plan of Reorganization to which this Annex I is attached (the "Agreement"), Merger Sub shall not be required to accept for exchange or exchange or deliver any shares of Parent Common Stock for (subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to Merger Sub's obligation to pay for or return tendered shares of Company Common Stock after the termination or withdrawal of the Offer)) any shares of Company Common Stock tendered, if by the expiration of the Offer (as it may be extended in accordance with the requirements of Section 1.1(a) of the Agreement), (1) the Minimum Condition shall not have been satisfied, (2) the applicable waiting period under the HSR Act shall not have expired or been terminated, (3) any applicable waiting periods, consents or clearances under foreign Antitrust Laws shall not have expired, been terminated or been obtained, (4) the Registration Statement shall not have become effective under the Securities Act or shall be the subject of any stop order or proceedings seeking a stop order, (5) the shares of Parent Common Stock to be issued in the Offer and the Merger shall not have been approved for listing on the NYSE, subject to official notice of issuance, and shall not be exempt from such requirement under then applicable laws, regulations and rules of the NYSE, (6) Parent shall not have received (or Parent shall have received and Cooley Godward LLP shall have subsequently rescinded) an opinion of Cooley Godward LLP, in form and substance reasonably satisfactory to Parent and to the Company, on the basis of customary facts, representations and assumptions set forth in such opinion, to the effect that the Transaction will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, (7) the Company shall not have received (or the Company shall have received and Wilson Sonsini Goodrich & Rosati, Professional Corporation, shall have subsequently rescinded) an opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation, in form and substance reasonably satisfactory to Parent and to the Company, on the basis of customary facts, representations and assumptions set forth in such opinion, to the effect that the Transaction will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, or (8) at any time on or after the date of the Agreement and prior to the acceptance for exchange of shares of Company Common Stock pursuant to the Offer, any of the following conditions exist and are continuing: (a) there shall have been any action taken, or any statute, law, ordinance, rule, regulation, injunction, judgment, order or decree proposed, entered, enacted, enforced, promulgated, issued or deemed applicable to the Offer or the Merger by any Governmental Entity, other than the application of the waiting period provisions of the HSR Act to the Offer or the Merger or there shall be pending or threatened any action, suit or proceeding by any Governmental Entity against Parent, the Company, Merger Sub or any of their respective Subsidiaries, that seeks to (or there shall be pending any action, suit or proceeding by any other Person (which Person is party to a Company Contract that was not provided or made available to Parent on or prior to the date hereof) against Parent, the Company, Merger Sub or any of their respective Subsidiaries (which action, suit or proceeding is based on such Person's rights under such Company Contract) that is substantially likely to) (i) prohibit, or make illegal, the acceptance for payment of or payment for shares of Company Common Stock or the consummation of the Offer or the Merger, (ii) render Merger Sub unable to accept for payment or pay for some or all of the shares of Company Common Stock, (iii) impose material limitations on the ability of Parent or Merger Sub effectively to exercise full rights of ownership of the shares of Company Common Stock, including the right to vote the shares of Company Common Stock purchased by it on all matters properly presented to the Company's stockholders, (iv) prohibit or impose any material limitations on Parent's direct or indirect ownership or operation (or that of any of its affiliates) of all or a material portion of their or the Company's businesses or assets, (v) compel Parent or its affiliates to dispose of or hold separate any portion of the business or assets of the Company or Parent and or their respective Subsidiaries which would be material in the context of the Company and its Subsidiaries taken as a whole or Parent and its I-1 180 Subsidiaries taken as a whole, (vi) oblige the Company, Parent or any of their respective Subsidiaries to pay material damages or otherwise become subject to materially adverse consequences in connection with any of the transactions contemplated by the Agreement or (vii) otherwise result in a Company Material Adverse Effect (disregarding for this purpose the effect of clause (iv) of the definition of such term) or, as a result of the transactions contemplated by the Agreement, a Parent Material Adverse Effect; (b) the Company shall have materially breached any of its covenants, obligations or agreements under the Agreement; (c) the representations

and warranties of the Company contained in the Agreement (other than those set forth in Section 3.4 of the Agreement) (i) shall not have been true and correct as of the date of the Agreement or (ii) shall not be true and correct on and as of the date of the expiration of the Offer (as it may be extended in accordance with the requirements of Section 1.1(a) of the Agreement) with the same force and effect as if made as of such date, except (A) in each case or in the aggregate, as does not constitute, and is not reasonably expected to result in, a Company Material Adverse Effect, (B) for changes contemplated by the Agreement, and (C) for those representations and warranties which address matters only as of a particular date (which representations shall have been true and correct (subject to the Company Material Adverse Effect qualifications and limitations set forth in the preceding clause (A)) as of such particular date) (it being understood that, for purposes of determining the accuracy of such representations and warranties, (x) all "Company Material Adverse Effect" and materiality qualifications and other qualifications based on the word "material" contained in such representations and warranties shall be disregarded, and (y) any update of or modification to the Company Disclosure Schedule made or purported to have been made after the date of the Agreement shall be disregarded); (d) the representations and warranties of the Company contained in Section 3.4 of the Agreement shall not have been true and correct in all material respects as of the date of the Agreement; (e) except as set forth in the Company Disclosure Schedule, since December 31, 2000, there shall not have been a Company Material Adverse Effect or the occurrence of any event or the arising of any circumstance that would reasonably be expected to have a Company Material Adverse Effect; or (f) the Merger Agreement shall have been terminated in accordance with its terms; which in the good faith judgment of Parent, in any such case, makes it inadvisable to proceed with the Offer or the acceptance for payment of or payment for the shares of Company Common Stock. The foregoing conditions are for the sole benefit of Parent and Merger Sub and may, subject to the terms of the Agreement, be waived by Parent and Merger Sub, in whole or in part at any time and from time to time, in the sole discretion of Parent and Merger Sub. The failure by Parent and Merger Sub at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time. I-2 181 ANNEX B

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---------- FORM OF STOCKHOLDER AGREEMENT BY AND BETWEEN LSI LOGIC CORPORATION AND STOCKHOLDER OF C-CUBE MICROSYSTEMS INC. DATED AS OF MARCH 26, 2001 ----------

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against approval of any Acquisition Proposal or any proposal made in opposition to or in competition with consummation of the Merger and/or the Offer; and (iii) against any action that could reasonably be expected to delay or otherwise adversely affect the Merger or the Offer and would constitute a breach of any covenant of the Company pursuant to the Merger Agreement. Prior to the Expiration Date, the Stockholder shall not enter into any agreement or understanding with any Person to vote or give instructions in any manner inconsistent with the terms of this Section 1.1. (b) "Shares" shall mean: (i) all securities of the Company (including all shares of Company Common Stock and all options, warrants and other rights to acquire such securities) beneficially owned by the Stockholder as of the date of this Agreement; and (ii) all additional securities of the Company (including all shares of Company Common Stock and all additional options, warrants and other rights to acquire such securities) of which the Stockholder acquires beneficial ownership during the period from the date of this Agreement through the Expiration Date. In the event of a stock dividend or distribution, or any change in Company Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of shares or the like, the term "Shares" shall be deemed to refer to and include the Shares as well as all such stock dividends and distributions and any securities into which or for which any or all of the Shares may be changed or exchanged or which are received in such transaction. B-1 183 1.2 Irrevocable Proxy. Concurrently with the execution of this Agreement, the Stockholder agrees to deliver to Parent a proxy in the form attached hereto as Exhibit A (the "Proxy"), which shall be irrevocable to the fullest extent permissible by law but subject to termination as stated therein, with respect to the Shares. 1.3 Agreement to Tender. Unless Parent shall otherwise request, the Stockholder hereby agrees to tender, or cause to be tendered, pursuant to and in accordance with the terms of the Offer, the Shares, and agrees that it will not withdraw or permit the withdrawal of the Shares. Within ten (10) business days after commencement of the Offer, the Stockholder shall (x) deliver to the depositary designated in the Offer (i) a letter of transmittal with respect to the Shares complying with the terms of the Offer, (ii) certificates representing of the Shares and (iii) all other documents or instruments required to be delivered pursuant to the terms of the Offer, and/or (y) instruct its broker or such other Person who is the holder of record of any Shares beneficially owned by the Stockholder to promptly tender such Shares for exchange in the Offer pursuant to the terms and conditions of the Offer. 1.4 Agreement Not to Exercise Appraisal Rights. The Stockholder agrees not to exercise any rights (including, without limitation, under Section 262 of the General Corporation Law of the State of Delaware) to demand appraisal of any Shares which may arise with respect to the Merger. ARTICLE 2. RESTRICTIONS ON TRANSFERS OF SHARES 2.1 Restrictions on Transfer of Shares Prior to the Effective Time. (a) At all times commencing with the execution of this Agreement and until the Expiration Date, the Stockholder hereby agrees not to, directly or indirectly, take any of the following actions, except in accordance with subsection (b) of this Section 2.1 or as provided in this Agreement and the Merger Agreement: (i) tender any of the Shares or any securities convertible into or exchangeable or exercisable for the Shares to any Person; (ii) sell, pledge, grant an option with respect to, transfer, assign or otherwise dispose of any of the Shares or any securities convertible into or exchangeable or exercisable for the Shares or any interest therein, or enter into any commitment relating thereto; or (iii) deposit, or permit the deposit of, any of the Shares into a voting trust or depositary facility or enter into a voting agreement or arrangement with respect to any Shares in contravention of the obligations of the Stockholder under this Agreement or grant any proxy (other than the Proxy) with respect thereto or enter into any commitment relating thereto (any transaction referred to in clause (i), (ii) or (iii) is hereinafter referred to as a "Transfer"). (b) Notwithstanding subsection (a) above, the Stockholder may take an action described in subsection (a) if (i) Parent gives its prior written consent to such action and (ii) the proposed transferee shall have executed a counterpart of this Agreement and the Proxy and shall have agreed to hold such Shares or interest in such Shares subject to all of the terms and provisions of this Agreement. B-2 184 ARTICLE 3. REPRESENTATIONS AND WARRANTIES, AND ADDITIONAL COVENANTS OF THE STOCKHOLDER The Stockholder hereby represents and warrants and covenants to Parent as follows: 3.1 Organization; Authorization. (a) If the Stockholder is a corporation or other entity, the Stockholder is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has the requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to be so organized, existing or in good standing or to have such power, authority and governmental approvals would not prevent or delay the performance in any respect by the Stockholder of its obligations under this Agreement. The Stockholder has full power and authority to make, enter into and carry out the terms of this Agreement and the Proxy. The execution and delivery of this Agreement and the Proxy and the consummation of the transactions contemplated

hereby and thereby have been duly authorized by all necessary corporate action on the part of the Stockholder. (b) Each of this Agreement and the Proxy has been duly executed and delivered by or on behalf of the Stockholder, and (with respect to this Agreement) assuming its due authorization, execution and delivery by the other parties hereto, constitutes the legal, valid and binding obligation of the Stockholder, enforceable against the Stockholder in accordance with its terms, except as may be limited by the effect of bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), conservatorship, arrangement, moratorium or other laws affecting or relating to the rights of creditors generally and except as enforcement thereof is subject to general principals of equity (regardless of whether enforcement is considered in a proceeding in equity or at law). 3.2 No Conflict. The execution and delivery of this Agreement and the Proxy by the Stockholder does not, and the performance of this Agreement and the Proxy by the Stockholder will not, (i) if the Stockholder is a corporation or other entity, conflict with or violate the Certificate of Incorporation or By-laws or other similar constituent documents of the Stockholder, (ii) conflict with or violate any law, rule, regulation, order, judgment or decree applicable to the Stockholder or by which it or any of its properties is bound or affected, or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to another party any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the property or assets of the Stockholder, including, without limitation, the Shares, pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Stockholder is a party or by which the Stockholder or any of its properties is bound or affected, except for any such breaches, defaults or other occurrences that would not prevent or delay the performance by the Stockholder of its obligations under this Agreement. 3.3 Title to Shares. The Stockholder is the registered or beneficial owner of its Shares free and clear of any lien or encumbrance, proxy or voting restriction other than pursuant to this Agreement. Such Shares are all the securities of the Company owned of record or beneficially by the Stockholder on the date of this Agreement. 3.4 Reliance by Parent. The Stockholder understands and acknowledges that Parent is entering into the Merger Agreement in reliance upon the Stockholder's execution and delivery of this Agreement and the Proxy. 3.5 Miscellaneous. Except as otherwise provided herein, nothing contained in this Agreement shall be deemed to vest in Parent any direct or indirect ownership or incidence of ownership of or with respect to any of the Shares. Except as otherwise provided herein, all rights, ownership and economic benefits of and relating to the Shares shall remain and belong to the Stockholder, and Parent shall not have any authority to manage, direct, superintend, restrict, regulate, govern, or administer any of the policies or B-3 185 operations of the Company or exercise any power or authority to direct the Stockholder in the voting of any of the Shares, except as otherwise provided herein, or the performance of the Stockholder's duties or responsibilities as a stockholder of the Company. ARTICLE 4. REPRESENTATIONS AND WARRANTIES OF PARENT 4.1 Organization; Authorization. (a) Parent is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to be so organized, existing or in good standing or to have such power, authority and governmental approvals would not prevent or delay the performance in any material respect by Parent of its obligations under this Agreement. Parent has full power and authority to make, enter into and carry out the terms of this Agreement. 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. (b) This Agreement has been duly executed and delivered by or on behalf of the Parent and, assuming its due authorization, execution and delivery by the other parties hereto, constitutes the legal, valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, except as may be limited by the effect of bankruptcy, insolvency (including, without limitation, all laws relating to fraudulent transfers), conservatorship, arrangement, moratorium or other laws affecting or relating to the rights of creditors generally and except as enforcement thereof is subject to general principals of equity (regardless of whether enforcement is considered in a proceeding in equity or at law). 4.2 No Conflict. The execution and delivery of this Agreement by Parent does not, and the performance of this Agreement by Parent will not, (i) conflict with or violate the Certificate of Incorporation or By-laws of Parent, (ii) conflict with or violate any law, rule, regulation, order, judgment or decree applicable to Parent or by which it or any of its properties is bound or affected, or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to another party any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the property or assets of

Parent, pursuant to any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent is a party or by which Parent or any of its properties is bound or affected, except for any such breaches, defaults or other occurrences that would not prevent or delay the performance by Parent of its obligations under this Agreement. B-4 186 ARTICLE 5. GENERAL PROVISIONS 5.1 Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement to any party hereunder shall be in writing and deemed given upon (a) personal delivery, (b) transmitter's confirmation of a receipt of a facsimile transmission, (c) confirmed delivery by a standard overnight carrier or when delivered by hand or (d) when mailed in the United States by certified or registered mail, postage prepaid, addressed at the following addresses (or at such other address for a party as shall be specified by notice given hereunder): (a) if to Parent: LSI Logic Corporation 1551 McCarthy Boulevard Milpitas, California 95035 Fax: (408) 433-6896 Attention: General Counsel with a copy to: Cooley Godward LLP 3000 El Camino Palo Alto, California 94306 Fax: (650) 849-7400 Attention: Richard E. Climan, Esq. Keith A. Flaum, Esq. (b) If to the Stockholder, to the address for notice set forth on the signature page hereof with copies to: Wilson Sonsini Goodrich & Rosati Professional Corporation One Market Spear Tower, Suite 3300 San Francisco, California 94105 Fax: (415) 947-2099 Attention: Steve L. Camahort, Esq. 5.2 Interpretation. (a) Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation." As used in this Agreement, the term "affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under the Exchange Act. (b) The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement. 5.3 Amendments and Waiver. Any provision of this Agreement may be amended or waived by the parties hereto if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Stockholder and Parent or, in the case of a waiver, by the party against whom the waiver is to be effective. 5.4 Specific Performance; Injunctive Relief. Each of the parties hereto hereby acknowledges that (i) the representations, warranties, covenants and restrictions set forth in this Agreement are necessary, fundamental and required for the protection of Parent and to preserve for Parent the benefits of the Merger; (ii) such covenants relate to matters which are of a unique character that gives each such representation, warranty, covenant and restriction a unique value; and (iii) a breach of any such B-5 187 representation, warranty, covenant or restriction, or any other term or provision of this Agreement, will result in irreparable harm and damages to Parent which cannot be adequately compensated by a monetary award. Accordingly, Parent and the Stockholder hereby expressly agree that in addition to all other remedies available at law or in equity, Parent shall be entitled to the immediate remedy of specific performance, a temporary and/or permanent restraining order, preliminary injunction or such other form of injunctive or equitable relief as may be used by any court of competent jurisdiction to restrain or enjoin any of the parties hereto from breaching any representations, warranties, covenants or restrictions set forth in this Agreement, or to specifically enforce the terms and provisions hereof. The Stockholder further agrees that neither Parent nor any other Person shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 5.4, and the Stockholder irrevocably waives any right he may have to require the obtaining, furnishing or posting of any such bond or similar instrument. If any legal action or other legal proceeding relating to this Agreement or the enforcement of any provision of this Agreement is brought against the Stockholder, the prevailing party shall be entitled to recover reasonable attorneys' fees, costs and disbursements (in addition to any other relief to which the prevailing party may be entitled). 5.5 Successors and Assigns. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. 5.6 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) as to all matters, including, but not limited to, matters of validity, construction, effect, performance and remedies. 5.7 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated herein are not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner. 5.8 Entire Agreement. This Agreement and the Proxy constitute the entire agreement among the parties hereto with respect to the subject matter hereof and

supersede all other prior agreements or understandings, both written and oral, between the parties or any of them with respect to the subject matter hereof and thereof. 5.9 Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be deemed an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received counterparts hereof signed by all of the other parties hereto. 5.10 Rules of Construction. The parties hereto agree that they have been represented by 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 document will be construed against the party drafting such agreement or document. 5.11 Submission to Jurisdiction. All actions and proceedings arising out of or relating to this Agreement shall be heard and determined exclusively in any Delaware state or federal court sitting in Newcastle County. The parties hereto hereby (a) submit to the exclusive jurisdiction of any state or federal court sitting in Newcastle County for the purpose of any action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such action, any claim that it is not subject personally to the jurisdiction of the above-named courts, that its property is exempt or immune from attachment or execution, that the action is brought in an inconvenient forum, that the venue of the action is improper, or B-6 188 that this Agreement or the transactions contemplated hereby may not be enforced in or by any of the above-named courts. 5.12 Directors and Officers. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall limit or restrict the Stockholder from acting in the Stockholder's capacity as a director or officer of Company (it being understood that this Agreement shall apply to the Stockholder solely in the Stockholder's capacity as a stockholder of the Company) or voting in the Stockholder's sole discretion on any matter other than those matters referred to in Section 1(a). 5.13 No Exercise of Options, Warrants or Other Rights. Notwithstanding any provision of this Agreement to the contrary, nothing in this Agreement shall require the Stockholder to exercise or convert Shares that do not constitute outstanding shares of Company Common Stock. 5.14 Termination. This Agreement and the Proxy, and all obligations of the parties hereunder and thereunder, shall terminate immediately, without any further action being required, upon (i) any valid termination of the Merger Agreement pursuant to its terms and (ii) the Effective Time, whichever first occurs (the "Expiration Date"). 5.15 Further Assurances. The Stockholder (solely in his or her capacity as such, but not in any other capacity including as director or officer of the Company) shall execute and deliver, and cause to be executed and delivered, any additional certificates, instruments and other documents, and take and cause to be taken any additional actions, as Parent may deem necessary, in the reasonable opinion of Parent, to carry out and effectuate the purpose and intent of this Agreement. [Remainder of this page intentionally left blank] B-7 189 IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above. LSI LOGIC CORPORATION By: Name: Title: STOCKHOLDER By: Name: Title: Address: Fax: Shares beneficially owned: _____ shares of Company Common Stock _____ shares of Company Common Stock issuable upon exercise of outstanding options, warrants or other rights [Signature Page to Stockholder Agreement] B-8 190 EXHIBIT A IRREVOCABLE PROXY The undersigned stockholder of C-Cube Microsystems Inc., a Delaware corporation (the "Company"), hereby irrevocably (to the fullest extent permitted by law), but subject to the termination provisions hereof, appoints LSI Corporation, a Delaware corporation ("Parent"), as the sole and exclusive attorney and proxy of the undersigned, with full power of substitution and resubstitution, to vote and exercise all voting and related rights (to the full extent that the undersigned is entitled to do so) with respect to all of the shares of the Company that now are or hereafter may be beneficially owned by the undersigned, and any and all other shares or securities of the Company issued or issuable in respect thereof on or after the date hereof (collectively, the "Shares") in accordance with the terms of this Proxy. The outstanding shares of common stock of the Company owned of record by the undersigned stockholder of the Company as of the date of this Proxy are listed on the final page of this Proxy. Upon the undersigned's execution of this Proxy, any and all prior proxies given by the undersigned with respect to any Shares are hereby revoked and the undersigned agrees not to grant any subsequent proxies with respect to the Shares. This Proxy is irrevocable (to the fullest extent permitted by law), subject to the termination provisions hereof, is coupled with an interest and is granted pursuant to that certain Stockholder Agreement of even date herewith by and between and the undersigned stockholder (the "Stockholder Agreement"), and is granted in consideration of Parent entering into that certain Agreement and Plan of Reorganization (the "Merger Agreement") among Parent, Clover Acquisition, Corp., a wholly-owned subsidiary of Parent ("Merger Sub"), and the Company. The Merger Agreement provides for the

acquisition of the Company by Parent pursuant to an exchange offer (the "Offer") by Merger Sub of shares of Parent common stock for all of the issued and outstanding common stock of the Company followed by a merger of Merger Sub with and into the Company (the "Merger"). (a) The attorney and proxy named above is hereby authorized and empowered by the undersigned to act as the undersigned's attorney and proxy to vote the Shares, and to exercise all voting, consent and similar rights of the undersigned with respect to the Shares (including, without limitation, the power to execute and deliver written consents) at every annual, special or adjourned meeting of stockholders of the Company and in every written consent in lieu of such meeting: (i) in favor of the adoption and approval of the Merger Agreement, and in favor of each of the other actions contemplated by the Merger Agreement and the Proxy and any action required in furtherance thereof; (ii) against approval of any Acquisition Proposal or any proposal made in opposition to or in competition with consummation of the Merger and/or the Offer; and (iii) against any action that could reasonably be expected to delay or otherwise adversely affect the Merger or the Offer and would constitute a breach of any covenant of the Company pursuant to the Merger Agreement. (b) The attorneys and proxies named above may not exercise this Proxy on any other matter except as provided above. The undersigned Stockholder may vote the Shares on all other matters. Any obligation of the undersigned hereunder shall be binding upon the successors and assigns of the undersigned. This Proxy is irrevocable (to the fullest extent permitted by law), subject to the termination provisions hereof. B-9 191 This Proxy, and all obligations of the undersigned hereunder, shall terminate immediately, without any further action being required, upon (i) any valid termination of the Merger Agreement pursuant to its terms and (ii) the Effective Time, whichever first occurs. Dated: March , 2001 STOCKHOLDER ---------- Signature of Stockholder ---------- Print Name of Stockholder SHARES OWNED OF RECORD BY STOCKHOLDER Shares of Company Common Stock: ---------- [Signature Page to Irrevocable Proxy] B-10 192 THE EXCHANGE AGENT FOR THE OFFER IS: EQUISERVE TRUST COMPANY, N.A. By Mail: By Hand: By Overnight Delivery: EquiServe Corporate Actions Securities Transfer & Reporting EquiServe Post Office Box 43014 c/o EquiServe Attn: Corporate Actions Providence, Rhode Island 02940 100 William's Street, Galleria 150 Royall Street New York, New York 10038 Canton, Massachusetts 02021 THE INFORMATION AGENT: D.F. KING & CO., INC. 77 Water Street, 20th Floor New York, NY 10005 Banks and Brokers Call Collect: (212) 269-5550 All Others Call Toll Free: (800) 848-3409 Fax: (212) 809-8839 193 PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS CERTIFICATE OF INCORPORATION Article 10 of the LSI Logic restated certificate of incorporation provides that, to the fullest extent permitted by Delaware law, as the same now exists or may hereafter be amended, a director shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for liability: - for any breach of their duty of loyalty to the corporation or its stockholders; - for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; - for unlawful payments of dividends or unlawful stock repurchases or redemption as provided in Section 174 of the Delaware General Corporation Law; or - for any transaction from which the director derived an improper personal benefit. BYLAWS LSI Logic's bylaws provide that its directors, officers and agents shall be indemnified against expenses including attorneys' fees, judgments, fines and amounts paid in any settlement that is actually and reasonably incurred in connection with any proceeding arising out of their status as a director, if the director, officer or agent acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of LSI Logic, and, with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful. LSI Logic has entered into agreements to indemnify its directors and officers, in addition to the indemnification provided for in its certificate of incorporation and bylaws. These agreements, among other things, indemnify LSI Logic's directors and officers for certain expenses, including attorney's fees, judgments, fines and settlement amounts incurred by any LSI Logic director or officer in any action or proceeding, including any action by or in the right of LSI Logic, arising out of any LSI Logic director's or officer's services as a director or officer of LSI Logic, any subsidiary of LSI Logic or any other company or enterprise to which the person provides services at the request of LSI Logic. MERGER AGREEMENT PROVISIONS RELATING TO INDEMNIFICATION OF C-CUBE DIRECTORS AND OFFICERS The merger agreement provides that all rights to indemnification and all limitations on liability existing in favor of the individuals who, on or prior to the completion of the merger were officers or directors of C-Cube or any of its subsidiaries, as provided in C-Cube's certificate of incorporation or bylaws, or in an agreement between one of

the above parties and C-Cube or a subsidiary of C-Cube, as in effect as of March 26, 2001, shall survive the merger and continue in full force and effect in accordance with its terms. After the completion of the merger, LSI Logic is required to cause the surviving corporation in the merger to indemnify and hold harmless the individuals who on or before the completion of the merger were officers or directors of C-Cube or any of its subsidiaries to the same extent those individuals were indemnified and held harmless prior to the completion of the merger. The merger agreement also provides that for six years after the completion of the merger, the surviving corporation shall provide officers' and directors' liability insurance in respect of acts or omissions occurring prior to the completion of the merger, covering each C-Cube officer and director currently II-1 194 covered by C-Cube's officers' and directors' liability insurance policy on terms with respect to coverage and amount at least as favorable as those of the policy in effect on March 26, 2001. However, the surviving corporation is not required to expend more than the lesser of $450,000 or 200% of current annual premiums paid by C-Cube for the insurance each year to maintain or procure the insurance coverage. In addition, if the amount of the annual premiums necessary to maintain or procure the insurance coverage exceeds the amount described in the preceding sentence, the surviving corporation shall maintain or procure, for a six-year period, the most advantageous policies of directors' and officers' insurance obtainable for an annual premium equal to the amount described in the preceding sentence. These obligations of LSI Logic and the surviving corporation may not be terminated or modified in any manner that adversely affects any person to whom the indemnification rights apply, without the consent of that person. In the event that LSI Logic or the surviving corporation or any of their respective successors or assigns (i) consolidates with or merges into any other person and is not the continuing or surviving corporation or entity in the consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any person, then, and in each case, proper provision shall be made so that the successors and assigns of LSI Logic or the surviving corporation, as the case may be, honor the indemnification obligations described in the merger agreement. ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES. (a) List of Exhibits EXHIBIT NUMBER DESCRIPTION ------- ----------- 2.1 Agreement and Plan of Reorganization dated as of March 26, 2001, among the Registrant, C-Cube and Clover Acquisition Corp. (included as Annex A to the Prospectus contained in this Registration Statement). 2.2 Form of Stockholder Agreement dated as of March 26, 2001, between the Registrant and certain C-Cube stockholders (included as Annex B to the Prospectus contained in this Registration Statement). 5.1 Opinion of Cooley Godward LLP, regarding the validity of the securities being registered. 8.1 Opinion of Cooley Godward LLP regarding material federal income tax consequences of the exchange offer and merger. 8.2 Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation, regarding material federal income tax consequences of the exchange offer and the merger. 23.1* Consent of PricewaterhouseCoopers LLP, independent accountants. 23.2* Consent of Deloitte & Touche LLP, independent auditors. 23.3 Consent of Cooley Godward LLP (included in the opinion filed as Exhibit 5.1 to this Registration Statement). 23.4 Consent of Cooley Godward LLP (included in the opinion filed as Exhibit 8.1 to this Registration Statement). 23.5 Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in the opinion filed as Exhibit 8.2 to this Registration Statement). 24.1 Power of Attorney (included on pages II-5 and II-6 of this Registration Statement). 99.1 Form of Letter of Transmittal. 99.2 Form of Notice of Guaranteed Delivery. II-2 195 EXHIBIT NUMBER DESCRIPTION ------- ----------- 99.3 Form of Letter to Brokers, Dealers, etc. 99.4 Form of Letter to Clients. 99.5 Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9. 99.6 Consent of Credit Suisse First Boston Corporation. ------------------------- * Filed herewith. All other exhibits have been previously filed. ITEM 22. UNDERTAKINGS (a) The undersigned Registrant hereby undertakes: (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement: (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933; (ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement. (iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement. (2) That, for the purpose of

determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. (b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the exchange offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (c) The undersigned Registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form. (d) The undersigned Registrant hereby undertakes that every prospectus (i) that is filed pursuant to paragraph 3(a) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) II-3 196 of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the exchange offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (e) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. (f) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the Prospectus pursuant to Item 4, 10(b), 11 or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request. (g) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective. II-4 197 SIGNATURES Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Milpitas, State of California, on April 23, 2001. LSI LOGIC CORPORATION By: /s/ WILFRED J. CORRIGAN ---------- Wilfred J. Corrigan Chairman, Chief Executive Officer and Director Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated. SIGNATURE TITLE DATE --------- ----- ---- /s/ WILFRED J. CORRIGAN Chairman, Chief Executive Officer April 23, 2001 ---------- and Director (Principal Executive Wilfred J. Corrigan Officer) /s/ BRYON LOOK Executive Vice President and Chief April 23, 2001 ---------- Financial Officer (Principal Bryon Look Financial Officer and Principal Accounting Officer) * Director April 23, 2001 ---------- T.Z. Chu * Director April 23, 2001 ---------- Malcom R. Currie * Director April 23, 2001 ---------- James H. Keyes * Director April 23, 2001 ---------- Douglas Norby Director April , 2001

---------- Matthew J. O'Rourke * Director April 23, 2001
---------- Larry W. Sonsini *By: /s/ WILFRED J. CORRIGAN
---------- Wilfred J. Corrigan Attorney-In-Fact II-5 198 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES. EXHIBIT NUMBER DESCRIPTION ------- ----------- 2.1 Agreement and Plan of Reorganization dated as of March 26, 2001, among the Registrant, C-Cube and Clover Acquisition Corp. (included as Annex A to the Prospectus contained in this Registration Statement). 2.2 Form of Stockholder Agreement dated as of March 26, 2001, between the Registrant and certain C-Cube stockholders (included as Annex B to the Prospectus contained in this Registration Statement). 5.1 Opinion of Cooley Godward LLP, regarding the validity of the securities being registered. 8.1 Opinion of Cooley Godward LLP regarding material federal income tax consequences of the exchange offer and merger. 8.2 Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation, regarding material federal income tax consequences of the exchange offer and the merger. 23.1* Consent of PricewaterhouseCoopers LLP, independent accountants. 23.2* Consent of Deloitte & Touche LLP, independent auditors. 23.3 Consent of Cooley Godward LLP (included in the opinion filed as Exhibit 5.1 to this Registration Statement). 23.4 Consent of Cooley Godward LLP (included in the opinion filed as Exhibit 8.1 to this Registration Statement). 23.5 Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in the opinion filed as Exhibit 8.2 to this Registration Statement). 24.1 Power of Attorney (included on pages II-5 and II-6 of this Registration Statement). 99.1 Form of Letter of Transmittal. 99.2 Form of Notice of Guaranteed Delivery. 99.3 Form of Letter to Brokers, Dealers, etc. 99.4 Form of Letter to Clients. 99.5 Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9. 99.6 Consent of Credit Suisse First Boston Corporation.
---------- * Filed herewith. All other exhibits have been previously filed.