CONEXANT SYSTEMS INC
Form 10-Q
May 13, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended April 3, 2009

OR

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

Commission file number: 000-24923

CONEXANT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**25-1799439**
(State of incorporation)	(I.R.S. Employer Identification No.)

4000 MacArthur Boulevard
Newport Beach, California 92660-3095
(Address of principal executive offices) (Zip code)
(949) 483-4600
(Registrant s telephone number, including area code)

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 þ No o

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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of May 1, 2009, there were 49,779,850 shares of the registrant s common stock outstanding.

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as may, will, could, project, believe, anticipate, expect, estimate, continue, potential, plan, forecasts, and the like, the negatives of su expressions, or the use of future tense. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Examples of forward-looking statements include, but are not limited to, statements concerning:

our beliefs, subject to the qualifications expressed, regarding the sufficiency of our existing sources of liquidity and cash to fund our operations, research and development, anticipated capital expenditures and our working capital needs for at least the next 12 months and that we will be able to repatriate cash from our foreign operations on a timely and cost effective basis and that we will be able to sustain the recoverability of our goodwill, intangible and tangible long-term assets;

our belief that we will be able to sustain the recoverability of our goodwill, intangible and tangible long-term assets;

expectations that we will have sufficient capital needed to remain in business and repay our indebtedness as it becomes due;

expectations that we will be able to continue to meet NASDAQ listing requirements;

expectations regarding the market share of our products, growth in the markets we serve and our market opportunities;

expectations regarding price and product competition;

continued demand and future growth in demand for our products in the communications, PC and consumer markets we serve;

our plans and expectations regarding the transition of our semiconductor products to smaller line width geometries;

our product development plans;

our expectation that our largest customers will continue to account for a substantial portion of our revenue;

expectations regarding our contractual obligations and commitments;

expectation that we will be able to protect our products and services with proprietary technology and intellectual property protection;

expectation that we will be able to meet our lease obligations (and other financial commitments);

expectation that we will be able to continue to rely on third party manufacturers to manufacture, assemble and test our products to meet our customers demands; and

expectations regarding the proposed sale of our Broadband Access Products business to Ikanos Communications, Inc.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those made in Part II, Item 1A of this Quarterly Report on Form 10-Q, and any of those made in our other reports filed with the Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We do not intend, and undertake no obligation, to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited, in thousands, except par value)

	April 3, 2009	October 3, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 110,271	$ 105,883
Restricted cash	17,500	26,800
Receivables, net of allowances of $820 and $834	37,172	48,997
Inventories, net	18,042	36,439
Other current assets	36,740	38,537
Total current assets	219,725	256,656
Property, plant and equipment, net	18,448	24,912
Goodwill	111,360	110,412
Intangible assets, net	7,026	14,971
Other assets	36,405	39,452
Total assets	$ 392,964	$ 446,403
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt	$	$ 17,707
Short-term debt	29,721	40,117
Accounts payable	18,365	34,894
Accrued compensation and benefits	11,712	14,989
Other current liabilities	34,461	44,385
Total current liabilities	94,259	152,092
Long-term debt	391,400	373,693
Other liabilities	72,282	57,352
Total liabilities	557,941	583,137
Commitments and contingencies (Note 6)		
Shareholders deficit:		
Preferred and junior preferred stock		
Common stock, $0.01 par value: 100,000 shares authorized; 49,780 and 49,601 shares issued and outstanding	498	496
Additional paid-in capital	4,748,512	4,744,140
Accumulated deficit	(4,910,651)	(4,879,208)
Accumulated other comprehensive loss	(3,288)	(2,083)
Shareholder notes receivable	(48)	(79)
Total shareholders deficit	(164,977)	(136,734)

Total liabilities and shareholders deficit	$	392,964	$	446,403

See accompanying notes to condensed consolidated financial statements.

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited, in thousands, except per share amounts)

	Fiscal Quarter Ended		Six Fiscal Months Ended	
	April 3, 2009	March 28, 2008	April 3, 2009	March 28, 2008
Net revenues	$ 74,479	$ 118,518	$ 160,977	$ 264,451
Cost of goods sold (1)	35,373	56,481	75,721	120,293
Gross margin	39,106	62,037	85,256	144,158
Operating expenses:				
Research and development (1)	24,468	30,650	50,781	68,473
Selling, general and administrative (1)	18,678	20,424	38,161	40,438
Amortization of intangible assets	2,885	2,859	6,256	7,430
Gain on sale of intellectual property			(12,858)	
Special charges	2,385	2,594	12,594	6,943
Total operating expenses	48,416	56,527	94,934	123,284
Operating (loss) income	(9,310)	5,510	(9,678)	20,874
Interest expense	5,930	8,628	11,984	18,077
Other (income) expense, net	(1,577)	4,148	718	9,493
Loss from continuing operations before income taxes and (loss) gain on equity method investments	(13,663)	(7,266)	(22,380)	(6,696)
Provision for income taxes	341	717	1,253	1,579
Loss from continuing operations before (loss) gain on equity method investments	(14,004)	(7,983)	(23,633)	(8,275)
(Loss) gain on equity method investments	(835)	(214)	(1,681)	3,559
Loss from continuing operations	(14,839)	(8,197)	(25,314)	(4,716)
Income (loss) from discontinued operations, net of tax (1)	1,083	(133,807)	(6,131)	(146,506)
Net loss	$ (13,756)	$ (142,004)	$ (31,445)	$ (151,222)
Loss per share from continuing operations basic and diluted	$ (0.30)	$ (0.17)	$ (0.51)	$ (0.10)
Income (loss) per share from discontinued operations basic and diluted	$ 0.02	$ (2.71)	$ (0.12)	$ (2.97)
Net loss per share basic and diluted	$ (0.28)	$ (2.88)	$ (0.63)	$ (3.07)
Shares used in basic and diluted per-share computations	49,755	49,312	49,706	49,274

(1) These captions include non-cash employee stock-based compensation expense as follows (see Note 7):

	Fiscal Quarter Ended		Six Fiscal Months Ended	
	April 3, 2009	**March 28, 2008**	**April 3, 2009**	**March 28, 2008**
Cost of goods sold	$ 95	$ 81	$ 138	$ 195
Research and development	733	912	1,244	2,524
Selling, general and administrative	1,405	2,210	3,224	3,168
(Income) loss from discontinued operations, net of tax		563		1,163

See accompanying notes to condensed consolidated financial statements.

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Six Fiscal Months Ended	
	April 3, 2009	**March 28, 2008**
Cash flows from operating activities:		
Net loss	$ (31,445)	$ (151,222)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities, net of effects of acquisitions:		
Depreciation	4,659	11,534
Amortization of intangible assets	6,255	7,851
Asset impairments		121,785
Reversal of provision for bad debts, net		(698)
(Reversal of) charges for inventory provisions, net	(24)	4,715
Deferred income taxes	(158)	121
Stock-based compensation	4,606	7,050
(Increase) decrease in fair value of derivative instruments	(90)	14,161
Losses on equity method investments	2,560	28
Other-than-temporary impairment of marketable securities	2,635	
Other-than-temporary impairment of cost method investments	135	
Gain on sale of intellectual property	(12,858)	
Other items, net	1,241	451
Changes in assets and liabilities:		
Receivables	11,825	8,520
Inventories	19,319	3,072
Accounts payable	(16,529)	(10,743)
Accrued expenses and other current liabilities	(8,828)	(24,998)
Accrued restructuring expenses	11,688	1,931
Other, net	918	8,475
Net cash (used in) provided by operating activities	(4,091)	2,033
Cash flows from investing activities:		
Purchases of property, plant and equipment	(347)	(3,689)
Proceeds from sale of property, plant and equipment		574
Payments for acquisitions	(3,578)	
Purchases of equity securities		(755)
Release of restricted cash	9,300	
Proceeds from sale of intellectual property, net of expenses of $132	14,548	
Net cash provided by (used in) investing activities	19,923	(3,870)
Cash flows from financing activities:		
Net repayments of short-term debt, including debt costs of $901 and $1,118	(11,297)	(10,022)
Repurchases and retirements of long-term debt		(53,600)
Proceeds from issuance of common stock	28	707
Interest rate swap security deposit	(207)	(6,741)
Repayment of shareholder note receivable	32	

Net cash used in financing activities	(11,444)	(69,656)
Net increase (decrease) in cash and cash equivalents	4,388	(71,493)
Cash and cash equivalents at beginning of period	105,883	235,605
Cash and cash equivalents at end of period	$ 110,271	$ 164,112

See accompanying notes to condensed consolidated financial statements.

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Description of Business

Conexant Systems, Inc. (Conexant or the Company) designs, develops and sells semiconductor system solutions, comprised of semiconductor devices, software and reference designs for use in broadband communications applications that enable high-speed transmission, processing and distribution of audio, video, voice and data to and throughout homes and business enterprises worldwide. The Company s access solutions connect people through personal communications access products, such as personal computers (PCs), to audio, video, voice and data services over wireless and wire line broadband connections as well as over dial-up Internet connections. The Company s central office solutions are used by service providers to deliver high-speed audio, video, voice and data services over copper telephone lines and optical fiber networks to homes and businesses around the globe. In addition, media processing products enable the capture, display, storage, playback and transfer of audio and video content in applications throughout home and small office environments. These solutions enable broadband connections and network content to be shared throughout a home or small office-home office environment using a variety of communications devices.

2. Basis of Presentation and Significant Accounting Policies

Interim Reporting The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company s Annual Report on Form 10-K for the fiscal year ended October 3, 2008. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the periods indicated. All such adjustments are of a normal recurring nature. The year-end condensed balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Fiscal Periods The Company s fiscal year is the 52- or 53-week period ending on the Friday closest to September 30. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2009 is a 52-week year and fiscal 2008 consisted of 53 weeks.

Use of 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 the amounts reported in the consolidated financial statements and accompanying notes. Among the significant estimates affecting the consolidated financial statements are those related to business combinations, revenue recognition, allowance for doubtful accounts, inventories, long-lived assets (including goodwill and intangible assets), deferred income taxes, valuation of warrants, valuation of equity securities, stock-based compensation, restructuring charges and litigation. On an on-going basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

Revenue Recognition The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the sales price and terms are fixed and determinable, and (iv) the collection of the receivable is reasonably assured. These terms are typically met upon shipment of product to the customer. The majority of the Company s distributors have limited stock rotation rights, which allow them to rotate up to 10% of product in their inventory two times per year. The Company recognizes revenue to these distributors upon shipment of product to the distributor, as the stock rotation rights are limited and the Company believes that it has the ability to reasonably estimate and establish allowances for expected product returns in accordance with Statement of Financial Accounting Standards (SFAS) No. 48, Revenue Recognition When Right of Return Exists. Development revenue is recognized when services are performed and was not significant for any periods presented.

Prior to the fourth quarter of fiscal 2008, revenue with respect to sales to certain distributors was deferred until the products were sold by the distributors to third parties. During the fiscal quarter ended October 3, 2008, the Company evaluated three distributors for which revenue has historically been recognized when the purchased products are sold by the distributor to a third party due to the Company s inability in prior years to enforce the contractual terms related to any right of return. The Company s evaluation revealed that it is able to enforce the contractual right of return for the three distributors in an effective manner similar to that experienced with the other distributor customers. As a result, in the fourth quarter of fiscal 2008, the Company commenced the recognition of revenue on these three distributors upon shipment, which is consistent with the revenue recognition point of other distributor customers. As a result, in the fiscal quarter ended October 3, 2008, the Company recognized $3.9 million of revenue on sales to these three distributors related to the change to revenue recognition upon shipment with a corresponding charge to cost of goods sold of $1.8 million. At April 3, 2009 and October 3, 2008, there is no significant deferred revenue related to sales to the Company s distributors.

Revenue with respect to sales to customers to whom the Company has significant obligations after delivery is deferred until all significant obligations have been completed. At April 3, 2009, there was no deferred revenue. At October 3, 2008, deferred revenue related to shipments of products for which the Company had on-going performance obligations was $0.2 million. Deferred revenue is included in other current liabilities on the accompanying condensed consolidated balance sheets.

During the six fiscal months ended March 28, 2008, the Company recorded approximately $14.7 million of non-recurring revenue from the buyout of a future royalty stream.

Liquidity The Company has a $50.0 million credit facility with a bank, under which it had borrowed $29.7 million as of April 3, 2009. This credit facility matures on November 27, 2009 and is subject to additional 364-day extensions at the discretion of the bank.

The Company believes that its existing sources of liquidity, together with cash expected to be generated from product sales, will be sufficient to fund its operations, research and development, anticipated capital expenditures and working capital for at least the next twelve months. However, additional operating losses or lower than expected product sales will adversely affect the Company s cash flow and financial condition and could impair its ability to satisfy its indebtedness obligations as such obligations come due.

Recent unfavorable economic conditions have led to a tightening in the credit markets, a low level of liquidity in many financial markets and extreme volatility in the credit and equity markets. If the economy or markets in which we operate continue to be subject to adverse economic conditions, our business, financial condition, cash flow and results of operations will be adversely affected. If the credit markets remain difficult to access or worsen or our performance is unfavorable due to economic conditions or for any other reasons, we may not be able to obtain sufficient capital to repay amounts due under (i) our credit facility expiring November 2009, (ii) our $141.4 million floating rate senior secured notes when they become due in November 2010 or earlier as a result of a mandatory offer to repurchase, and (iii) our $250.0 million convertible subordinated notes when they become due in March 2026 or earlier as a result of the mandatory repurchase requirements. The first mandatory repurchase date for our convertible subordinated notes is March 1, 2011. In the event we are unable to satisfy or refinance our debt obligations as the obligations are required to be paid, we will be required to consider strategic and other alternatives, including, among other things, the negotiation of revised terms of our indebtedness, the exchange of new securities for existing indebtedness obligations and the sale of assets to generate funds. There is no assurance that we would be successful in completing any of these alternatives.

Restricted Cash The Company s short-term debt agreement requires that the Company and its consolidated subsidiaries maintain minimum levels of cash on deposit with the bank throughout the term of the agreement. The Company classified $8.5 million and $8.8 million as restricted cash with respect to this credit agreement as of April 3, 2009 and October 3, 2008, respectively. See Note 5 for further information on the Company s short-term debt.

As of October 3, 2008 and April 3, 2009, the Company had one irrevocable stand-by letter of credit outstanding. As of April 3, 2009 and October 3, 2008, the irrevocable stand-by letter of credit was collateralized by restricted cash balances of $9.0 million and $18.0 million, respectively, to secure inventory purchases from a vendor. The letter of credit expires on May 31, 2009. The restricted cash balance securing the letter of credit is classified as current restricted cash on the condensed consolidated balance sheets. In addition, the Company has other outstanding letters of credit collateralized by restricted cash aggregating $6.8 million to secure various long-term operating leases and the Company s self-insured worker s compensation plan. The restricted cash associated with these letters of credit is classified as other long-term assets on the condensed consolidated balance sheets.

Income Taxes The Company utilizes the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, Accounting for Income Taxes, (SFAS 109). SFAS 109 establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that some of the deferred tax assets will not be realized.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). Under FIN 48, which the Company adopted effective

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September 29, 2007, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within operations as income tax expense. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or cash flows.

Review of Accounting for Research and Development Costs During the fiscal quarter ended December 27, 2007, the Company reviewed its methodology of capitalizing photo mask costs used in product development. Photo mask designs are subject to significant verification and uncertainty regarding the final performance of the related part. Due to these uncertainties, the Company reevaluated its prior practice of capitalizing such costs and concluded that these costs should have been expensed as research and development costs as incurred. As a result, in the six fiscal months ended March 28, 2008, the Company recorded a correcting adjustment of $5.3 million, representing the unamortized portion of the capitalized photo mask costs as of September 29, 2007. Based upon an evaluation of all relevant quantitative and qualitative factors, and after considering the provisions of Accounting Principles Board Opinion No. 28 Interim Financial Reporting, (APB 28), paragraph 29, and SEC Staff Accounting Bulletin Nos. 99 Materiality (SAB 99) and 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), the Company believes that this correcting adjustment was not material to its estimated full-year results for 2008. In addition, the Company does not believe the correcting adjustment is material to the amounts reported in previous periods.

Derivative Financial Instruments The Company s derivative financial instruments as of April 3, 2009 principally consisted of (i) the Company s warrant to purchase six million shares of Mindspeed Technologies, Inc. (Mindspeed) common stock and (ii) interest rate swaps. See Note 5 for information regarding the Mindspeed warrant.

Interest Rate Swaps During fiscal 2008, the Company entered into three interest rate swap agreements with Bear Stearns Capital Markets, Inc. (counterparty) for a combined notional amount of $200 million to mitigate interest rate risk on $200 million of its Floating Rate Senior Secured Notes due 2010. In December 2008, the interest rate swap agreements were assigned, without modification, to J.P. Morgan Chase Bank, N.A. Under the terms of the swaps, the Company will pay a fixed rate of 2.98% and receive a floating rate equal to three-month LIBOR, which will offset the floating rate paid on the Notes. The interest rate swaps meet the criteria for designation as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). As a result of the repurchase of $80 million of the Company s Floating Rate Senior Secured Notes in the fourth quarter of fiscal 2008, one of the swap contracts with a notional amount of $100 million was terminated. As a result of the swap contract termination, the Company recognized a $0.3 million gain based on the fair value of the contract on the termination date. The remaining two $50 million swap agreements terminate on the due date of the underlying notes and require the Company to post cash collateral with the counterparty in a minimum amount of $2.1 million. The amount of collateral will adjust monthly based on a mark-to-market of the swaps. At April 3, 2009, the Company was required to post $2.7 million of cash collateral with the counterparty, $0.6 million of which is included in other current assets and $2.1 million of which is included in other non-current assets on the accompanying condensed consolidated balance sheet. Based on the fair value of the swap agreements, the Company recorded a derivative liability of $2.5 million at April 3, 2009, which is included in other liabilities on the accompanying condensed consolidated balance sheet. The change in fair value is recorded in accumulated other comprehensive loss to the extent the derivative is effective in mitigating the exposure related to the underlying notes. The gain or loss is recognized immediately in other (income) expense, net, in the statements of operations when a designated hedging instrument is either terminated early or an improbable or ineffective portion of the hedge is identified. Interest expense related to the swap contracts was $0.4 million and $0.5 million for the fiscal quarter and six fiscal months ended April 3, 2009, respectively.

At October 3, 2008, the Company had outstanding foreign currency forward exchange contracts with a notional amount of 210 million Indian Rupees, or approximately $4.4 million. All foreign currency forward exchange contracts matured at various dates through December 2008 and were not renewed. At April 3, 2009, there were no foreign currency forward exchange contracts outstanding.

The Company may use other derivatives from time to time to manage its exposure to changes in interest rates, equity prices or other risks. The Company does not enter into derivative financial instruments for speculative or trading purposes.

Supplemental Cash Flow Information Cash paid for interest was $7.5 million and $10.2 million for the six fiscal months ended April 3, 2009 and March 28, 2008, respectively. Cash paid for income taxes for the six fiscal months ended April 3, 2009 and March 28, 2008 was $1.3 million and $1.6 million, respectively.

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Net Loss Per Share Net loss per share is computed in accordance with SFAS No. 128, Earnings Per Share. Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options and warrants and shares of stock issuable upon conversion of the Company s convertible subordinated notes. The dilutive effect of stock options and warrants is computed under the treasury stock method, and the dilutive effect of convertible subordinated notes is computed using the if-converted method. Potentially dilutive securities are excluded from the computations of diluted net loss per share if their effect would be antidilutive.

The following potentially dilutive securities have been excluded from the diluted net loss per share calculations because their effect would have been antidilutive (in thousands):

	Fiscal Quarter Ended		Six Fiscal Months Ended	
	April 3, 2009	March 28, 2008	April 3, 2009	March 28, 2008
Stock options and warrants	5,847	9,010	6,324	9,187
4.00% convertible subordinated notes due March 2026	5,081	5,081	5,081	5,081
	10,928	14,091	11,405	14,268

There were no dilutive common stock equivalents as of the fiscal quarter or six fiscal months ended April 3, 2009 and March 28, 2008, respectively.

Cash flows The Company has reclassified the change in accrued restructuring expenses of $1,931 from accrued expenses and other current liabilities, and other, net, to accrued restructuring expenses on its condensed consolidated statements of cash flows for the fiscal quarter ended March 28, 2008 to conform to the current year presentation. The Company has also corrected the classification of expenses related to short-term debt from other, net, to repayments of short-term debt, including debt costs, for the fiscal quarter ended March 28, 2008. These changes on the condensed consolidated statements cash flows did not affect the Company s reported net decrease in cash and cash equivalents for the period.

	Six Fiscal Months Ended March 28, 2008
Accrued expenses and other current liabilities, before reclassification	$ (26,636)
Accrued restructuring expenses	1,638
Accrued expenses and other current liabilities, after reclassification	$ (24,998)
Other, net, before reclassification	$ 10,926
Accrued restructuring expenses	(3,569)
Expenses related to short-term debt	1,118
Other, net, after reclassification	$ 8,475
Repayments of short-term debt, including debt costs, before correction	$ (8,904)

Expenses related to short-term debt		(1,118)
Repayments of short-term debt, including debt costs, after correction	$	(10,022)

Business Enterprise Segments The Company operates in one reportable segment, broadband communications. SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131), establishes standards for the way that public business enterprises report information about operating segments in condensed consolidated financial statements. Although the Company had two operating segments at April 3, 2009, under the aggregation criteria set forth in SFAS No. 131, it only operates in one reportable segment, broadband communications. The Company s reporting units, which are also the Company s operating units, Imaging and PC Media (IPM) and Broadband Access Products (BBA), were identified based upon the availability of discrete financial information and the chief operating decision maker s regular review of the financial information for these operating segments. The Company evaluated these reporting units for components and noted that there are none below the IPM and BBA reporting units.

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Under SFAS No. 131, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of SFAS No. 131, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas:

- the nature of their products and services;
- the nature of their production processes;
- the type or class of customer for their products and services; and
- the methods used to distribute their products or provide their services.

The Company meets each of the aggregation criteria for the following reasons:

- the sale of semiconductor products is the only material source of revenue for each of the Company s two operating segments;
- the products sold by each of the Company s operating segments use the same standard manufacturing process;
- the products marketed by each of the Company s operating segments are sold to similar customers;
- all of the Company s products are sold through its internal sales force and common distributors;
- the operating segments share common research and development resources and core engineering resources; and
- the operating segments share selling, general and administrative resources.

Because the Company meets each of the criteria set forth above and each of its operating segments has similar economic characteristics, the Company aggregates its results of operations in one reportable segment.

Goodwill Goodwill is not amortized. Instead, goodwill is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). Under SFAS 142, goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment. Goodwill impairment testing is a two-step process.

The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. We assess the fair value of our reporting units for purposes of goodwill impairment testing based upon a weighted average of a Discounted Cash Flow (DCF) analysis under the income approach, and a market multiple analysis under the market approach. The resulting fair value of the reporting unit is then compared to the carrying amounts of the net assets of the reporting unit, including goodwill. Carrying amounts of the reporting units are based upon a combination of specifically-identified assets and liabilities allocations using guidance outlined in paragraphs 32 and 34 of SFAS No. 142. The weighting between the two models is determined by management assessment of current internal and external conditions.

If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test must be performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. Goodwill impairment testing requires significant judgment and management estimates, including, but not limited to, the determination of (i) the number of reporting units, (ii) the goodwill and other assets and liabilities to be allocated to the reporting units and (iii) the fair values of the reporting units. The estimates and assumptions described above, along with other factors such as discount rates, will significantly affect the outcome of the impairment tests and the amounts of any resulting impairment losses.

Goodwill is tested at the reporting unit level annually and, if necessary, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The global decline in consumer confidence and spending has dramatically impacted the Company s financial performance as well as that of many of our competitors, peers, customers, and suppliers. This impact resulted in the Company s evaluation of the recoverability of goodwill during the first quarter of fiscal 2009.

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We determined that substantially all of the goodwill reported on our balance sheet is attributable to the IPM reporting unit and, accordingly, the IPM reporting unit is the primary focus of our goodwill impairment testing. Overall financial performance declines in the first quarter of fiscal 2009 resulted in an interim test for goodwill impairment. Based upon the results of the testing for the quarter ended January 2, 2009, the Company determined that despite recent declines in the IPM reporting unit, performance levels remained sufficient to support the IPM-related goodwill balance as of January 2, 2009.

During the second quarter of fiscal 2009, we reviewed the IPM forecasts used in the first quarter of fiscal 2009 interim goodwill impairment analysis and determined there were no further declines in performance and therefore no interim goodwill impairment analysis was considered necessary for the second quarter of fiscal 2009.

Recently Adopted Accounting Pronouncements

On January 3, 2009, the Company adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161). SFAS No. 161 requires expanded disclosures regarding the location and amount of derivative instruments in an entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. As a result of the adoption of SFAS No. 161, the Company expanded its disclosures regarding its derivative instruments. See Note 2 Basis of Presentation and Significant Accounting Policies, Note 4 Fair Value of Certain Financial Assets and Liabilities, and Note 5 Supplemental Financial Information.

On January 3, 2009, the Company adopted FASB Staff Position (FSP) FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP 140-4 and FIN 46(R)-8). FSP 140-4 and FIN 46(R)-8 amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, to require public entities to provide additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. Additionally, this FSP requires certain disclosures to be provided by a public enterprise that is (a) a sponsor of a qualifying special purpose entity (SPE) that holds a variable interest in the qualifying SPE but was not the transferor (non-transferor) of financial assets to the qualifying SPE and (b) a servicer of a qualifying SPE that holds a significant variable interest in the qualifying SPE but was not the transferor (non-transferor) of financial assets to the qualifying SPE. The adoption of FSP 140-4 and FIN 46(R)-8 did not have an impact on the Company s condensed consolidated financial statements because the Company does not have a variable interest in a variable interest entity or in its SPE.

On October 4, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157), for its financial assets and liabilities. The Company s adoption of SFAS No. 157 did not have a material impact on its financial position, results of operations or liquidity.

SFAS No. 157 provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements.

SFAS No. 157 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that the Company uses to measure fair value.

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SFAS No. 157 requires the use of observable market inputs (quoted market prices) when measuring fair value and requires a Level 1 quoted price to be used to measure fair value whenever possible.

In accordance with FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), the Company elected to defer until October 3, 2009 the adoption of SFAS No. 157 for all nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 for those assets and liabilities within the scope of FSP FAS 157-2 is not expected to have a material impact on the Company s financial position, results of operations or liquidity.

On October 4, 2008, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. The Company already records marketable securities at fair value in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The adoption of SFAS No. 159 did not have an impact on the Company s condensed consolidated financial statements as management did not elect the fair value option for any other financial instruments or certain other assets and liabilities.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R), which replaces SFAS No 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The Company will adopt SFAS No. 141R in the first quarter of fiscal 2010 and it will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51 (SFAS No. 160), which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent s equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The Company will adopt SFAS No. 160 in the first quarter of fiscal 2010 and it will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company is currently assessing the potential impact that adoption of SFAS No. 160 would have on its financial position and results of operations.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. This change is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other generally accepted accounting principles (GAAP). The requirement for determining useful lives must be applied prospectively to intangible assets acquired after the effective date and the disclosure requirements must be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, which will require the Company to adopt these provisions in the first quarter of fiscal 2010. The Company is currently evaluating the impact of adopting FSP 142-3 on its condensed consolidated financial statements.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer s nonconvertible debt borrowing rate. The guidance will result in companies recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. FSP APB 14-1 will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. Based on its initial analysis, the Company expects that the adoption of FSP APB 14-1 will result in an increase in the interest expense

recognized on its convertible subordinated notes. See Note 5 for further information on long-term debt.
In April 2009, the FASB issued three related Staff Positions: (i) FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4), (ii) FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and FSP 124-2), and (iii) FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107 and APB 28-1), which will be effective for interim and annual periods ending after June 15, 2009. FSP 157-4 provides guidance on how
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to determine the fair value of assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP 115-2 and FSP 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. The Company is currently evaluating the impact of adopting FSP 157-4, FSP 115-2 and FSP 124-2, and FSP 107 and APB 28-1 on its condensed consolidated financial statements.

3. Sale of Assets and Discontinued Operations

On August 11, 2008, the Company announced that it had completed the sale of its Broadband Media Processing (BMP) product lines to NXP B.V. (NXP). Pursuant to the Asset Purchase Agreement (the BMP Agreement), NXP acquired certain assets including, among other things, specified patents, inventory and contracts, and assumed certain employee-related liabilities. Pursuant to the BMP Agreement, the Company obtained a license to utilize technology that was sold to NXP and NXP obtained a license to utilize certain intellectual property that the Company retained. In addition, NXP agreed to provide employment to approximately 700 of the Company s employees at locations in the United States, Europe, Israel, Asia-Pacific and Japan.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company determined that the BMP business, which constituted an operating segment of the Company, qualifies as a discontinued operation. The results of the BMP business are being reported as discontinued operations in the condensed consolidated statements of operations for all periods presented. In accordance with the provisions of EITF No. 87-24, Allocation of Interest to Discontinued Operations, interest expense is allocated to discontinued operations based on the expected proceeds from the sale, net of any expected permitted investments, over the next twelve months. For the fiscal quarter and six fiscal months ended March 28, 2008, interest expense allocated to discontinued operations was $2.3 million and $4.5 million, respectively.

For the fiscal quarter ended April 3, 2009, BMP revenues and pretax income classified as discontinued operations was $2.1 million and $1.1 million, respectively. For the fiscal quarter ended March 28, 2008, BMP revenues and pretax loss classified as discontinued operations was $55.5 million and $133.6 million, respectively.

For the six fiscal months ended April 3, 2009 and March 28, 2008, BMP revenues classified as discontinued operations were $3.0 million and $6.1 million, respectively, and BMP and pretax loss classified as discontinued operations was $106.5 million and $145.9 million, respectively.

4. Fair Value of Certain Financial Assets and Liabilities

In accordance with SFAS 157, the following represents the Company s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of April 3, 2009 (in thousands):

	Level 1	Level 2	Total
Assets:			
Cash and cash equivalents	$ 110,271	$	$ 110,271
Restricted cash	17,500		17,500
Marketable securities	1,067		1,067
Mindspeed warrant		1,141	1,141
Long-term restricted cash	6,800		6,800
Total Assets	$ 135,638	$ 1,141	$ 136,779
Liabilities:			
Interest rate swap financial instruments	$	$ 2,543	$ 2,543

Total Liabilities	$	$ 2,543	$ 2,543

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Level 2 assets consist of the Company s warrant to purchase six million shares of Mindspeed common stock at an exercise price of $17.04 per share through June 2013. At April 3, 2009, the warrant was valued using the Black-Scholes-Merton model with an expected term of 4.25 years, expected volatility of 76%, a risk-free interest rate of 1.59% and no dividend yield (see Note 5).

Level 2 liabilities consist of the Company s interest rate swap derivatives. The fair value of interest rate swap derivatives is primarily based on third-party pricing service models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves commensurate with the terms of the underlying instruments. The Company had no financial assets and liabilities classified as Level 3 as of April 3, 2009.

5. Supplemental Financial Information

Inventories

Inventories consist of the following (in thousands):

	April 3, 2009	October 3, 2008
Work-in-process	$ 9,753	$ 16,082
Finished goods	8,289	20,357
Total inventories, net	$ 18,042	$ 36,439

At April 3, 2009 and October 3, 2008, inventories were net of excess and obsolete (E&O) inventory reserves of $12.9 million and $17.6 million, respectively.

Intangible Assets

Intangible assets consist of the following (in thousands):

	April 3, 2009			October 3, 2008		
	Gross Carrying Amount	Accumulated Amortization	Book Value	Gross Carrying Amount	Accumulated Amortization	Book Value
Developed technology	$ 7,951	$ (7,352)	$ 599	$ 67,724	$ (62,285)	$ 5,439
Product licenses	3,510	(1,498)	2,012	11,032	(7,105)	3,927
Other intangible assets	7,240	(2,825)	4,415	8,240	(2,635)	5,605
	$ 18,701	$ (11,675)	$ 7,026	$ 86,996	$ (72,025)	$ 14,971

Intangible assets are amortized over a weighted-average period of approximately five years. Annual amortization expense is expected to be as follows (in thousands):

	Remainder of 2009	2010	2011	2012	2013	Thereafter
Amortization expense	$ 1,151	$ 1,353	$ 1,237	$ 1,237	$ 1,031	$ 1,017

In October 2008, the Company sold intellectual property to a third party (see Note 10).

Goodwill

Goodwill is tested at the reporting unit level annually and, if necessary, whenever events or changes in circumstances indicate that the

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carrying amount may not be recoverable. The global decline in consumer confidence and spending has dramatically impacted the Company s financial performance as well as that of many of our competitors, peers, customers, and suppliers. This impact resulted in the Company s evaluation of the recoverability of goodwill during the first quarter of fiscal 2009.

The Company s IPM reporting unit accounted for approximately 57 percent of the Company s total revenues in the first quarter of fiscal 2009 and was associated with $110 million of the Company s goodwill balance as of January 2, 2009. Overall financial performance declines in the first quarter of fiscal 2009 resulted in an interim test for goodwill impairment. Based upon the results of the testing for the quarter ended January 2, 2009, the Company determined that despite recent declines in the IPM reporting unit, performance levels remained sufficient to support the IPM-related goodwill balance as of January 2, 2009. The Company s fair value methods used for purposes of the goodwill impairment tests incorporated a weighted-average of present value techniques, specifically discounted cash flows and the use of multiples of revenues and earnings associated with comparable companies. During the second quarter of fiscal 2009, we reviewed the IPM forecasts used in the first quarter of fiscal 2009 interim goodwill impairment analysis and determined there were no further declines in performance and, therefore, no interim goodwill impairment analysis was considered necessary for the second quarter of fiscal 2009.

The changes in the carrying amounts of goodwill were as follows (in thousands):

Goodwill at October 3, 2008	$ 110,412
Additions	1,000
Other adjustments	(52)
Goodwill at April 3, 2009	$ 111,360

In October 2006, we acquired the assets of Zarlink Semiconductor Inc. s packet switching business for $5.0 million. Under the terms of the Zarlink acquisition, we were required to pay additional amounts based upon the achievement of certain revenue targets. In the first fiscal quarter of 2009, we paid an additional $1.0 million under this agreement which was recorded in goodwill.

Mindspeed Warrant

The Company has a warrant to purchase six million shares of Mindspeed common stock at an exercise price of $17.04 per share through June 2013. At April 3, 2009 and October 3, 2008, the market value of Mindspeed common stock was $1.57 and $2.08 per share, respectively. The Company accounts for the Mindspeed warrant as a derivative instrument, and changes in the fair value of the warrant are included in other (income) expense, net each period. At April 3, 2009 and October 3, 2008, the aggregate fair value of the Mindspeed warrant included on the accompanying condensed consolidated balance sheets was $1.1 million and $0.5 million, respectively. At April 3, 2009, the warrant was valued using the Black-Scholes-Merton model with an expected term of 4.25 years, expected volatility of 76%, a risk-free interest rate of 1.59% and no dividend yield. The aggregate fair value of the warrant is reflected as a long-term asset on the accompanying condensed consolidated balance sheets because the Company does not intend to liquidate any portion of the warrant in the next twelve months.

The valuation of this derivative instrument is subjective, and option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Changes in these assumptions can materially affect the fair value estimate. The Company could, at any point in time, ultimately realize amounts significantly different than the carrying value.

Short-Term Debt

On November 29, 2005, the Company established an accounts receivable financing facility whereby it sells, from time to time, certain accounts receivable to Conexant USA, LLC (Conexant USA), a special purpose entity which is a consolidated subsidiary of the Company. Under the terms of the Company s agreements with Conexant USA, the Company retains the responsibility to service and collect accounts receivable sold to Conexant USA and receives a weekly fee from Conexant USA for handling administrative matters which is equal to 1.0%, on a per annum basis, of the uncollected value of the accounts receivable.

Concurrent with the Company s agreements with Conexant USA, Conexant USA entered into a credit facility which is secured by the assets of Conexant USA. Conexant USA is required to maintain certain minimum amounts on deposit (restricted cash) with the bank during the term of the credit agreement. Borrowings under the credit facility, which cannot exceed the lesser of $50.0 million and 85% of the uncollected value of purchased accounts receivable that are eligible for coverage under an insurance policy for the receivables, bear interest equal to 7-day LIBOR (reset weekly) plus 1.25% and was approximately 1.66% at April 3, 2009. In addition, Conexant

USA pays a fee of 0.2% per annum for the unused portion of the line of credit. The credit agreement matures in November 2009 and remains subject to additional 364-day renewal periods at the discretion of the bank. In connection with the renewal in November 2008, the interest rate applied to borrowings under the credit facility increased from 7-day LIBOR plus 0.6% to 7-day LIBOR plus 1.25%.

The credit facility requires the Company and its consolidated subsidiaries to maintain minimum levels of shareholders equity or cash and cash equivalents. Further, any failure by the Company or Conexant USA to pay their respective debts as they become due would allow the bank to terminate the credit agreement and cause all borrowings under the credit facility to immediately become due and payable. At April 3, 2009, Conexant USA had borrowed $29.7 million under this credit facility and the Company was in compliance with all credit facility covenants.

Long-Term Debt

Long-term debt consists of the following (in thousands):

	April 3, 2009	October 3, 2008
Floating rate senior secured notes due November 2010	$ 141,400	$ 141,400
4.00% convertible subordinated notes due March 2026 with a conversion price of $49.20	250,000	250,000
Total	391,400	391,400
Less: current portion of long-term debt		(17,707)
Long-term debt	$ 391,400	$ 373,693

Floating rate senior secured notes due November 2010 In November 2006, the Company issued $275.0 million aggregate principal amount of floating rate senior secured notes due November 2010. Proceeds from this issuance, net of fees paid or payable, were approximately $264.8 million. The senior secured notes bear interest at three-month LIBOR (reset quarterly) plus 3.75%, and interest is payable in arrears quarterly on each February 15, May 15, August 15 and November 15, beginning on February 15, 2007. The senior secured notes are redeemable in whole or in part, at the option of the Company, at any time on or after November 15, 2008 at varying redemption prices that generally include premiums, which are defined in the indenture for the notes, plus accrued and unpaid interest. The Company is required to offer to repurchase, for cash, notes at a price of 100% of the principal amount, plus any accrued and unpaid interest, with the net proceeds of certain asset dispositions if such proceeds are not used within 360 days to invest in assets (other than current assets) related to the Company s business. In addition, upon a change of control, the Company is required to make an offer to redeem all of the senior secured notes at a redemption price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest. The floating rate senior secured notes rank equally in right of payment with all of the Company s existing and future senior debt and senior to all of its existing and future subordinated debt. The notes are guaranteed by certain of the Company s U.S. subsidiaries (the Subsidiary Guarantors). The guarantees rank equally in right of payment with all of the Subsidiary Guarantors existing and future senior debt and senior to all of the Subsidiary Guarantors existing and future subordinated debt. The notes and guarantees (and certain hedging obligations that may be entered into with respect thereto) are secured by first-priority liens, subject to permitted liens, on substantially all of the Company s and the Subsidiary Guarantors assets (other than accounts receivable and proceeds therefrom and subject to certain exceptions), including, but not limited to, the intellectual property, real property, plant and equipment now owned or hereafter acquired by the Company and the Subsidiary Guarantors. See Note 15 for financial information regarding the Subsidiary Guarantors.

The indenture governing the senior secured notes contains a number of covenants that restrict, subject to certain exceptions, the Company s ability and the ability of its restricted subsidiaries to: incur or guarantee additional indebtedness or issue certain redeemable or preferred stock; repurchase capital stock; pay dividends on or make other distributions in respect of its capital stock or make other restricted payments; make certain investments; create liens; redeem junior debt; sell certain assets; consolidate, merge, sell or otherwise dispose of all or substantially all of its

assets; enter into certain types of transactions with affiliates; and enter into sale-leaseback transactions.
The sale of the Company s investment in Jazz Semiconductor, Inc. (Jazz) in February 2007 and the sale of two other equity investments in April 2007 qualified as asset dispositions requiring the Company to make offers to repurchase a portion of the notes no later than 361 days following the asset dispositions. Based on the proceeds received from these asset dispositions and the Company s cash investments in assets (other than current assets) related to the Company s business made within 360 days following the asset dispositions, the Company was required to make an offer to repurchase not more than $53.6 million of the senior secured notes, at 100% of the principal amount plus any accrued and unpaid interest in February 2008. As a result of 100% acceptance

of the offer by the Company s bondholders, $53.6 million of the senior secured notes were repurchased during the second quarter of fiscal 2008. The Company recorded a pretax loss on debt repurchase of $1.4 million during the second quarter of fiscal 2008, which included the write-off of deferred debt issuance costs.

Following the sale of the BMP business unit in August 2008 (see Note 3), the Company made an offer to repurchase $80.0 million of the senior secured notes at 100% of the principal amount plus any accrued and unpaid interest in September 2008. As a result of the 100% acceptance of the offer by the Company s bondholders, $80.0 million of the senior secured notes were repurchased during the fourth quarter of fiscal 2008. The Company recorded a pretax loss on debt repurchase of $1.6 million during the fourth quarter of fiscal 2008, which included the write-off of deferred debt issuance costs. The pretax loss on debt repurchase of $1.6 million has been included in net loss from discontinued operations. During the six fiscal months ended April 3, 2009, we did not have additional sufficient asset dispositions to trigger another required repurchase offer.

4.00% convertible subordinated notes due March 2026 In March 2006, the Company issued $200.0 million principal amount of 4.00% convertible subordinated notes due March 2026 and, in May 2006, the initial purchaser of the notes exercised its option to purchase an additional $50.0 million principal amount of the 4.00% convertible subordinated notes due March 2026. Total proceeds to the Company from these issuances, net of issuance costs, were $243.6 million. The notes are general unsecured obligations of the Company. Interest on the notes is payable in arrears semiannually on each March 1 and September 1, beginning on September 1, 2006. The notes are convertible, at the option of the holder upon satisfaction of certain conditions, into shares of the Company s common stock at a conversion price of $49.20 per share, subject to adjustment for certain events. Upon conversion, the Company has the right to deliver, in lieu of common stock, cash or a combination of cash and common stock. Beginning on March 1, 2011, the notes may be redeemed at the Company s option at a price equal to 100% of the principal amount, plus any accrued and unpaid interest. Holders may require the Company to repurchase, for cash, all or part of their notes on March 1, 2011, March 1, 2016 and March 1, 2021 at a price of 100% of the principal amount, plus any accrued and unpaid interest.

6. Commitments and Contingencies

Legal Matters

Certain claims have been asserted against the Company, including claims alleging the use of the intellectual property rights of others in certain of the Company s products. The resolution of these matters may entail the negotiation of a license agreement, a settlement, or the adjudication of such claims through arbitration or litigation. The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably for the Company. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that a license will be granted. Injunctive relief could have a material adverse effect on the financial condition or results of operations of the Company. Based on its evaluation of matters which are pending or asserted and taking into account the Company s reserves for such matters, management believes the disposition of such matters will not have a material adverse effect on the Company s financial condition, results of operations, or cash flows.

IPO Litigation In November 2001, Collegeware Asset Management, LP, on behalf of itself and a putative class of persons who purchased the common stock of GlobeSpan, Inc. (GlobeSpan, Inc. later became GlobespanVirata, Inc., and is now the Company s Conexant, Inc. subsidiary) between June 23, 1999 and December 6, 2000, filed a complaint in the U.S. District Court for the Southern District of New York alleging violations of federal securities laws by the underwriters of GlobeSpan, Inc. s initial and secondary public offerings as well as by certain GlobeSpan, Inc. officers and directors. The complaint alleges that the defendants violated federal securities laws by issuing and selling GlobeSpan, Inc. s common stock in the initial and secondary offerings without disclosing to investors that the underwriters had (1) solicited and received undisclosed and excessive commissions or other compensation and (2) entered into agreements requiring certain of their customers to purchase the stock in the aftermarket at escalating prices. The complaint seeks unspecified damages. The complaint was consolidated with class actions against approximately 300 other companies making similar allegations regarding the public offerings of those companies from 1998 through 2000. On April 2, 2009, the parties submitted for court approval a proposed settlement of the consolidated class actions. If the settlement is approved, the Company anticipates that its share of the cost of settlement will be paid by GlobeSpan s insurers. For purposes of the settlement, the plaintiff class would not include certain institutions allocated shares from the institutional pots in any of the public offerings at issue in the consolidated class actions and persons associated with those institutions.

Class Action Suit In February 2005, the Company and certain of its current and former officers and the Company s Employee Benefits Plan Committee were named as defendants in Graden v. Conexant, et al., a lawsuit filed on behalf of all persons who were participants in the Company s 401(k) Plan (Plan) during a specified class period. This suit was filed in the U.S. District Court of New Jersey and alleges that the defendants breached their fiduciary duties under the Employee Retirement Income Security Act, as amended, to the Plan and the participants in the Plan. The plaintiff filed an amended complaint on August 11, 2005. The amended complaint alleged that plaintiff lost money in the Plan due to (i) poor Company merger-related performance, (ii) misleading disclosures by the Company regarding the merger, (iii) breaches of fiduciary duty regarding management of Plan assets, (iv) being encouraged to invest in Conexant Stock Fund, (v) being unable to diversify out of said fund and (vi) having the Company make its matching contributions in said fund. On October 12, 2005, the defendants filed a motion to dismiss this case. The plaintiff responded to the motion to dismiss on December 30, 2005, and the defendants reply was filed on February 17, 2006. On March 31, 2006, the judge dismissed this case and ordered it closed. Plaintiff filed a notice of appeal on April 17, 2006. The appellate argument was held on April 19, 2007. On July 31, 2007, the Third Circuit Court of Appeals vacated the District Court s order dismissing plaintiff s complaint and remanded the case for further proceedings. On August 27, 2008, the motion to dismiss was granted in part and denied in part. The judge left in claims against all of the individual defendants as well as against the Company. In January 2009, the Company and plaintiff agreed in principle to settle all outstanding claims in the litigation for $3.25 million. The Company recorded a special charge of $3.7 million in the first fiscal quarter of 2009 to cover this settlement and any associated costs. The settlement remains subject to the negotiation of a definitive settlement agreement, confirmatory discovery, and approval by the District Court.

Guarantees and Indemnifications

The Company has made guarantees and indemnities, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. In connection with the Company s spin-off from Rockwell International Corporation, the Company assumed responsibility for all contingent liabilities and then-current and future litigation (including environmental and intellectual property proceedings) against Rockwell or its subsidiaries in respect of the operations of the semiconductor systems business of Rockwell. In connection with the Company s contribution of certain of its manufacturing operations to Jazz Semiconductors, Inc., the Company agreed to indemnify Jazz for certain environmental matters and other customary divestiture-related matters. In connection with the Company s sale of the BMP business to NXP, the Company agreed to indemnify NXP for certain claims related to the transaction. In connection with the sales of its products, the Company provides intellectual property indemnities to its customers. In connection with certain facility leases, the Company has indemnified its lessors for certain claims arising from the facility or the lease. The Company indemnifies its directors and officers to the maximum extent permitted under the laws of the State of Delaware.

The durations of the Company s guarantees and indemnities vary, and in many cases are indefinite. The guarantees and indemnities to customers in connection with product sales generally are subject to limits based upon the amount of the related product sales. The majority of other guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. The Company has not recorded any liability for these guarantees and indemnities in the accompanying condensed consolidated balance sheets as they are not estimated to be material. Product warranty costs are not significant.

7. Stock Option Plans

The Company has stock option plans and long-term incentive plans under which employees and directors may be granted options to purchase shares of the Company s common stock. As of April 3, 2009, approximately 8.5 million shares of the Company s common stock are available for grant under the stock option and long-term incentive plans. Stock options are granted with exercise prices of not less than the fair market value at grant date, generally vest over four years and expire eight or ten years after the grant date. The Company settles stock option exercises with newly issued shares of common stock. The Company has also assumed stock option plans in connection with business combinations.

The Company accounts for its stock option plans in accordance with SFAS No. 123(R), Share-Based Payment. Under SFAS No. 123(R), the Company is required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in its condensed consolidated statements of operations over the service period that the awards are expected to vest. The Company measures the fair value of service-based awards and performance-based awards on the date of grant. Performance-based awards are evaluated for vesting probability each reporting period. Awards with market conditions are valued on the date of grant using the Monte Carlo Simulation Method giving consideration to the range of various vesting probabilities.

The following weighted average assumptions were used in the estimated grant date fair value calculations for share-based payments:

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	Fiscal Quarter Ended		Six Fiscal Months Ended	
	April 3, 2009	March 28, 2008	April 3, 2009	March 28, 2008
Stock option plans:				
Expected dividend yield	$	$	$	$
Expected stock price volatility	79%	67%	77%	66%
Risk free interest rate	1.80%	3.20%	2.00%	3.80%
Average expected life (in years)	4.68	5.25	4.86	5.00
Stock purchase plans:				
Expected dividend yield	$	$	$	$
Expected stock price volatility	74%	68%	74%	68%
Risk free interest rate	3.14%	3.00%	3.14%	3.00%
Average expected life (in years)	0.5	0.5	0.5	0.5

The expected stock price volatility rates are based on the historical volatility of the Company s common stock. The risk free interest rates are based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option or award. The average expected life represents the weighted average period of time that options or awards granted are expected to be outstanding, as calculated using the simplified method described in the SEC s Staff Accounting Bulletin No. 110.

A summary of stock option activity is as follows (shares in thousands):

	Shares	Weighted Average Exercise Price
Outstanding, October 3, 2008	7,357	$23.54
Granted	66	1.03
Exercised		
Forfeited	(2,173)	23.94
Outstanding, April 3, 2009	5,250	23.09
Shares vested and expected to vest, April 3, 2009	5,137	23.30
Exercisable, April 3, 2009	4,500	$24.70

At April 3, 2009, of the 5.3 million stock options outstanding, approximately 4.5 million options were held by current employees and directors of the Company, and approximately 0.8 million options were held by employees of former businesses of the Company (i.e., Mindspeed and Skyworks Solutions, Inc.) who remain employed by one of these businesses. At April 3, 2009, stock options outstanding had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 3.4 years. At April 3, 2009, exercisable stock options had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 2.9 years. At April 3, 2009 shares vested and expected to vest had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 1.3 years. The total intrinsic value of options exercised and total cash received from employees as a result of stock option exercises during the six fiscal months ended April 3, 2009 and March 28, 2008 was immaterial.

Directors Stock Plan

The Company has a Directors Stock Plan (DSP) that provides for each non-employee director to receive specified levels of stock option grants upon election to the Board of Directors and periodically thereafter. Under the DSP, each non-employee director may elect to receive all or a portion of the cash retainer to which the director is entitled through the issuance of common stock. During the fiscal quarter ended April 3, 2009, no grants were awarded under the DSP. The DSP was suspended effective February 18, 2009.

Employee Stock Purchase Plan

Effective January 31, 2009, the Company suspended the Employee Stock Purchase Plan (ESPP) for all employees. The last purchase of shares under the ESPP occurred on January 30, 2009. The ESPP allowed eligible employees to purchase shares of the Company s common stock at six-month intervals during an offering period at 85% of the lower of the fair market value on the first day of the offering period or the purchase date. Under the ESPP, employees authorized the Company to withhold up to 15% of their compensation for each pay period to purchase shares under the plan, subject to certain limitations, and employees were limited to the purchase of 200 shares per offering period. Offering periods generally commenced on the first trading day of February and August of each year and were generally six months in duration, but may have been terminated earlier under certain circumstances. Shares issued under the ESPP totaled 49,592 during the six fiscal months ended April 3, 2009.

During the fiscal quarter and six fiscal months ended April 3, 2009, the Company recognized stock-based compensation expense of $1.7 million and $3.1 million, respectively, for stock options, and $0.01 million and $0.1 million, respectively, for stock purchase plans, in its condensed consolidated statements of operations. During the fiscal quarter and six fiscal months ended March 28, 2008, the Company recognized stock-based compensation expense of $2.6 million and $5.5 million, respectively, for stock options, and $0.04 million and $0.3 million, respectively, for stock purchase plans, in its condensed consolidated statements of operations. The Company classified stock-based compensation expense of $0.6 million and $1.2 million to discontinued operations for the fiscal quarter and six fiscal months ended March 28, 2008, respectively. At April 3, 2009, the total unrecognized fair value compensation cost related to non-vested stock option awards was $5.3 million, which is expected to be recognized over a remaining weighted average period of approximately 1.3 years.

2001 Performance Share Plan and 2004 New Hire Equity Incentive Plan

The Company s long-term incentive plans also provide for the issuance of share-based awards to officers and other employees and certain non-employees of the Company. These awards are subject to forfeiture if employment terminates during the prescribed vesting period (generally within four years of the date of award) or, in certain cases, if prescribed performance criteria are not met. The Company also maintains the 2001 Performance Share Plan (Performance Plan), under which it originally reserved 0.4 million shares for issuance, as well as the 2004 New Hire Equity Incentive Plan (New Hire Plan), under which it originally reserved 1.2 million shares for issuance.

Performance Plan

The performance-based awards may be settled, at the Company s election at the time of payment, in cash, shares of common stock or any combination of cash and common stock. A summary of share-based award activity under the Performance Plan is as follows (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Outstanding, October 3, 2008	400	$ 6.49
Granted		
Vested	(175)	8.34
Forfeited		
Outstanding, April 3, 2009	225	$ 5.04

During the fiscal quarter and six fiscal months ended April 3, 2009, the Company recognized stock-based compensation expense of $0.5 million and $1.1 million, respectively, related to the Performance Plan. During the fiscal quarter and six fiscal months ended March 28, 2008, the Company recognized stock-based compensation expense of $0.2 million and $0.4 million, respectively, related to the Performance Plan. The six fiscal months ended March 28, 2008 include a reversal of previously recognized stock-based compensation expense of $1.1 million related to the non-achievement of certain performance criteria. At April 3, 2009, the total unrecognized fair value stock-based compensation cost related to non-vested Performance Plan share awards was $0.1 million, which is expected to be recognized in fiscal 2009. As of April 3, 2009, no performance criteria apply to any unvested shares. At April 3, 2009, approximately 0.2 million shares of the Company s common stock are available for issuance under the Performance Plan.

2004 New Hire Plan

The New Hire Plan provides for the grant of service-based awards. A summary of share-based award activity under the New Hire Plan is as follows (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Outstanding, October 3, 2008	74	$10.59
Granted		
Vested	(32)	11.33
Forfeited	(25)	13.70
Outstanding, April 3, 2009	17	$ 4.50

During the fiscal quarter and six fiscal months ended April 3, 2009, the Company recognized $0.01 million and $0.3 million in stock-based compensation expense related to the New Hire Plan, respectively. During the fiscal quarter and six fiscal months ended March 28, 2008, the Company recognized $0.5 million and $0.9 million in stock-based compensation expense related to the New Hire Plan, respectively. At April 3, 2009, the total unrecognized fair value compensation cost related to non-vested New Hire Plan was $0.1 million, which is expected to be recognized in fiscal 2009.

8. Comprehensive Loss

Comprehensive loss consists of the following (in thousands):

	Fiscal Quarter Ended		Six Fiscal Months Ended	
	April 3, 2009	March 28, 2008	April 3, 2009	March 28, 2008
Net loss	$ (13,756)	$ (142,004)	$ (31,445)	$ (151,222)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(660)	1,204	(1,755)	1,503
Unrealized gains on marketable securities	664		650	
Unrealized losses on foreign currency forward hedge contracts		(1,805)	(153)	(2,182)
Unrealized losses on interest rate swap contracts	(408)		(2,592)	
Realized loss on impairment of marketable securities			1,986	
Gains on settlement of foreign currency forward hedge contracts			659	
Minimum pension liability adjustments		37		(1,073)
Other comprehensive loss	(404)	(564)	(1,205)	(1,752)
Comprehensive loss	$ (14,160)	$ (142,568)	$ (32,650)	$ (152,974)

Accumulated other comprehensive loss consists of the following (in thousands):

	April 3, 2009	October 3, 2008
Foreign currency translation adjustments	$ (1,447)	$ 308

Unrealized gains (losses) on marketable securities	702	(1,934)
Unrealized losses on derivative instruments	(2,543)	(457)
Accumulated other comprehensive loss	$ (3,288)	$ (2,083)

9. Income Taxes

The Company recorded a tax provision of $0.3 million and $1.3 million for the fiscal quarter and six fiscal months ended April 3, 2009, respectively, primarily reflecting income taxes imposed on our foreign subsidiaries. All of our U.S. Federal income taxes and the majority of our state income taxes are offset by fully reserved deferred tax assets.

10. Gain on Sale of Intellectual Property

In October 2008, the Company sold a portfolio of patents, including patents related to its prior wireless networking technology, to a third party for cash of $14.5 million, net of costs, and recognized a gain of $12.9 million on the transaction. In accordance with the terms of the agreement with the third party, the Company retains a cross-license to this portfolio of patents.

11. Special Charges

For the fiscal quarter ended April 3, 2009, special charges primarily consisted of $2.2 million of restructuring charges related to workforce reductions implemented during the quarter. For the six fiscal months ended April 3, 2009, special charges of $12.6 million consisted primarily of restructuring charges of $2.8 million related to workforce reductions, $6.1 million related to revised sublease assumptions associated with vacated facilities and a $3.7 million charge for a legal settlement (See Note 6). For the fiscal quarter and six fiscal months ended March 28, 2008, special charges of $2.6 million and $6.8 million, respectively, consisted primarily of restructuring charges.

Restructuring Charges

The Company has implemented a number of cost reduction initiatives since fiscal 2005 to improve its operating cost structure. The cost reduction initiatives included workforce reductions and the closure or consolidation of certain facilities, among other actions.

As of April 3, 2009, the Company has remaining restructuring accruals of $39.1 million, of which $0.4 million relates to workforce reductions and $38.7 million relates to facility and other costs. Of the $39.1 million of restructuring accruals at April 3, 2009, $5.1 million is included in other current liabilities and $34.0 million is included in other non-current liabilities in the accompanying condensed consolidated balance sheets. The Company expects to pay the amounts accrued for the workforce reductions through fiscal 2009 and expects to pay the obligations for the non-cancelable lease and other commitments over their respective terms, which expire at various dates through fiscal 2021. The facility charges were determined in accordance with the provisions of SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The Company s accrued liabilities include the net present value of the future lease obligations of $80.0 million, net of contracted sublease income of $12.9 million, and projected sublease income of $28.4 million, and the Company will accrete the remaining amounts into expense over the remaining terms of the non-cancellable leases. Cash payments to complete the restructuring actions will be funded from available cash reserves and funds from product sales, and are not expected to significantly impact the Company s liquidity.

Fiscal 2009 Restructuring Actions During the fiscal quarter ended April 3, 2009, the Company completed actions that resulted in the elimination of approximately 140 positions worldwide. In relation to these announcements in fiscal 2009, the Company recorded $2.2 million of total charges for the cost of severance benefits for the affected employees.

Activity and liability balances recorded as part of the Fiscal 2009 Restructuring Actions through April 3, 2009 were as follows (in thousands):

	Workforce Reductions
Charged to costs and expenses	$ 2,216
Cash payments	(1,784)
Restructuring balance, April 3, 2009	$ 432

Fiscal 2008 Restructuring Actions During fiscal 2008, the Company announced its decision to discontinue investments in standalone wireless networking solutions and other product areas. In relation to these announcements in fiscal 2008, the Company recorded $6.3 million of total charges for the cost of severance benefits for the affected employees. Additionally, the Company recorded charges of $1.8 million relating to the consolidation of certain facilities under non-cancelable leases that were vacated.

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Restructuring charges in the six fiscal months ended April 3, 2009 related to the fiscal 2008 restructuring actions included $0.6 million of additional severance charges.

Activity and liability balances recorded as part of the Fiscal 2008 Restructuring Actions through April 3, 2009 were as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Charged to costs and expenses	$ 6,254	$ 1,762	$ 8,016
Cash payments	(6,161)	(731)	(6,892)
Restructuring balance, October 3, 2008	93	1,031	1,124
Charged to costs and expenses	600	57	657
Reclassification to other current liabilities and other liabilities			