

CONEXANT SYSTEMS INC

Form 10-Q

August 12, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended July 3, 2009

OR

**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

(State of incorporation)

25-1799439

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

As of July 31, 2009, there were 49,912,788 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 such 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;

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.

**CONEXANT SYSTEMS, INC.
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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****CONEXANT SYSTEMS, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(unaudited, in thousands, except for share and par value amounts)**

| | July 3, 2009 | October 3, 2008 |
|--|-------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 123,394 | \$ 105,883 |
| Restricted cash | 14,500 | 26,800 |
| Receivables, net of allowances of \$553 and \$834 | 40,588 | 48,997 |
| Inventories, net | 8,352 | 19,372 |
| Other current assets | 34,306 | 37,938 |
| Current assets held for sale | 16,928 | 29,730 |
| Total current assets | 238,068 | 268,720 |
| Property, plant and equipment, net of accumulated depreciation of \$66,005 and \$78,344 | 12,075 | 17,410 |
| Goodwill | 110,094 | 110,412 |
| Intangible assets, net | 6,314 | 10,611 |
| Other assets | 33,447 | 39,250 |
| Total assets | \$ 399,998 | \$ 446,403 |
| LIABILITIES AND SHAREHOLDERS DEFICIT | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ | \$ 17,707 |
| Short-term debt | 30,739 | 40,117 |
| Accounts payable | 27,086 | 34,894 |
| Accrued compensation and benefits | 8,070 | 13,201 |
| Other current liabilities | 32,787 | 43,189 |
| Current liabilities to be assumed | 3,446 | 3,995 |
| Total current liabilities | 102,128 | 153,103 |
| Long-term debt | 391,400 | 373,693 |
| Other liabilities | 68,462 | 56,341 |
| Total liabilities | 561,990 | 583,137 |
| Commitments and contingencies (Note 6) | | |
| Shareholders deficit: | | |
| Preferred and junior preferred stock | | |
| Common stock, \$0.01 par value: 100,000 shares authorized; 49,913 and 49,601 shares issued and outstanding | 500 | 496 |
| Additional paid-in capital | 4,749,152 | 4,744,140 |

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|---|-------------|-------------|
| Accumulated deficit | (4,907,923) | (4,879,208) |
| Accumulated other comprehensive loss | (3,676) | (2,083) |
| Shareholder notes receivable | (45) | (79) |
| Total shareholders' deficit | (161,992) | (136,734) |
| Total liabilities and shareholders' deficit | \$ 399,998 | \$ 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 | | Nine Fiscal Months Ended | |
|--|-----------------------------|--------------------------|---------------------------------|--------------------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| Net revenues | \$ 50,844 | \$ 73,902 | \$ 152,272 | \$ 250,389 |
| Cost of goods sold (1) | 20,533 | 32,309 | 64,409 | 103,089 |
| Gross margin | 30,311 | 41,593 | 87,863 | 147,300 |
| Operating expenses: | | | | |
| Research and development (1) | 12,450 | 10,339 | 38,783 | 43,368 |
| Selling, general and administrative (1) | 14,813 | 22,659 | 49,739 | 58,733 |
| Amortization of intangible assets | 690 | 699 | 2,547 | 2,269 |
| Gain on sale of intellectual property | | | (12,858) | |
| Special charges | 1,060 | 8,459 | 13,653 | 15,910 |
| Total operating expenses | 29,013 | 42,156 | 91,864 | 120,280 |
| Operating income (loss) | 1,298 | (563) | (4,001) | 27,020 |
| Interest expense | 5,035 | 5,894 | 15,634 | 21,822 |
| Other (income) expense, net | (3,567) | (2,997) | (3,455) | 6,766 |
| Loss from continuing operations before income taxes and (loss) gain on equity method investments | (170) | (3,460) | (16,180) | (1,568) |
| Provision for income taxes | 176 | 93 | 819 | 362 |
| Loss from continuing operations before (loss) gain on equity method investments | (346) | (3,553) | (16,999) | (1,930) |
| (Loss) gain on equity method investments | (485) | 53 | (2,166) | 3,612 |
| (Loss) income from continuing operations | (831) | (3,500) | (19,165) | 1,682 |
| Income (loss) from discontinued operations, net of tax (1) | 3,557 | (146,371) | (9,554) | (302,775) |
| Net income (loss) | \$ 2,726 | \$ (149,871) | \$ (28,719) | \$ (301,093) |
| (Loss) income per share from continuing operations basic and diluted | \$ (0.02) | \$ (0.07) | \$ (0.39) | \$ 0.03 |
| Income (loss) per share from discontinued operations basic | \$ 0.07 | \$ (2.96) | \$ (0.19) | \$ (6.14) |
| Income (loss) per share from discontinued operations diluted | \$ 0.07 | \$ (2.96) | \$ (0.19) | \$ (6.11) |
| Net income (loss) per share basic | \$ 0.05 | \$ (3.03) | \$ (0.58) | \$ (6.11) |

| | | | | |
|---|---------|-----------|-----------|-----------|
| Net income (loss) per share diluted | \$ 0.05 | \$ (3.03) | \$ (0.58) | \$ (6.08) |
| Shares used in basic per-share computations | 49,867 | 49,450 | 49,760 | 49,333 |
| Shares used in diluted per-share computations | 49,867 | 49,450 | 49,760 | 49,570 |

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

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|--|-----------------------------|--------------------------|---------------------------------|--------------------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| Cost of goods sold | \$ 77 | \$ 139 | \$ 196 | \$ 310 |
| Research and development | 17 | 290 | 746 | 2,024 |
| Selling, general and administrative | 423 | 4,879 | 3,410 | 7,854 |
| Income (loss) from discontinued operations, net of tax | 236 | 1,395 | 1,007 | 3,565 |

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)

| | Nine Fiscal Months Ended | |
|---|---------------------------------|--------------------------|
| | July 3, 2009 | June 27, 2008 |
| Cash flows from operating activities: | | |
| Net loss | \$ (28,719) | \$ (301,093) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities, net of effects of acquisitions: | | |
| Depreciation | 6,595 | 16,779 |
| Amortization of intangible assets | 6,967 | 11,690 |
| Asset impairments | | 263,513 |
| Reversal of provision for bad debts, net | (225) | (698) |
| Charges for inventory provisions, net | 46 | 6,225 |
| Deferred income taxes | (94) | 80 |
| Stock-based compensation | 5,359 | 13,753 |
| Loss on termination of defined benefit plan | | 6,294 |
| (Increase) decrease in fair value of derivative instruments | (1,256) | 12,780 |
| Losses (gains) on equity method investments | 3,046 | (3,612) |
| Other-than-temporary impairment of marketable securities | 2,635 | |
| Other-than-temporary impairment of cost method investments | 135 | |
| Gain on sale of marketable securities | (1,856) | |
| Gain on resolution of pre-acquisition contingency | (1,054) | |
| Gain on sale of intellectual property | (12,858) | |
| Other items, net | 1,773 | 789 |
| Changes in assets and liabilities: | | |
| Receivables | 8,634 | 3,058 |
| Inventories | 18,009 | 4,406 |
| Accounts payable | (7,808) | (18,831) |
| Accrued expenses and other current liabilities | (10,194) | (11,718) |
| Accrued restructuring expenses | 9,481 | 2,696 |
| Other, net | 2,066 | (19,530) |
| Net cash provided by (used in) operating activities | 682 | (13,419) |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (555) | (4,240) |
| Proceeds from sale of property, plant and equipment | | 8,949 |
| Proceeds from resolution of pre-acquisition contingency | 2,186 | |
| Payments for acquisitions | (3,578) | |
| Purchases of equity securities | | (755) |
| Proceeds from sales of marketable securities | 2,310 | |
| Deposit of restricted cash | | (29,000) |
| Release of restricted cash | 12,570 | |
| Proceeds from sale of intellectual property, net of expenses of \$132 | 14,548 | |
| Net cash provided by (used in) investing activities | 27,481 | (25,046) |
| Cash flows from financing activities: | | |

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| | | |
|--|------------|------------|
| Net repayments of short-term debt, including debt costs of \$901 and \$1,118 | (10,279) | (3,941) |
| Repurchases and retirements of long-term debt | | (53,600) |
| Proceeds from issuance of common stock | 28 | 710 |
| Interest rate swap security deposit | (437) | (4,250) |
| Repayment of shareholder note receivable | 36 | 25 |
| Net cash used in financing activities | (10,652) | (61,056) |
| Net increase (decrease) in cash and cash equivalents | 17,511 | (99,521) |
| Cash and cash equivalents at beginning of period | 105,883 | 234,147 |
| Cash and cash equivalents at end of period | \$ 123,394 | \$ 134,626 |

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 silicon, hardware, software, and firmware that are used in imaging, audio video, and various embedded-modem applications. The Company's products and technology are used in a wide range of consumer electronics devices. In the Company's imaging business, the Company's solutions are used in single- and multi-function printers, facsimile machines, and photo printers. The Company also offers system-on-chip solutions for products that integrate Internet connectivity and touch-screen technology and are used in a broad range of video, audio, telephony, and digital signage applications. Examples of these products include digital photo frames, speakerphones, voice-over-IP (VoIP) phones, point-of-sale terminals, and home automation, security, and monitoring systems. The Company's audio solutions are targeted at products including personal computers, PC peripheral sound systems, notebook docking stations, VoIP speakerphones, intercom, door phone, and surveillance applications. The Company's video product offering is comprised of decoders and media bridges for video surveillance and security applications, and system solutions for analog video-based multimedia applications. The Company's embedded-modem solutions are targeted at desktop and notebook PCs, set-top boxes, point-of-sale systems, home automation and security systems, and other industrial applications.

2. Sale of Assets and Discontinued Operations*Sale of Broadband Media Processing*

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 the third fiscal quarter of 2008, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), 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 have been 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 (EITF 87-24), 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 nine fiscal months ended June 27, 2008, interest expense allocated to discontinued operations was \$1.6 million and \$6.1 million, respectively. For the fiscal quarter ended July 3, 2009, BMP revenues and income classified as discontinued operations was less than \$0.1 million and \$0.2 million, respectively. For the fiscal quarter ended June 27, 2008, BMP revenues and loss classified as discontinued operations was \$55.5 million and \$23.5 million, respectively.

For the nine fiscal months ended July 3, 2009 BMP revenues and loss classified as discontinued operations were \$3.0 million and \$5.9 million, respectively. For the nine fiscal months ended June 27, 2008 BMP revenues and loss classified as discontinued operations were \$162.0 million and \$170.0 million, respectively.

Sale of Broadband Access Products

On April 21, 2009, the Company entered into an Asset Purchase Agreement with Ikanos Communications, Inc. (Ikanos), pursuant to which Ikanos has agreed to acquire certain assets related to the BBA business. Assets to be sold pursuant to the agreement include, among other things, specified intellectual property, inventory, contracts and tangible assets. Ikanos has agreed to assume certain liabilities, including obligations under transferred contracts and certain employee-related liabilities. Under the terms of the agreement, Ikanos will pay the Company an aggregate of

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\$54 million upon the closing of the transaction, of which \$6.75 million will be deposited into an escrow account. The escrow account will remain in place for twelve months following the closing to satisfy potential indemnification claims by Ikanos. The closing is subject to various conditions, including, among other things, the closing of an equity investment in Ikanos by Tallwood III, L.P., Tallwood III Partners, L.P., Tallwood III Associates, L.P. and Tallwood III Annex, L.P. pursuant to a separate Securities Purchase Agreement, and the receipt of certain third party consents. Upon the closing, the Company has also agreed to enter into an Intellectual Property License Agreement pursuant to which the Company will obtain a license with respect to certain technology assets sold to Ikanos and Ikanos will obtain a license with respect to certain technology assets that the Company will retain.

In accordance with SFAS No. 144, the Company determined that the BBA business, which constituted an operating segment of the Company, qualifies as a discontinued operation. The results of the BBA business have been reported as discontinued operations in the condensed consolidated statements of operations for all periods presented. In accordance with the provisions of EITF 87-24, 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 nine fiscal months ended July 3, 2009, interest expense allocated to discontinued operations was \$0.6 million and \$2.0 million, respectively. For the fiscal quarter and nine fiscal months ended June 27, 2008, interest expense allocated to discontinued operations was \$0.8 million and \$2.9 million, respectively.

The sale transaction is expected to be completed during the Company's fourth fiscal quarter ended October 2, 2009, and the Company expects to recognize a gain on the transaction. The net assets of the BBA business, which are classified as held for sale in the Company's condensed consolidated balance sheet as of July 3, 2009 and October 3, 2008 are as follows (in thousands):

| | July 3, 2009 | October 3, 2008 |
|------------------------------------|-------------------------|----------------------------|
| Inventories, net | \$ 10,930 | \$ 17,067 |
| Other current assets | 331 | 599 |
| Total current assets | 11,261 | 17,666 |
| Property, plant and equipment, net | 4,667 | 7,502 |
| Goodwill | 1,000 | |
| Intangible assets, net | | 4,360 |
| Other assets | | 202 |
| Total assets | \$ 16,928 | \$ 29,730 |
| Accrued compensation and benefits | \$ 2,020 | \$ 1,788 |
| Other current liabilities | 829 | 645 |
| Total current liabilities | 2,849 | 2,433 |
| Other liabilities | 597 | 1,562 |
| Total liabilities | \$ 3,446 | \$ 3,995 |

For the fiscal quarter ended July 3, 2009, BBA revenues and income classified as discontinued operations was \$33.8 million and \$3.4 million, respectively. For the fiscal quarter ended June 27, 2008, BBA revenues and loss

classified as discontinued operations was \$41.7 million and \$122.9 million, respectively.

For the nine fiscal months ended July 3, 2009 BBA revenues and loss classified as discontinued operations were \$93.3 million and \$3.6 million, respectively. For the nine fiscal months ended June 27, 2008, BBA revenues and loss classified as discontinued operations were \$129.7 million and \$132.8 million, respectively.

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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 (US GAAP) 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 US GAAP. Prior year quarterly information has been recast to reflect the reclassification of discontinued operations described in Note 2.

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 US GAAP 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 upon the distributor s sale of the purchased products 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 July 3, 2009 and October 3, 2008, there was 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 July 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

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performance obligations was \$0.2 million. Deferred revenue is included in other current liabilities on the accompanying condensed consolidated balance sheets.

During the nine fiscal months ended June 27, 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 \$30.7 million as of July 3, 2009. This credit facility matures on November 27, 2009 and is subject to additional 364-day extensions at the discretion of the bank. At July 3, 2009, the Company was in compliance with all required debt covenants. 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 tightening of the credit markets and unfavorable economic conditions has led to a low level of liquidity in many financial markets and extreme volatility in the credit and equity markets. In addition, if the economy or markets in which the Company operates continue to be subject to adverse economic conditions, its 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, the Company may not be able to obtain sufficient capital to repay amounts due under (i) its credit facility expiring November 2009, (ii) its \$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) its \$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 the Company's convertible subordinated notes is March 1, 2011. In the event the Company is unable to satisfy or refinance its debt obligations as the obligations are required to be paid, the Company will be required to consider strategic and other alternatives, including, among other things, the sale of assets to generate funds, the negotiation of revised terms of its indebtedness, and the exchange of new securities for existing indebtedness obligations. The Company has retained financial advisors to assist it in considering these strategic, restructuring or other alternatives. There is no assurance that the Company 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 debt agreement as of July 3, 2009 and October 3, 2008, respectively. See Note 5 for further information on the Company's short-term debt. As of July 3, 2009 and October 3, 2008, the Company had one irrevocable stand-by letter of credit outstanding. As of July 3, 2009 and October 3, 2008, the irrevocable stand-by letter of credit was collateralized by restricted cash balances of \$6.0 million and \$18.0 million, respectively, to secure inventory purchases from a vendor. The letter of credit expires on August 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 \$6.5 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.

Investments The Company accounts for non-marketable investments using the equity method of accounting if the investment gives the Company the ability to exercise significant influence over, but not control of, an investee. Significant influence generally exists if the Company has an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and

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are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions. Additional investments by other parties in the investee will result in a reduction in the Company's ownership interest, and the resulting gain or loss will be recorded in the consolidated statements of operations. Where the Company is unable to exercise significant influence over the investee, investments are accounted for under the cost method. Under the cost method, investments are carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings or additional investments.

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 No. 109). SFAS No. 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 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 28, 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 nine fiscal months ended June 27, 2008, the Company recorded a correcting adjustment of \$5.3 million, \$1.4 million of which is recorded in continuing operations and \$3.9 million of which is recorded in discontinued operations, 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*, and 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, the Company believes that this correcting adjustment was not material to its 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 July 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. (the 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

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(SFAS No. 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 July 3, 2009, the Company was required to post \$3.0 million of cash collateral with the counterparty, \$0.9 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 \$2.8 million at July 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 \$0.5 million and \$0.9 million for the fiscal quarter and nine fiscal months ended July 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 July 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 \$12.4 million and \$25.0 million for the nine fiscal months ended July 3, 2009 and June 27, 2008, respectively. Cash paid for income taxes for the nine fiscal months ended July 3, 2009 and June 27, 2008 was \$1.6 million and \$1.4 million, respectively.

Net Income (loss) Per Share Net income (loss) per share is computed in accordance with SFAS No. 128, Earnings Per Share. Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options, restricted stock units and shares of stock issuable upon conversion of the Company's convertible subordinated notes. The dilutive effect of stock options and restricted stock units 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 income (loss) per share if their effect would be antidilutive.

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

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|---|----------------------|------------------|--------------------------|------------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| Employee stock options | 5,054 | 8,426 | 5,905 | 8,917 |
| 4.00% convertible subordinated notes due March 2026 | 5,081 | 5,081 | 5,081 | 5,081 |
| | 10,135 | 13,507 | 10,986 | 13,998 |
| Weighted average shares for basic net income (loss) per share | 49,867 | 49,450 | 49,760 | 49,333 |
| Employee stock options and restricted stock units | | | | 8,917 |
| Weighted average shares for diluted income (loss) per share | 49,867 | 49,450 | 49,760 | 58,250 |

Cash flows The Company has reclassified the change in accrued restructuring expenses of \$2,696 from accrued expenses and other current liabilities, and other, net, to accrued restructuring expenses on its condensed consolidated statements of cash flows for the nine fiscal months ended June 27, 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 nine fiscal months ended June 27, 2008. These changes on the condensed consolidated statements of cash flows did not affect the Company's reported net decrease in cash and cash equivalents for the period.

| | Nine Fiscal Months Ended June 27, 2008 |
|---|--|
| Accrued expenses and other current liabilities, before reclassification | \$ (13,627) |
| Accrued restructuring expenses | 1,909 |
| Accrued expenses and other current liabilities, after reclassification | \$ (11,718) |
| Other, net, before reclassification | \$ (16,043) |
| Accrued restructuring expenses | (4,605) |
| Expenses related to short-term debt | 1,118 |
| Other, net, after reclassification | \$ (19,530) |
| Repayments of short-term debt, including debt costs, before correction | \$ (2,823) |
| Expenses related to short-term debt | (1,118) |
| Repayments of short-term debt, including debt costs, after correction | \$ (3,941) |

Business Enterprise Segments The Company operates in one reportable segment, broadband communications. SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for the way that public business enterprises report information about operating segments in their condensed consolidated financial statements. Pending the completion of the sale of the Company's Broadband Access Products (BBA) operating segment, the results of which have been classified in discontinued operations, the Company has one remaining operating segment, Imaging and PC Media (IPM). The IPM operating segment, comprised of one reporting unit, was identified based upon the availability of discrete financial information and the chief operating decision maker's regular review of the financial information for this reporting unit. The Company evaluated this reporting unit for components and noted that there are none below the IPM reporting unit.

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 No. 142). Under SFAS No. 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

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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 during the fourth fiscal quarter 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.

All of the goodwill reported on our balance sheet is attributable to the IPM reporting unit. 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 third fiscal quarter of 2009, we determined based on current IPM business forecasts there were no indicators of impairment and therefore no interim goodwill impairment analysis was considered necessary for the third fiscal quarter of 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 3 *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 SFAS 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

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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 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.

On April 4, 2009, the Company adopted FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107 and APB 28-1), which enhanced the disclosure of instruments under the scope of SFAS No. 157. The Company's adoption of FSP 107-1 and APB 28-1 did not have a material impact on its financial position, results of operations or liquidity.

On April 4, 2009, the Company adopted 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), which provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. The Company's adoption of FSP 157-4 did not have a material impact on its financial position, results of operations or liquidity.

On April 4, 2009, the Company adopted SFAS No. 165, Subsequent Events (SFAS No. 165), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular SFAS No. 165 sets forth:

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1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements.
3. The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

The Company's adoption of SFAS No. 165 did not have a material impact on its financial position, results of operations or liquidity.

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 requires a number of changes to the purchase method of accounting for acquisitions, 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 US 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 June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets (SFAS No. 166), an amendment of SFAS No. 140. SFAS No. 166 improves the relevance, representational faithfulness, and comparability

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of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. SFAS No. 166 will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. The Company is currently assessing the potential impact that adoption of SFAS No. 166 would have on its financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167). SFAS No. 167 improves financial reporting by enterprises involved with variable interest entities. SFAS No. 167 will be effective for financial statements issued for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. Early adoption is not permitted. The Company does not believe that adoption of SFAS No. 167 will have a material impact on its financial position and results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168). SFAS No. 168 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with US GAAP.

Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. SFAS No. 168 will be effective for financial statements issued by the Company for interim and annual periods after September 15, 2009. On the effective date of SFAS No. 168, all then-existing non-SEC accounting and reporting standards are superseded, with the exception of certain promulgations listed in SFAS No. 168. The Company currently anticipates that the adoption of SFAS No. 168 will have no effect on its condensed consolidated financial statements as the purpose of the Codification is not to create new accounting and reporting guidance. Rather, the Codification is meant to simplify user access to all authoritative US GAAP.

References to US GAAP in the Company's published financial statements will be updated, as appropriate, to cite the Codification following the effective date of SFAS No. 168.

Table of Contents**4. Fair Value of Certain Financial Assets and Liabilities**

In accordance with SFAS No. 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 July 3, 2009 (in thousands):

| | Level 1 | Level 2 | Total |
|--|-------------------|-----------------|-------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 123,394 | \$ | \$ 123,394 |
| Restricted cash | 14,500 | | 14,500 |
| Other equity securities | | 5,446 | 5,446 |
| Mindspeed warrant | | 2,307 | 2,307 |
| Long-term restricted cash | 6,489 | | 6,489 |
| Total Assets | \$ 144,383 | \$ 7,753 | \$ 152,136 |
| Liabilities: | | | |
| Interest rate swap financial instruments | \$ | \$ 2,754 | \$ 2,754 |
| Total Liabilities | \$ | \$ 2,754 | \$ 2,754 |

Level 1 assets consist of the Company's cash and cash equivalents and restricted cash.

Level 2 assets consist of the Company's non-marketable investments (see Note 3) and a warrant to purchase six million shares of Mindspeed common stock at an exercise price of \$17.04 per share through June 2013. At July 3, 2009, the warrant was valued using the Black-Scholes-Merton model with an expected term of 4 years, expected volatility of 82%, a risk-free interest rate of 1.98% and no dividend yield (see Note 5).

Level 2 liabilities consist of the Company's interest rate swap derivatives (see Note 5). 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 or liabilities classified as Level 3 as of July 3, 2009.

The fair value of other financial instruments as of July 3, 2009 are as follows:

| | |
|--|-------------------|
| | Total |
| Short-term debt | \$ 30,739 |
| Long-term debt: senior secured notes | 140,075 |
| Long-term debt: convertible subordinated notes | 107,813 |
| | \$ 278,627 |

Liabilities consist of the Company's short-term credit facility, the Company's senior secured notes, and convertible subordinated notes (see Note 5). The fair value of the convertible subordinated notes was calculated using a quoted market price in an active market. The fair value of the senior secured notes was calculated using a quoted market price in a market which is not active but which the Company believes represents an accurate exit price for the notes.

Table of Contents**5. Supplemental Financial Information****Inventories**

Inventories consist of the following (in thousands):

| | July 3, 2009 | October 3, 2008 |
|------------------------|-------------------------|----------------------------|
| Work-in-process | \$ 4,569 | \$ 8,413 |
| Finished goods | 3,783 | 10,959 |
| Total inventories, net | \$ 8,352 | \$ 19,372 |

At July 3, 2009 and October 3, 2008, inventories were net of excess and obsolete inventory reserves of \$7.9 million and \$12.1 million, respectively.

Intangible Assets

Intangible assets consist of the following (in thousands):

| | July 3, 2009 | | | October 3, 2008 | | |
|-------------------------|--------------------------------------|-------------------------------------|-----------------------|--------------------------------------|-------------------------------------|-----------------------|
| | Gross Carrying Amount | Accumulated Amortization | Book Value | Gross Carrying Amount | Accumulated Amortization | Book Value |
| Developed technology | \$ 800 | \$ (462) | \$ 338 | \$ 11,042 | \$ (9,963) | \$ 1,079 |
| Product licenses | 2,400 | (526) | 1,874 | 11,032 | (7,105) | 3,927 |
| Other intangible assets | 7,240 | (3,138) | 4,102 | 8,240 | (2,635) | 5,605 |
| | \$ 10,440 | \$ (4,126) | \$ 6,314 | \$ 30,314 | \$ (19,703) | \$ 10,611 |

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 | \$ 439 | \$ 1,353 | \$ 1,237 | \$ 1,237 | \$ 1,031 | \$ 1,017 |

Amortization expense classified by cost of goods sold, research and development and selling, general and administrative expenses is as follows (in thousands):

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|-------------------------------------|-----------------------------|---------------------|-------------------------------------|--------------------------|
| | June | | | |
| | July 3, 2009 | 27, 2008 | July 3, 2009 | June 27, 2008 |
| Cost of goods sold | \$ 388 | \$ 532 | \$ 1,144 | \$ 1,685 |
| Research and development | 78 | 8 | 179 | 27 |
| Selling, general and administrative | 224 | 159 | 1,224 | 557 |
| | \$ 690 | \$ 699 | \$ 2,547 | \$ 2,269 |

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 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

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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 third fiscal 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 third fiscal 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 | |
| Other adjustments | (318) |
| Goodwill at July 3, 2009 | \$ 110,094 |

Goodwill is tested at the reporting unit level annually in the fourth fiscal quarter and, if necessary, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no indicators of impairment requiring testing during the fiscal quarter ended July 3, 2009.

An adjustment of \$0.3 million was recorded in the fiscal quarter ended July 3, 2009 as a result of the resolution of a pre-acquisition tax matter related to an acquisition in 2004, which under SFAS No. 141 resulted in an adjustment to the purchase price.

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 July 3, 2009 and October 3, 2008, the market value of Mindspeed common stock was \$2.06 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 July 3, 2009 and October 3, 2008, the aggregate fair value of the Mindspeed warrant included on the accompanying condensed consolidated balance sheets was \$2.3 million and \$0.5 million, respectively. At July 3, 2009, the warrant was valued using the Black-Scholes-Merton model with an expected term of 4 years, expected volatility of 82%, a risk-free interest rate of 1.98% 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.

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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 1.54% at July 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 July 3, 2009, Conexant USA had borrowed \$30.7 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):

| | July 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.

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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 2), 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 nine fiscal months ended July 3, 2009, we did not have additional sufficient asset dispositions to trigger another required repurchase offer and accordingly, none of this debt has been classified as current.

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.

Acquisitions In the fiscal quarter ended January 2, 2009 the Company acquired certain assets from Analog Devices Inc. ("ADI") used in the operation of ADI's Integrated Audio Group ("ADI Audio") and a license to manufacture and sell certain products related to ADI Audio. The cost of the assets, which included inventory, test equipment and photomasks, was approximately \$1.3 million. The cost of the license was \$2.5 million, which will be paid over one year in four quarterly installments. Payments through July 3, 2009 for the acquired assets totaled \$2.5 million. Also in the fiscal quarter ended April 3, 2009 the Company made a final payment of \$1.0 million to Zarlink Semiconductor Inc. ("Zarlink") as part of the acquisition of Zarlink's packet switching business in 2006.

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.

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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 for purposes of discovery and other pretrial proceedings with class actions against approximately 300 other companies making similar allegations regarding the public offerings of those companies during 1998 through 2000. On June 10, 2009, the court gave preliminary approval to a proposed settlement of the consolidated class actions. 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. The court has scheduled a hearing for September 10, 2009 to determine whether the settlement should be approved finally. If the settlement is approved, the Company anticipates that the GlobeSpan, Inc. defendants' share of the cost of the settlement will be paid by GlobeSpan, Inc.'s insurers. The Company has not recorded any special charges with respect to this litigation.

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 plaintiffs filed an amended complaint on August 11, 2005. The amended complaint alleged that the plaintiffs 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 plaintiffs 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. The plaintiffs 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 plaintiffs' 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 the plaintiffs agreed in principle to settle all outstanding claims in the litigation for \$3.25 million. On May 21, 2009, plaintiffs' attorneys filed with the District Court a motion asking the court to grant its preliminary approval of the proposed settlement and set a date for a final hearing on the settlement, after notice to the class, the obtaining of an allocation of the dollar recovery, and certain other preconditions set forth in the settlement agreement. By order dated June 18, 2009, the District Court granted preliminary approval of the proposed settlement and set September 11, 2009 as the date of the final Settlement Fairness hearing. 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.

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 (Rockwell), 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, 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

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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-Based Award 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 July 3, 2009, approximately 9.0 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 three to 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.

Stock Option Plans

The Company accounts for its stock option plans in accordance with SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)). 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:

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|----------------------------------|-----------------------------|--------------------------|---------------------------------|--------------------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| Stock option plans: | | | | |
| Expected dividend yield | \$ | \$ | \$ | \$ |
| Expected stock price volatility | 87% | 67% | 78% | 68% |
| Risk free interest rate | 1.96% | 3.20% | 2.02% | 3.20% |
| Average expected life (in years) | 5.00 | 5.25 | 4.86 | 5.25 |
| Stock purchase plans: | | | | |
| Expected dividend yield | \$ | \$ | \$ | \$ |
| Expected stock price volatility | | 68% | 74% | 68% |
| Risk free interest rate | | 3.00% | 3.14% | 3.00% |
| Average expected life (in years) | | 0.50 | 0.50 | 0.50 |

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-

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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 | 70 | 1.04 |
| Exercised | | |
| Forfeited | (2,771) | 23.26 |
| Outstanding, July 3, 2009 | 4,656 | 23.37 |
| Shares vested and expected to vest, July 3, 2009 | 4,574 | 23.56 |
| Exercisable, July 3, 2009 | 4,123 | \$24.69 |

At July 3, 2009, of the 4.7 million stock options outstanding, approximately 3.9 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 July 3, 2009, stock options outstanding had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 3.4 years. At July 3, 2009, exercisable stock options had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 3.0 years. At July 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 nine fiscal months ended July 3, 2009 and June 27, 2008 was immaterial. During the fiscal quarter and nine fiscal months ended July 3, 2009, the Company recognized stock-based compensation expense of \$0.4 million and \$2.9 million, respectively, for stock options, in its condensed consolidated statements of operations. During the fiscal quarter and nine fiscal months ended June 27, 2008, the Company recognized stock-based compensation expense of \$3.5 million and \$8.0 million, respectively, for stock options, in its condensed consolidated statements of operations.

The Company classified stock-based compensation expense of \$0.2 million and \$1.0 million to discontinued operations for the fiscal quarter and nine fiscal months ended July 3, 2009, respectively. The Company classified stock-based compensation expense of \$1.4 million and \$3.6 million to discontinued operations for the fiscal quarter and nine fiscal months ended June 27, 2008, respectively. At July 3, 2009, the total unrecognized fair value compensation cost related to non-vested stock option awards was \$3.7 million, which is expected to be recognized over a remaining weighted average period of approximately 1.3 years.

1999 Long Term Incentive Plan, 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 restricted stock unit (RSU) 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 one to two years of the date of award) or, in certain cases, if prescribed performance criteria are not met. The Company maintains the 1999 Long Term Incentive Plan, under which it reserved 2.8 million shares for issuance, the 2001 Performance Share Plan, under which it reserved 0.4 million shares for issuance, as well as the 2004 New Hire Equity Incentive Plan (2004 New Hire Plan), under which it reserved 1.2 million shares for issuance.

Table of Contents*1999 Long Term Incentive Plan*

The awards issued under this plan 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 1999 Long Term Incentive Plan is as follows (shares in thousands):

| | Shares | Weighted Average Grant Date Fair Value |
|------------------------------|---------------|---|
| Outstanding, October 3, 2008 | 225 | \$ 5.31 |
| Granted | | |
| Vested | (206) | 5.28 |
| Forfeited | | |
| Outstanding, July 3, 2009 | 19 | \$ 5.67 |

During the fiscal quarter and nine fiscal months ended July 3, 2009, the Company recognized stock-based compensation expense of \$0.04 million and \$0.6 million, respectively, related to the 1999 Long Term Incentive Plan. During the fiscal quarter and nine fiscal months ended June 27, 2008, the Company recognized stock-based compensation expense of \$0.2 million and \$0.2 million, respectively, related to the 1999 Long Term Incentive Plan. At July 3, 2009, the total unrecognized fair value stock-based compensation cost related to non-vested 1999 Long Term Incentive Plan share awards was \$0.1 million, which is expected to be recognized over a weighted average period of one year. The plan expired on December 31, 2008. There are no shares available to grant.

2001 Performance Share 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 2001 Performance Share Plan is as follows (shares in thousands):

| | Shares | Weighted Average Grant Date Fair Value |
|------------------------------|---------------|---|
| Outstanding, October 3, 2008 | 175 | \$ 8.00 |
| Granted | | |
| Vested | (175) | 8.00 |
| Forfeited | | |
| Outstanding, July 3, 2009 | | \$ |

During the fiscal quarter and nine fiscal months ended July 3, 2009, the Company recognized stock-based compensation expense of \$0.02 million and \$0.5 million, respectively, related to the 2001 Performance Share Plan. During the fiscal quarter and nine fiscal months ended June 27, 2008, the Company recognized stock-based compensation expense of \$0.4 million and \$0.4 million, respectively, related to the 2001 Performance Share Plan. The nine fiscal months ended June 27, 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 July 3, 2009, approximately 0.2 million shares of the Company's common stock were available for issuance under the 2001 Performance Share Plan.

Table of Contents*2004 New Hire Plan*

The 2004 New Hire Plan provides for the grant of service-based awards. A summary of share-based award activity under the 2004 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, July 3, 2009 | 17 | \$ 4.50 |

During the fiscal quarter and nine fiscal months ended July 3, 2009, the Company recognized \$0.01 million and \$0.3 million in stock-based compensation expense related to the 2004 New Hire Plan, respectively. During the fiscal quarter and nine fiscal months ended June 27, 2008, the Company recognized \$0.1 million and \$0.2 million in stock-based compensation expense related to the 2004 New Hire Plan, respectively, including \$1.0 million recorded in the fiscal quarter and nine fiscal months ended June 27, 2008 due to acceleration of awards upon the departure of the Company's former President and CEO. At July 3, 2009, the total unrecognized fair value compensation cost related to non-vested 2004 New Hire Plan was \$0.1 million, which is expected to be recognized over a weighted average period of 1.7 years.

Employee Stock Purchase Plan

Effective January 31, 2009, the Company suspended the Employee Stock Purchase Plan (ESPP) for all employees. The last purchase of 49,592 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. During the fiscal quarter and nine fiscal months ended July 3, 2009, the Company recognized stock-based compensation expense of zero and \$0.1 million, respectively, for stock purchase plans, in its condensed consolidated statements of operations. During the fiscal quarter and nine fiscal months ended June 27, 2008, the Company recognized stock-based compensation expense of \$0.1 million and \$0.4 million, respectively, for stock purchase plans, in its condensed consolidated statements of operations.

Directors Stock Plan

Effective February 13, 2009, the Company suspended the Directors Stock Plan (DSP) that provided 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 could elect to receive all or a portion of the cash retainer to which the director was entitled through the issuance of common stock.

Table of Contents**8. Comprehensive Loss**

Comprehensive loss consists of the following (in thousands):

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|---|----------------------|---------------|--------------------------|---------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| Net income (loss) | \$ 2,726 | \$ (149,871) | \$ (28,719) | \$ (301,093) |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | 525 | (797) | (1,230) | 706 |
| Unrealized gains on marketable securities | | 480 | 650 | 480 |
| Unrealized losses on foreign currency forward hedge contracts | | 4,154 | (153) | 1,972 |
| Unrealized losses on interest rate swap contracts | (211) | | (2,803) | |
| Realized loss on impairment of marketable securities | | | 1,986 | |
| Realized gain on sale of marketable securities | (702) | | (702) | |
| Gains on settlement of foreign currency forward hedge contracts | | | 659 | |
| Minimum pension liability adjustments | | 4,832 | | 3,759 |
| Other comprehensive (loss) income | (388) | 8,669 | (1,593) | 6,917 |
| Comprehensive income (loss) | \$ 2,338 | \$ (141,202) | \$ (30,312) | \$ (294,176) |

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

| | July 3, 2009 | October 3, 2008 |
|---|--------------|-----------------|
| Foreign currency translation adjustments | \$ (922) | \$ 308 |
| Unrealized losses on marketable securities | | (1,934) |
| Unrealized losses on derivative instruments | (2,754) | (457) |
| Accumulated other comprehensive loss | \$ (3,676) | \$ (2,083) |

9. Income Taxes

The Company recorded a tax provision of \$0.2 million and \$0.8 million for the fiscal quarter and nine fiscal months ended July 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 July 3, 2009, special charges consisted primarily of \$0.5 million of restructuring charges related to workforce reductions implemented during the quarter and \$0.5 million related to accretion of lease liability. For the nine fiscal months ended July 3, 2009, special charges of \$13.7 million consisted primarily of restructuring charges of \$2.7 million related to workforce reductions, \$6.9 million related to revised sublease assumptions and accretion of lease liability associated with vacated facilities, a \$3.7 million charge for a legal settlement (See Note 6)

and \$0.4 million of loss on disposal of property, plant and equipment. For the fiscal quarter and nine fiscal months ended June 27, 2008, special charges of \$8.5 million and \$15.9 million, respectively, consisted primarily of restructuring charges and a \$6.3 million charge related to the termination of our voluntary early retirement plan.

Table of Contents**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 July 3, 2009, the Company has remaining restructuring accruals of \$38.1 million, of which \$0.4 million relates to workforce reductions and \$37.7 million relates to facility and other costs. Of the \$38.1 million of restructuring accruals at July 3, 2009, \$4.6 million is included in other current liabilities and \$33.5 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 \$77.7 million, net of contracted sublease income of \$11.6 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 138 positions worldwide. In relation to this restructuring action in fiscal 2009, the Company recorded \$2.7 million of total charges for the cost of severance benefits for the affected employees, \$0.6 million of which were included in discontinued operations related to our BBA business.

Activity and liability balances recorded as part of the fiscal 2009 restructuring actions through July 3, 2009 were as follows (in thousands):

| | Workforce Reductions |
|-------------------------------------|---------------------------------|
| Charged to costs and expenses | \$ 2,709 |
| Cash payments | (2,278) |
| Restructuring balance, July 3, 2009 | \$ 431 |

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.

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

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Activity and liability balances recorded as part of the Fiscal 2008 restructuring actions through July 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 | 583 | (16) | 567 |
| Reclassification to other current liabilities and other liabilities | | (175) | (175) |
| Cash payments | (676) | (440) | (1,116) |
| Restructuring balance, July 3, 2009 | \$ | \$ 400 | \$ 400 |

Fiscal 2007 Restructuring Actions During fiscal 2007, the Company announced several facility closures and workforce reductions. In total, the Company notified approximately 670 employees of their involuntary termination and recorded \$9.5 million of total charges for the cost of severance benefits for the affected employees. Additionally, the Company recorded charges of \$2.0 million relating to the consolidation of certain facilities under non-cancelable leases which were vacated. The non-cash facility accruals resulted from the reclassification of deferred gains on the previous sale-leaseback of two facilities totaling \$8.0 million in fiscal 2008 and \$4.9 million in fiscal 2007. As a result of the Company's sale of its BMP business unit in fiscal 2008, \$2.9 million and \$2.2 million, incurred in fiscal 2008 and 2007, respectively, related to fiscal 2007 restructuring actions were reclassified to discontinued operations in the condensed consolidated statements of operations. The domestic economic downturn experienced during the fiscal quarter ended January 2, 2009 resulted in declines in real estate lease rates and adversely impacted the Company's ability to secure sub tenants for a facility located in San Diego. These declines resulted in a decrease in estimated future projected sub lease rental income causing a \$9.1 million additional restructuring charge for the facility. The remaining additional facility restructuring charge of \$1.5 million is due to accretion of lease liability. The majority of the facility supported the operations of the BMP business sold in August 2008. The additional restructuring charge of \$10.6 million was allocated between the BMP business and continuing operations based upon the historical use of the facility. Of the \$10.6 million restructuring charge, \$8.0 million was included in discontinued operations and \$2.6 million was charged to operating expenses.

Activity and liability balances recorded as part of the Fiscal 2007 restructuring actions through July 3, 2009 were as follows (in thousands):

| | Workforce Reductions | Facility and Other | Total |
|---|---------------------------------|-------------------------------|--------------|
| Charged to costs and expenses | \$ 9,477 | \$ 2,040 | \$ 11,517 |
| Non-cash items | | 4,868 | 4,868 |
| Cash payments | (5,841) | (268) | (6,109) |
| Restructuring balance, September 28, 2007 | 3,636 | 6,640 | 10,276 |
| Charged to costs and expenses | 11 | 6,312 | 6,323 |
| Non-cash items | | 8,039 | 8,039 |
| Cash payments | (3,631) | (4,309) | (7,940) |
| Restructuring balance, October 3, 2008 | 16 | 16,682 | 16,698 |
| Charged to costs and expenses | (1) | 10,577 | 10,576 |

| | | | |
|-------------------------------------|------|-----------|-----------|
| Cash payments | (15) | (4,014) | (4,029) |
| Restructuring balance, July 3, 2009 | \$ | \$ 23,245 | \$ 23,245 |

Fiscal 2006 and 2005 Restructuring Actions During fiscal years 2006 and 2005, the Company announced operating site closures and workforce reductions. In total, the Company notified approximately 385 employees of their involuntary termination. During fiscal 2006 and 2005, the Company recorded total charges of \$24.1 million based on the estimates of the cost of severance benefits for the affected employees and the estimated relocation

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benefits for those employees who were offered and accepted relocation assistance. Additionally, the Company recorded charges of \$21.3 million relating to the consolidation of certain facilities under non-cancelable leases that were vacated. Restructuring charges in the nine fiscal months ended July 3, 2009 related to the fiscal 2006 and 2005 restructuring actions included \$3.7 million due to a decrease in estimated future rental income from sub-tenants resulting from declines in sub lease activity and \$0.6 million due to accretion of lease liability.

Activity and liability balances recorded as part of the Fiscal 2006 and 2005 restructuring actions through July 3, 2009 were as follows (in thousands):

| | Facility and Other |
|--|-------------------------------|
| Restructuring balance, October 3, 2008 | \$ 11,037 |
| Charged to costs and expenses | 4,317 |
| Cash payments | (1,355) |
| Restructuring balance, July 3, 2009 | \$ 13,999 |

Table of Contents**12. Other (income) expense, net**

Other (income) expense, net consists of the following (in thousands):

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|---|----------------------|------------------|--------------------------|------------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| Investment and interest income | \$ (281) | \$ (1,171) | \$ (1,589) | \$ (5,990) |
| Gain on sale of investments | (1,803) | (145) | (1,856) | (874) |
| Other-than-temporary impairment of marketable securities and cost based investments | | | 2,770 | |
| (Increase) decrease in the fair value of derivative instruments | (1,166) | (1,881) | (1,762) | 12,662 |
| Other | (317) | 200 | (1,018) | 968 |
| Other (income) expense, net | \$ (3,567) | \$ (2,997) | \$ (3,455) | \$ 6,766 |

Other (income), net during the fiscal quarter ended July 3, 2009 was primarily comprised of a \$1.8 million gain on sale of equity investments, a \$1.2 million increase in the fair value of the Company's warrant to purchase six million shares of Mindspeed common stock and \$0.3 million of investment and interest income on invested cash balances.

Other (income), net during the nine fiscal months ended July 3, 2009 was primarily comprised of a \$1.9 million gain on sale of equity investments, a \$1.8 million increase in the fair value of the Company's warrant to purchase six million shares of Mindspeed common stock, \$1.6 million of investment and interest income on invested cash balances and \$1.0 million of other gains offset by other-than-temporary impairments of marketable securities and cost method investments of \$2.8 million.

Other (income), net during the fiscal quarter ended June 27, 2008 was primarily comprised of a \$1.9 million increase in the fair value in the fair value of the Company's warrant to purchase six million shares of Mindspeed common stock, \$1.2 million of investment and interest income on invested cash balances and a \$0.1 million gain on sale of equity investments. Other expense, net during the nine fiscal months ended June 27, 2008 was primarily comprised of a \$12.7 million decrease in the fair value of the Company's warrant to purchase six million shares of Mindspeed common stock and other expenses of \$1.0 million, offset by \$6.0 million of investment and interest income on invested cash balances and a \$0.9 million gain on sale of equity investments.

13. Related Party Transactions**Mindspeed Technologies, Inc.**

As of July 3, 2009, the Company holds a warrant to purchase six million shares of Mindspeed common stock at an exercise price of \$17.04 per share exercisable through June 2013. In addition, two members of the Company's Board of Directors also serve on the Board of Mindspeed. No significant amounts were due to or receivable from Mindspeed at July 3, 2009 or at October 3, 2008.

Lease Agreement The Company subleases an office building to Mindspeed. Under the sublease agreement, Mindspeed pays amounts for rental expense and operating expenses, which include utilities, common area maintenance, and security services. During the fiscal quarter and nine fiscal months ended July 3, 2009 and June 27, 2008, the Company recorded income related to the Mindspeed sublease agreement of \$0.5 million and \$0.6 million, and \$1.3 million and \$1.9 million, respectively. Additionally, Mindspeed made payments directly to the Company's landlord totaling \$0.9 million and \$1.1 million during the fiscal quarter ended July 3, 2009 and June 27, 2008, respectively, and \$2.5 million and \$2.5 million during the nine fiscal months ended July 3, 2009 and June 27, 2008, respectively.

Table of Contents**14. Geographic Information**

Net revenues by geographic area, based upon country of destination, were as follows (in thousands):

| | Fiscal Quarter Ended | | Nine Fiscal Months Ended | |
|--------------------------------|-----------------------------|--------------------------|---------------------------------|--------------------------|
| | July 3, 2009 | June 27, 2008 | July 3, 2009 | June 27, 2008 |
| United States | \$ 715 | \$ 2,556 | \$ 4,391 | \$ 7,070 |
| Other Americas | 536 | 2,128 | 2,682 | 7,042 |
| Total Americas | 1,251 | 4,684 | 7,073 | 14,112 |
| China | 33,522 | 50,175 | 97,360 | 160,923 |
| Taiwan | 3,989 | 4,629 | 11,041 | 13,871 |
| Japan | 3,075 | 3,230 | 8,896 | 14,078 |
| Malaysia | 2,838 | 1,963 | 8,006 | 5,276 |
| Thailand | 751 | 2,138 | 4,250 | 8,431 |
| Singapore | 3,292 | 4,673 | 8,804 | 21,616 |
| South Korea | 1,468 | 788 | 3,252 | 6,160 |
| Other Asia-Pacific | 54 | 107 | 1,234 | 290 |
| Total Asia-Pacific | 48,989 | 67,703 | 142,843 | 230,645 |
| Europe, Middle East and Africa | 604 | 1,515 | 2,356 | 5,632 |
| | \$ 50,844 | \$ 73,902 | \$ 152,272 | \$ 250,389 |

The Company believes a portion of the products sold to original equipment manufacturers (OEMs) and third-party manufacturing service providers in the Asia-Pacific region are ultimately shipped to end-markets in the Americas and Europe. One distributor accounted for 22% and 20% of net revenues for the fiscal quarter and nine fiscal months ended July 3, 2009, respectively, and 29% and 23% of net revenues for the fiscal quarter and nine fiscal months ended June 27, 2008, respectively. Sales to the Company's twenty largest customers represented approximately 85% and 76% of net revenues for the fiscal quarter and nine fiscal months ended July 3, 2009, respectively, and approximately 93% and 84% of net revenues for the fiscal quarter and nine fiscal months ended June 27, 2008, respectively.

Long-lived assets consist of property, plant and equipment and certain other long-term assets. Long-lived assets by geographic area were as follows (in thousands):

| | July 3, 2009 | October 3, 2008 |
|--------------------------------|-------------------------|----------------------------|
| United States | \$ 39,772 | \$ 49,240 |
| India | 1,329 | 2,627 |
| Other Asia-Pacific | 2,058 | 4,208 |
| Europe, Middle East and Africa | 21 | 35 |
| | \$ 43,180 | \$ 56,110 |

15. Supplemental Guarantor Financial Information

In November 2006, the Company issued \$275.0 million of floating rate senior secured notes due November 2010. 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 also jointly, severally and

unconditionally guaranteed, on a senior basis, by three of the Company's wholly owned U.S. subsidiaries: Conexant, Inc., Brooktree Broadband Holding, Inc., and Ficon Technology, Inc. (collectively, the "Subsidiary Guarantors").

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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, owned real property, plant and equipment now owned or hereafter acquired by the Company and the Subsidiary Guarantors.

In lieu of providing separate financial statements for the Subsidiary Guarantors, the Company has included the accompanying condensed consolidating financial statements. These condensed consolidating financial statements are presented on the equity method of accounting. Under this method, the Company's and Subsidiary Guarantors investments in their subsidiaries are recorded at cost and adjusted for their share of the subsidiaries' cumulative results of operations, capital contributions and distributions and other equity changes. The financial information of the three Subsidiary Guarantors has been combined in the condensed consolidating financial statements.

The following guarantor financial information has been adjusted to reflect the Company's discontinued operations. See Note 3 for further information regarding the sale of the Company's BMP product line during fiscal 2008 and the pending sale of the Company's BBA business.

In addition, subsequent to the issuance of the Company's condensed consolidated interim financial statements for the fiscal quarter ended June 27, 2008, the Company corrected its guarantor financial information to: (1) properly apply the equity method of accounting and properly allocate amortization of certain intangible assets in its condensed consolidating statements of operations for the fiscal quarter and nine fiscal months ended June 27, 2008; and (2) properly present the results of its intercompany transactions within its condensed consolidating statements of cash flows (as financing activities rather than operating activities) for the nine fiscal months ended June 27, 2008 in accordance with SEC Regulation S-X, Rule 3-10(f).

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The following tables present the Company's condensed consolidating balance sheets as of July 3, 2009 and October 3, 2008 (in thousands):

| | July 3, 2009 | | | | |
|---|---------------------|-------------------|----------------------------|---------------------|---------------------|
| | Parent | Guarantors | Non- Guarantors | Eliminations | Consolidated |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 94,238 | \$ | \$ 29,156 | \$ | \$ 123,394 |
| Restricted cash | 6,000 | | 8,500 | | 14,500 |
| Receivables, net | 3,428 | 169,158 | 37,160 | (169,158) | 40,588 |
| Inventories | 8,352 | | | | 8,352 |
| Other current assets | 28,181 | | 6,125 | | 34,306 |
| Current assets held for sale | 14,034 | | 2,894 | | 16,928 |
| Total current assets | 154,233 | 169,158 | 83,835 | (169,158) | 238,068 |
| Property and equipment, net | 9,157 | | 2,918 | | 12,075 |
| Goodwill | 17,910 | 89,087 | 3,097 | | 110,094 |
| Intangible assets, net | 5,962 | | 352 | | 6,314 |
| Other assets | 31,142 | | 2,305 | | 33,447 |
| Investments in subsidiaries | 274,592 | 19,851 | | (294,443) | |
| Total assets | \$ 492,996 | \$ 278,096 | \$ 92,507 | \$ (463,601) | \$ 399,998 |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ | \$ | \$ | \$ | \$ |
| Short-term debt | | | 30,739 | | 30,739 |
| Accounts payable | 159,687 | | 36,557 | (169,158) | 27,086 |
| Accrued compensation and benefits | 5,415 | | 2,655 | | 8,070 |
| Other current liabilities | 28,613 | 932 | 3,242 | | 32,787 |
| Current liabilities to be assumed | 2,893 | | 553 | | 3,446 |
| Total current liabilities | 196,608 | 932 | 73,746 | (169,158) | 102,128 |
| Long-term debt | 391,400 | | | | 391,400 |
| Other liabilities | 66,980 | | 1,482 | | 68,462 |
| Total liabilities | 654,988 | 932 | 75,228 | (169,158) | 561,990 |
| Shareholders' (deficit) equity | (161,992) | 277,164 | 17,279 | (294,443) | (161,992) |
| Total liabilities and equity (deficit) | \$ 492,996 | \$ 278,096 | \$ 92,507 | \$ (463,601) | \$ 399,998 |

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| | October 3, 2008 | | | | |
|------------------------------|------------------------|-------------------|----------------------------|---------------------|---------------------|
| | Parent | Guarantors | Non- Guarantors | Eliminations | Consolidated |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 69,738 | \$ | \$ 36,145 | \$ | \$ 105,883 |
| Restricted cash | 18,000 | | 8,800 | | 26,800 |
| Receivables | | 169,158 | 57,584 | (177,745) | 48,997 |
| Inventories | 19,372 | | | | 19,372 |
| Other current assets | 32,998 | 3 | 4,937 | | 37,938 |
| Current assets held for sale | 25,248 | | 4,482 | | 29,730 |
| | | | | | |
| Total current assets | 165,356 | 169,161 | 111,948 | (177,745) | 268,720 |
| Property and equipment, net | 11,292 | | 6,118 | | 17,410 |
| Goodwill | 17,911 | 89,404 | 3,097 | | 110,412 |
| Intangible assets, net | 4,167 | 5,992 | 452 | | 10,611 |
| Other assets | 36,753 | | 2,497 | | 39,250 |
| Investments in subsidiaries | 291,511 | 19,188 | | (310,699) | |
| | | | | | |
| Total assets | | | | | |