

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report Under Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the Quarter Ended June 30, 1996

or

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-11674

LSI LOGIC CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months
(or for such shorter period that the registrant was required to
file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

YES x NO

As of July 31, 1996 there were 129,269,770 shares of registrant's
Common Stock, \$.01 par value, outstanding.

LSI LOGIC CORPORATION
Form 10-Q
FOR THE QUARTER ENDED JUNE 30, 1996

INDEX

	Page No.
PART I Financial Information	
Item 1 Financial Statements	
Consolidated Condensed Balance Sheets - June 30, 1996 and December 31, 1995	3
Consolidated Condensed Statements of Operations - Three-Month and Six-Month Periods Ended June 30, 1996 and 1995	4
Consolidated Condensed Statements of Cash Flows - Six-Month Periods Ended June 30, 1996 and 1995	5
Notes to Consolidated Condensed Financial Statements	6
Item 2 Management's Discussion and Analysis of Results of Operations and Financial Condition	9

PART II Other Information

Item 1	Legal Proceedings	14
Item 4	Submission of Matters to a Vote of Security Holders	14
Item 6	Exhibits and Reports on Form 8-K	14

PART I

Item 1. Financial Statements

LSI LOGIC CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands, except per share amount)
(Unaudited)

	June 30, 1996	December 31, 1995
ASSETS		
Cash and cash equivalents	\$ 222,788	\$ 172,780
Short-term investments	490,909	512,765
Accounts receivable, less allowance for doubtful accounts of \$2,956 and \$3,486	240,998	230,980
Inventories	123,894	139,857
Other current assets	55,994	80,348
Total current assets	1,134,583	1,136,730
Property and equipment, net	738,878	638,282
Other assets	86,807	74,575
Total assets	\$ 1,960,268	\$1,849,587
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	\$ 155,535	\$ 165,725
Accrued salaries, wages and benefits	32,547	34,825
Accrued restructuring costs	18,600	22,700
Other accrued liabilities	43,724	42,315
Income taxes payable	85,604	73,649
Current portion of long-term obligations and short-term borrowings	10,111	56,569
Total current liabilities	346,121	395,783
Long-term obligations	328,181	222,388
Deferred income taxes	13,138	8,514
Minority interest in subsidiaries	6,165	6,656
Commitments and contingencies	-	-
Stockholders equity:		
Preferred shares; 2,000 shares authorized	-	-
Common stock; \$.01 par value; 250,000 shares authorized; 129,233 and 129,303 shares outstanding	1,292	1,293
Additional paid-in capital	835,982	853,538
Retained earnings	393,970	305,190
Cumulative translation adjustment	35,419	56,225
Total stockholders equity	1,266,663	1,216,246
Total liabilities and stockholders equity	\$1,960,268	\$1,849,587

See accompanying notes to unaudited consolidated condensed financial statements.

LSI LOGIC CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1996	1995	1996	1995
Revenues	\$325,359	\$307,066	\$636,711	\$587,224
Costs and expenses:				
Cost of revenues	176,454	162,305	353,303	315,704
Research and development	44,859	27,983	85,804	52,361
Sales, general and administrative	42,010	40,143	83,195	79,478
Total costs and expenses	263,323	230,431	522,302	447,543
Income from operations	62,036	76,635	114,409	139,681
Interest expense	(3,386)	(4,117)	(6,594)	(8,300)
Interest income and other	6,165	7,240	15,941	12,721
Income before income taxes and minority interest	64,815	79,758	123,756	144,102
Provision for income taxes	18,150	22,333	34,658	40,349
Income before minority interest	46,665	57,425	89,098	103,753
Minority interest in net income of subsidiaries	169	1,680	318	2,748
Net income	\$ 46,496	\$ 55,745	\$ 88,780	\$101,005
Net income per share:				
Primary	\$ 0.35	\$ 0.44	\$ 0.67	\$ 0.82
Fully diluted	\$ 0.34	\$ 0.42	\$ 0.64	\$ 0.77

Common share and common share equivalents used in computing per share amounts:

Primary	131,624	125,855	131,747	123,313
Fully diluted	143,359	137,939	143,486	135,689

See accompanying notes to unaudited consolidated condensed financial statements.

LSI LOGIC CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	1996	1995
Operating activities:		
Net income	\$ 88,780	\$ 101,005
Adjustments:		
Depreciation and amortization	71,552	71,037
Minority interest in net income of subsidiaries	318	1,680
Change in:		
Accounts receivable	(13,881)	(20,881)
Inventories	13,774	(13,180)
Other assets	2,278	(14,389)
Accounts payable	(4,969)	(11,957)
Accrued and other liabilities	27,680	19,654
Accrued restructuring costs	(1,882)	509
Net cash provided by operating activities	183,650	133,478
Investing activities:		
Purchases of debt and equity securities	(611,596)	(118,151)
Maturities and sales of debt and equity securities	630,473	118,909
Purchase of restricted equity securities	(6,252)	(13,966)

Purchases of property and equipment, net of retirements and refinancings	(190,158)	(110,344)
Acquisition of stock from minority interest holders	(664)	(133,704)
Net cash used for investing activities	(178,197)	(257,256)
Financing activities:		
Proceeds from borrowings	117,592	16,726
Repayment of debt obligations	(49,919)	(13,628)
Issuance of common stock	9,684	167,062
Repurchase of common stock	(27,241)	-
Net cash provided by financing activities	50,116	170,160
Effect of exchange rate changes on cash and cash equivalents	(5,561)	7,535
Increase (decrease) in cash and cash equivalents	50,008	53,917
Cash and cash equivalents at beginning of period	172,780	224,503
Cash and cash equivalents at end of period	\$ 222,788	\$ 278,420

See accompanying notes to unaudited consolidated condensed financial statements.

LSI LOGIC CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1- In the opinion of the Company, the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial information included therein. While the Company believes that the disclosures are adequate to make the information not misleading, it is suggested that these financial statements be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

For financial reporting purposes, the Company reports on a 13 or 14 week quarter and a 52 or 53 week year ending on the Sunday closest to December 31. For presentation purposes, the consolidated financial statements refer to the quarter's calendar month end for convenience. The results of operations for the quarter ended June 30, 1996 are not necessarily indicative of the results to be expected for the full year.

Note 2 - Cash equivalents and short-term investments at June 30, 1996, consisted primarily of U.S. and foreign corporate debt securities, time deposits, auction rate preferred stock, commercial paper, bank notes, and U.S. and foreign government and agency securities. Cash equivalents and short-term investments held at June 30, 1996 and at December 31, 1995 approximate fair market value and it is the Company's intention to hold these investments for one year or less. The Company currently does not actively trade securities. Realized gains and losses are based on book value of specific securities sold and were not material during the quarters ended June 30, 1996 and 1995.

Note 3 - The Company has foreign subsidiaries which operate and sell the Company's products in various global markets. As a result, the Company is exposed to changes in foreign currency exchange rates and interest rates. The Company utilizes various hedge instruments, primarily forward exchange, currency swap and interest rate swap contracts, to manage its exposure associated with firm intercompany and third-party transactions. The Company does not speculate in these financial instruments for profit on exchange rate price fluctuations.

As of June 30, 1996, an outstanding currency swap contract, settling in September 1996, hedged an intercompany loan. Outstanding foreign currency hedge instruments at December 31, 1995 consisted of forward exchange and currency swap contracts to

manage the exposure associated with various intercompany loans, firm obligations to the Company's Japanese manufacturing subsidiary and third-party borrowings.

Additionally, the Company has several interest rate swap contracts outstanding which convert the interest associated with 15.5 billion yen (\$141.6 million) of borrowings by the Company's Japanese manufacturing subsidiary from adjustable to fixed rates (ranging from 2.65% to 3.035%). The interest rate swaps cover payments to be made under term borrowings through 2001. In March 1996, the Company entered into an interest rate swap with various start dates through October 1996. The swap converts a total of 12 billion of current and future yen credit line drawdowns to fixed rates ranging from 2.90% to 3.24%. As of June 30, 1996, credit line drawdowns of 5.25 billion yen (\$48.0 million) were covered under the swap agreement.

The following table summarizes by major currency the forward exchange and currency swap contracts outstanding (in thousands). The "buy" amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies. Foreign currency amounts are translated at rates current at the reporting date.

Buy/(Sell):	June 30, 1996	December 31, 1995
Japanese Yen	\$ -	\$ 18,474
U.S. Dollar	-	(25,492)
Pound Sterling	1,850	5,614
Deutschemark	(1,869)	(5,990)
Singapore Dollar	-	6,089

These forward exchange and currency swap contracts are considered identifiable hedges. Realized and unrealized gains and losses are deferred until settlement of the underlying commitments and are recorded in income as part of the purchase or sale transaction when it is recognized, or as other gains or losses when a hedged transaction is no longer expected to occur. Deferred foreign exchange gains and losses were not material at June 30, 1996 and December 31, 1995.

Note 4 - Balance sheet and cash flow information (in thousands):

	June 30, 1996	December 31, 1995
Inventories:		
Raw materials	\$ 37,743	\$ 44,758
Work-in-process	41,756	47,193
Finished Goods	44,395	47,906
Total	\$ 123,894	\$ 139,857

	June 30, 1996	June 30, 1995
Cash Paid for:		
Income taxes	\$ 11,700	\$ 17,600
Interest	7,900	8,600

Note 5 - During the first six months of 1996, \$2.1 million was charged against the restructuring reserves. These charges were primarily for the shutdown of the Milpitas wafer fabrication facility (which had previously been delayed as the Company assessed its capacity requirements in response to favorable market conditions) and included severance payments to employees (\$1.5 million) and charges in connection with owned and leased equipment (\$300,000). Other restructuring charges were

attributable to ongoing maintenance costs of its vacant German facility (\$180,000), offset in part by a decrease in reserves due to translation adjustments as a result of the weakening Deutschemark (\$120,000). Reserves at June 30, 1996 include approximately \$4.6 million for remaining costs related to the closure of the Milpitas manufacturing facility and continued maintenance of the vacant Braunschweig facility and \$17 million for legal and other corporate matters. Management believes that the total reserves established are adequate to cover uncertainties in connection with these matters. See further discussion in Management's Discussion and Analysis of Results of Operations and Financial Condition, Part I, Item 2 of this Form 10-Q.

Note 6 - The Company's effective tax rate differs from the statutory rate due to the Company's expected earnings mix in its foreign subsidiaries taxed at lower rates and anticipated utilization of prior loss carryovers and other tax credits.

Note 7- In February 1996, the Company's Board of Directors approved an action which authorizes management to acquire up to 4 million shares of its own stock in the open market at current market prices. During the first quarter of 1996, the Company repurchased one million shares of its common stock from the open market for approximately \$27 million. The transactions were recorded as reductions to common stock and additional paid-in capital. Subsequent to the end of the second quarter of 1996, the Company repurchased an additional one million shares of its common stock from the open market for approximately \$18 million. It is the Company's intent to retire the common stock acquired in these transactions.

Note 8 - A discussion of certain pending legal proceedings is included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995. As indicated therein, Texas Instruments (TI) filed an appeal in the United States Court of Appeals for the Federal Circuit (CAFC) challenging the United States District Court that the Company's encapsulation process did not infringe the TI patents. In July, 1996, the CAFC issued its decision affirming the U.S. District Court's holding in favor of the Company. In August, 1996 TI filed a petition for reconsideration of the CAFC's decision and that the matter be heard in banc by the CAFC. The Company continues to believe that the final outcome of such matter discussed will not have a material adverse effect on the Company's consolidated financial position or results of operations. No assurance can be given, however, that this matter will be resolved without the payment of damages and other costs or that damages will not be increased to an amount in excess of the Company's reserves with the potential for having an adverse effect on the Company.

Certain additional claims and litigation against the Company have also arisen in the normal course of business. The Company believes that it is unlikely that the outcome of these claims and lawsuits will have a materially adverse effect on the Company's consolidated financial position or results of operations.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

General

The Company believes that its future operating results are and will continue to be subject to quarterly variations based upon a wide variety of factors, including the cyclical nature of both the semiconductor industry and the markets addressed by the Company's products, the availability and extent of utilization of manufacturing capacity, fluctuations in manufacturing yields, price erosion, competitive factors, the timing of new product introductions, changes in product mix, product obsolescence and the ability to develop and implement new technologies. The Company's operating results could also be impacted by sudden fluctuations in customer requirements, currency exchange rate fluctuations and other economic conditions affecting customer demand and the cost of operations in one or more of the global markets in which the Company does business. As a participant in

the semiconductor industry, the Company operates in a technologically advanced, rapidly changing and highly competitive environment. The Company predominantly sells custom products to customers operating in a similar environment. Accordingly, changes in the circumstances of the Company's customers may have a greater impact on the Company than if the Company offered standard products that could be sold to many purchasers. While the Company cannot predict what effect these various factors may have on its financial results, the aggregate effect of these and other factors could result in significant volatility in the Company's future performance and stock price. To the extent the Company's performance may not satisfy expectations published by external sources, public reaction could result in a sudden and significantly adverse impact on the market price of the Company's securities, particularly on a short-term basis.

The Company currently has international subsidiaries which operate and sell the Company's products in various global markets. The Company purchases a substantial portion of its raw materials and equipment from foreign suppliers, and incurs labor and other operating costs, particularly at its Japanese manufacturing facility, in foreign currencies. As a result, the Company is exposed to international factors such as changes in foreign currency exchange rates or weak economic conditions of the respective countries in which the Company operates. The Company utilizes various instruments, primarily forward exchange and currency swap contracts, to manage its exposure associated with currency fluctuation on intercompany transactions and certain foreign currency denominated commitments (see Note 3 to the Unaudited Consolidated Condensed Financial Statements).

The Company's corporate headquarters and manufacturing facilities are located near major earthquake faults. As a result, in the event of a major earthquake the Company could suffer damages which could materially and adversely affect the operating results and financial condition of the Company.

While management believes that the discussion and analysis in this report is adequate for a fair presentation of the information, management recommends that this discussion and analysis be read in conjunction with Management's Discussion and Analysis included in the Company's 1995 Annual Report on Form 10-K for the year ended December 31, 1995.

Results of Operations

Revenues for the second quarter and first half of 1996 increased 6.0% and 8.4% to \$325.4 million and \$636.7 million, respectively, as compared to the same periods in 1995. The increase in revenues was primarily due to increased demand for the Company's products for consumer product applications. Production volume grew during the first half of 1996 compared to the same period a year ago due to the Company's continued increase in manufacturing capacity and effectiveness in improving manufacturing yield ratios at its various manufacturing facilities throughout 1995 and during the first half of 1996. A slowdown in new orders during the second quarter of 1996 is likely to cause revenues in the third quarter of 1996 to decline from second quarter levels.

Key elements of the statements of operations, expressed as a percentage of revenues, were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	1996	1995	1996	1995
Gross margin	45.8%	47.1%	44.5%	46.2%
Research and development expenses	13.8%	9.1%	13.5%	8.9%
Selling, general and administrative expenses	12.9%	13.1%	13.1%	13.5%
Income from operations	19.1%	25.0%	18.0%	23.8%

Gross margin declined to 45.8% and 44.5% during the second quarter and first half of 1996, respectively from 47.1% and 46.2% in the same periods a year ago. The decline was primarily attributable to lower factory utilization. The Company's operating environment, combined with the resources required to operate in the semiconductor industry, requires managing a wide variety of factors such as factory and capacity utilization, manufacturing yields, product mix, availability of certain raw materials, terms negotiated with third-party subcontractors and foreign currency exchange rate fluctuations. Gross profit margin for the first two quarters of 1996 may not be indicative of expected results for the remainder of the fiscal year.

The Company has significantly increased its volume production capability from operating levels in the same period a year ago resulting primarily from the installation of additional production equipment in the Company's Japanese wafer manufacturing facilities and improving manufacturing yields. However, lower factory utilization during the second quarter of 1996 coupled with the possibility of lower revenues may have a negative impact on gross margin during the third quarter of 1996.

The Company has pushed out completion of the first phase of its Gresham manufacturing facility based on expected future capacity requirements and current capacity availability. This new facility is currently expected to become operational by the first quarter of 1998. If demand does not absorb the Company's available capacity at a sufficient rate, the Company's gross margin and operating results could be negatively impacted in future periods.

Changes in the relative strength of the yen may have a greater impact on the Company's gross margin than other foreign exchange fluctuations due to the Company's large wafer fabrication operations in Japan. Although the yen weakened (the average yen exchange rate for the second quarter and first half of 1996 decreased approximately 27% and 18%, respectively, from the same periods in 1995), the effect on gross margin and net income was not material as the Company's yen denominated sales offset a substantial portion of its yen denominated costs during those periods, and the Company hedged a portion of its remaining yen exposures during the period. However, there is no assurance that future changes in the relative strength of the yen will not have a material effect on gross margin or operating results.

Research and development (R&D) expenses increased \$16.9 million and \$33.4 million, respectively, in the second quarter and first half of 1996 compared to the same periods in 1995. The increase in R&D expenses is primarily attributed to increased staffing levels as the Company continues to invest in the development of higher technology products and the related manufacturing processes, packaging and design processes. As a percentage of revenue, R&D expenses increased to 13.8% and 13.5%, respectively, in the second quarter and first half of 1996 compared with the same periods a year ago. The increase resulted primarily from the Company's continued growth in its investment in future products and processes which outpaced the growth in revenues during these periods. The Company anticipates continuing its investment in R&D at a rate of 14% to 16% of revenues throughout the remainder of 1996.

Selling, general and administrative (SG&A) expenses increased \$1.9 million and \$3.7 million, respectively, in the second quarter and first half of 1996 compared to the same periods in 1995. The increase in total SG&A expenses was primarily due to increased staffing levels. SG&A expenses declined as a percentage of revenues to 12.9% and 13.1%, respectively, in the second quarter and first half of 1996 compared to 13.1% and 13.5% for the same periods in 1995. The Company expects that SG&A expenses will continue to increase in absolute dollars although such expenses may fluctuate as a percentage of revenues on a quarterly basis.

Interest expense for the second quarter and first half of 1996 decreased \$.7 million and \$1.7 million, respectively, as compared to the same periods in 1995. The decrease is primarily attributed to lower interest rates on yen-denominated borrowings during 1996.

Interest income and other decreased \$1.1 million during the second quarter of 1996 as compared to the second quarter of 1995. The decrease is primarily related to fixed asset disposals and foreign currency exchange losses offset in part by higher interest income during the second quarter. Interest income and other increased \$3.2 million during the first half of 1996 as compared to the same period in 1995. The increase is primarily attributable to increased interest income as a result of higher average cash and investment balances offset partially by foreign exchange losses during the first half of 1996.

The Company recorded a provision for income taxes for the first half of 1996 and 1995 with an effective rate of 28%. The Company's effective tax rate is lower than the U.S. statutory rate primarily due to the Company's expected earnings mix in its foreign subsidiaries which are taxed at lower rates and anticipated utilization of prior loss carryovers and other tax credits.

Restructuring

The Company implemented a restructuring plan in the third quarter of 1992 revising its global manufacturing strategy, streamlining operations, discontinuing certain commodity products and focusing its product strategy on high-end technology solutions. Specifically, it involved the shutdown of the Braunschweig, Germany test and assembly facility, the planned phase-out of the Milpitas, California wafer fabrication facility, the consolidation of certain U.S. manufacturing operations, the downsizing of the chipset operation of its former subsidiary, Headland Technology Inc., and severance costs for approximately 500 employees worldwide. The \$102 million restructuring charge included: the write-down and write-off of manufacturing facilities, equipment and improvements; the estimated operating costs attributable to the phase-out, closure and consolidation of these manufacturing facilities; the write-down of commodity chipset product inventories; the severance of manufacturing and other personnel; the consolidation of certain U.S. and foreign sales offices, design centers and administrative organizations; and certain legal matters and other costs.

By the end of 1995, the Company had completed the phase-out of the German test and assembly operation and written off the facility, discontinued the chipset business, substantially completed phased-down of its Milpitas wafer manufacturing facility and certain U.S. assembly and test operations, and completed consolidation of certain U.S. sales offices and design centers. These actions included termination of approximately 400 employees.

The following table sets forth the remaining 1992 restructuring reserves at June 30, 1996 and December 31, 1995 (which are accounted for as components of fixed assets and current liabilities) and charges taken during the first six months of 1996 (in thousands):

	Balance 12/31/95	Utilized*	Adjusted	Balance 6/30/96
Fixed asset related charges	\$ 1,900	\$ (300)	\$ -	\$ 1,600
Other provisions for phase-down and consolidation of manufacturing facilities	2,800	(300)	-	2,500
Payments to employees for severance (a)	-	(1,500)	2,000	500
Relocation, lease terminations and other corporate matters	19,000	-	(2,000)	17,000
Total	\$ 23,700	\$ (2,100)	\$ -	\$ 21,600

* Net of cumulative currency translation adjustments. Amounts utilized represent both cash and non-cash charges. Cash charges

totalled approximately \$1,750,000 during the first half of 1996.

(a) Amounts utilized represent cash payments related to the severance of approximately 150 employees.

During the first six months of 1996, \$2.1 million was charged against the restructuring reserves. These charges were primarily for the shutdown of the Milpitas wafer fabrication facility (which had previously been delayed as the Company assessed its capacity requirements in response to favorable market conditions) and included severance payments to employees (\$1.5 million) and charges in connection with owned and leased equipment (\$300,000). Other restructuring charges were attributable to ongoing maintenance costs of its vacant German facility (\$180,000), offset in part by a decrease in reserves due to translation adjustments as a result of the weakening Deutschemark (\$120,000). Reserves at June 30, 1996 include approximately \$4.6 million for remaining costs related to the closure of the Milpitas manufacturing facility and continued maintenance of the vacant Braunschweig facility and \$17 million for legal and other corporate matters. Management believes that the total reserves established are adequate to cover uncertainties in connection with these matters.

Financial Condition

The Company's cash, cash equivalents and short-term investments increased \$28.2 million during the first half of 1996 to \$713.7 million from \$685.5 million at the end of 1995. The increase is due to cash provided from operations and net proceeds from borrowings, offset partially by purchases of fixed assets and repurchases of common stock. Working capital increased \$47.6 million to \$788.5 million at June 30, 1996 from \$740.9 million at December 31, 1995.

During the first half of 1996, the Company generated \$183.7 million of cash and cash equivalents from its operating activities, which is an increase of \$50.2 million in cash and cash equivalents provided from operating activities during the first half of 1995. The increase is primarily attributable to changes in cash invested in inventories and other assets during the first half of 1996 compared to the first half of 1995. Cash and cash equivalents used for investing activities during the first half of 1996 were \$178.2 million compared to \$257.3 million during the same period in 1995. The decrease was primarily attributable to the repurchase of all the minority interest in the Company's manufacturing subsidiary during the first half of 1995 for \$125.9 million and an increase in the net maturities and sales of short term investments of \$18.9 million in the first half of 1996, partially offset by a \$79.8 million increase in the net purchasing activity of property and equipment during the period. Cash and cash equivalents provided by financing activities during the first half of 1996 were \$50.1 million compared to \$170.1 million in the first half of 1995. The decrease is primarily attributed to proceeds of \$157.6 million received by the Company from a stock offering in February 1995. Additionally, during the first half of 1996, the Company increased borrowings by \$67.7 million relating primarily to financing capacity expansion at its Japanese manufacturing subsidiary and repurchased one million shares of the Company's common stock for \$27.2 million.

Net property and equipment was \$738.9 million at June 30, 1996, an increase of \$100.6 million compared to \$638.3 million at the end of 1995. The increase was primarily due to \$190.2 million of fixed asset purchases (primarily equipment for the Company's Japanese manufacturing facilities) and construction costs related to a new wafer fabrication facility in Oregon (see below), net of retirements and \$11.8 million of equipment refinanced through operating leases by its Japanese manufacturing subsidiary, partially offset by \$62.5 million of depreciation on fixed assets and the effect of translation (approximately \$24.9 million), primarily related to the weakening of the yen. Management expects net capital additions (excluding operating leases) to approximate \$400 to \$450 million for 1996. The Company is currently building a new 8-inch wafer manufacturing facility in Gresham, Oregon. The initial phase is expected to require capital spending of approximately \$600 to \$800 million and, when

fully ramped, will have the capacity to run approximately 4,000 eight-inch wafers per week.

During 1995, the Company's manufacturing subsidiary entered into a 25 billion yen credit line arrangement. As of June 30, 1996, the Company had 15.5 billion yen (\$141.6 million) outstanding under the facility. Borrowings under the line of credit are for a term of five years with principle payments due semiannually beginning in July 1997. All borrowings under this credit line have been converted to fixed rates through the use of interest rate swaps (see Note 3 of Notes to Unaudited Consolidated Condensed Financial Statements). Each of the Company's significant foreign affiliates have lines of credit available for local currency borrowings. These foreign bank lines of credit were not material as of June 30, 1996.

The Company believes that its level of financial resources is an important competitive factor in its industry. Accordingly, the Company may, from time to time, seek additional equity or debt financing. The Company believes that existing liquid resources and funds generated from operations combined with funds from such financing and its ability to borrow funds will be adequate to meet its operating and capital requirements and obligations through the foreseeable future. There can be no assurance that such additional financing will be available when needed or, if available, will be on favorable terms. Any future equity financing will decrease existing stockholders' percentage equity ownership and may, depending on the price at which the equity is sold, result in dilution.

Part II

Item 1 Legal Proceedings

Reference is made to Item 3, Legal Proceedings, of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 for a discussion of certain pending legal proceedings. As indicated therein, Texas Instruments (TI) filed an appeal in the United States Court of Appeals for the Federal Circuit (CAFC) challenging the United States District Court that the Company's encapsulation process did not infringe the TI patents. In July, 1996, the CAFC issued its decision affirming the U.S. District Court's holding in favor of the Company. In August, 1996 TI filed a petition for reconsideration of the CAFC's decision and that the matter be heard in banc by the CAFC. The Company continues to believe that the final outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations. No assurance can be given, however, that this matter will be resolved without the payment of damages and other costs or that damages will not be increased to an amount in excess of the Company's reserves with the potential for having an adverse effect on the Company.

Item 4 Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of LSI Logic Corporation was held on May 10, 1996 in New York, New York. Of the total 128,467,131 shares outstanding as of the record date, 115,310,922 shares (89.7%) were present or represented by proxy at the meeting. The table below presents the results of election of the Company's board of directors:

	Votes For	Votes Withheld
Wilfred J. Corrigan	115,019,295	291,627
Malcolm R. Currie	115,006,574	304,348
T.Z. Chu	115,012,159	298,763
James H. Keyes	115,030,502	280,420
R. Douglas Norby	115,022,757	288,165

The stockholders ratified the appointment of Price Waterhouse LLP as the Company's independent accountants for the fiscal year ended December 31, 1996. The proposal received 115,012,042 affirmative votes, 128,910 negative votes, 169,970 abstentions, and zero non-votes.

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

11.1 Calculation of Earnings Per Share

27.1 Financial Data Schedule

(b) Reports on Form 8-K

None.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LSI LOGIC CORPORATION

(Registrant)

Date: August 12, 1996

By /s/ Albert A. Pimentel
Albert A. Pimentel
Senior Vice President Finance &
Chief Financial Officer

LSI LOGIC CORPORATION
 CALCULATION OF EARNINGS PER SHARE
 (In thousands, except per share amounts)
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30.	
	1996	1995	1996	1995
Primary Earnings Per Share				
Net income	\$ 46,496	\$ 55,745	\$ 88,780	\$101,005
Average common and common equivalent shares:				
Average common shares outstanding	129,019	121,824	129,106	119,530
Dilutive options	2,605	4,031	2,641	3,783
	131,624	125,855	131,747	123,313
Earnings per common and common equivalent share	\$ 0.35	\$ 0.44	\$ 0.67	\$ 0.82
Fully Diluted Earnings Per Share				
Net income	\$ 46,496	\$ 55,745	\$ 88,780	\$101,005
Interest expense on convertible subordinated debt, net of tax effect	1,542	1,542	3,083	3,083
Adjusted net income	\$ 48,038	\$ 57,287	\$ 91,863	\$104,088
Average common and common equivalent shares on a fully diluted basis:				
Average common shares outstanding	129,019	121,824	129,106	119,530
Convertible subordinated debt	11,735	11,735	11,735	11,735
Dilutive options	2,605	4,380	2,645	4,424
	143,359	137,939	143,486	135,689
Fully diluted earnings per common and common equivalent share	\$ 0.34	\$ 0.42	\$ 0.64	\$ 0.77

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	6-MOS	
DEC-31-1996		
	JUN-30-1996	
		222,788
		490,909
		243,954
		2,956
		123,894
1,134,583		
		1,278,451
		539,584
		1,960,268
346,121		
		143,750
		1,292
0		
		0
		1,265,371
1,960,268		
		636,711
		636,711
		353,303
		353,303
		168,999
		0
		6,594
		123,756
		34,658
88,780		
		0
		0
		0
		88,780
		0.67
		0.64