CONEXANT SYSTEMS INC
Form 10-K/A
February 11, 2009

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

Form 10-K/A

Amendment No. 2

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended October 3, 2008**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-24923

CONEXANT SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware *(State of incorporation)*	**25-1799439** *(I.R.S. Employer Identification No.)*
4000 MacArthur Boulevard **Newport Beach, California** *(Address of principal executive offices)*	**92660-3095** *(Zip code)*

Registrant s telephone number, including area code:
(949) 483-4600
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, $0.01 Par Value Per Share (including associated Preferred Share Purchase Rights)	The Nasdaq Stock Market, LLC

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the registrant s voting stock held by non-affiliates of the registrant (based on the closing price as reported on the Nasdaq Global Select Market on March 28, 2008) was approximately $0.3 billion. Shares of voting stock held by each officer and director and by each shareowner affiliated with a director have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of officer or affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the registrant s Common Stock as of November 14, 2008 was 49,600,996.

Documents Incorporated by Reference

Portions of the registrant s Proxy Statement for the 2009 Annual Meeting of Shareowners to be held on February 18, 2009 are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

This Amendment No. 2 amends Conexant Systems Inc. s (the Company) Annual Report on Form 10-K for the year ended October 3, 2008, which was filed with the Securities and Exchange Commission on November 26, 2008 (the Original Filing). The Company is filing this Amendment No. 2 for the sole purpose of including conformed signatures of Deloitte & Touche LLP (D&T) in each of D&T s reports included in Part II, Items 8 and 9A and in D&T s consent filed as Exhibit 23 and to conform in Part II, Item 9A the Company s disclosure regarding changes in its internal control over financial reporting to applicable Securities and Exchange Commission rules. In accordance with applicable Securities and Exchange Commission rules, we are including in this Amendment No. 2 the complete text of Part II, Items 8 and 9A, and Part IV, Item 15, as well as updated certifications of our Chief Executive Officer and Chief Financial Officer required by Rules 13a-14(a) and 13a-14(b) under the Securities Exchange Act of 1934. The conformed signatures were not included in the Original Filing due to a clerical error in the Edgar conversion. Amendment No. 2 does not include the entire Form 10-K.

Except as described above, this Amendment No. 2 does not amend any other information set forth in the Original Filing and the Company has not updated disclosures included therein to reflect any events that occurred subsequent to November 26, 2008.

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PART II

Item 8. ***Financial Statements and Supplementary Data***

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	October 3, 2008	September 28, 2007
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 105,883	$ 234,147
Restricted cash	26,800	8,800
Receivables, net of allowances of $834 and $1,659, respectively	48,997	80,856
Inventories, net	36,439	42,007
Other current assets	38,537	18,131
Current assets held for sale		250,451
Total current assets	256,656	634,392
Property, plant and equipment, net	24,912	46,676
Goodwill	110,412	214,635
Intangible assets, net	14,971	24,597
Other assets	39,452	65,669
Total assets	$ 446,403	$ 985,969
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 17,707	$ 58,000
Short-term debt	40,117	80,000
Accounts payable	34,894	80,571
Accrued compensation and benefits	14,989	23,191
Other current liabilities	44,385	70,345
Current liabilities to be assumed		3,925
Total current liabilities	152,092	316,032
Long-term debt	373,693	467,000
Other liabilities	57,352	56,422
Total liabilities	583,137	839,454
Commitments and contingencies (Note 7)		
Shareholders (deficit) equity:		
Preferred and junior preferred stock		

Common stock, $0.01 par value: 100,000 shares authorized; 49,601 and 49,236 shares issued and outstanding	496	493
Additional paid-in capital	4,744,140	4,725,729
Accumulated deficit	(4,879,208)	(4,578,219)
Accumulated other comprehensive loss	(2,083)	(1,385)
Shareholder notes receivable	(79)	(103)
Total shareholders (deficit) equity	(136,734)	146,515
Total liabilities and shareholders (deficit) equity	$ 446,403	$ 985,969

See accompanying notes to consolidated financial statements.

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended		
	October 3, 2008	September 28, 2007	September 29, 2006
	(In thousands, except per share amounts)		
Net revenues	$ 502,660	$ 573,576	$ 753,227
Cost of goods sold(1)	233,779	295,464	397,789
Gain on cancellation of supply agreement			(17,500)
Gross margin	268,881	278,112	372,938
Operating expenses:			
Research and development(1)	125,162	173,520	189,071
Selling, general and administrative(1)	86,146	91,429	119,000
Amortization of intangible assets	15,514	21,259	29,865
Asset impairments	120,769	226,113	85
Special charges	17,631	30,397	73,159
Total operating expenses	365,222	542,718	411,180
Operating loss	(96,341)	(264,606)	(38,242)
Interest expense	31,598	40,783	34,377
Other expense (income), net	3,809	(36,148)	14,472
Loss from continuing operations before income taxes and gain (loss) on equity method investments	(131,748)	(269,241)	(87,091)
Provision for income taxes	4,418	3,131	1,811
Loss from continuing operations before gain (loss) on equity method investments	(136,166)	(272,372)	(88,902)
Gain (loss) on equity method investments	2,804	51,182	(8,164)
Loss from continuing operations	(133,362)	(221,190)	(97,066)
Gain on sale of discontinued operations, net of tax	6,268		
Loss from discontinued operations, net of tax	(173,082)	(181,272)	(25,525)
Net loss	$ (300,176)	$ (402,462)	$ (122,591)
Loss per share from continuing operations basic and diluted	$ (2.70)	$ (4.52)	$ (2.03)
Gain per share from sale of discontinued operations basic and diluted	$ 0.13	$	$
Loss per share from discontinued operations basic and diluted	$ (3.51)	$ (3.70)	$ (0.53)

Net loss per share basic and diluted	$ (6.08)	$ (8.22)	$ (2.56)
Shares used in basic and diluted per-share computations	49,394	48,940	47,933

(1) These captions include non-cash employee stock-based compensation expense as follows (see Note 8):

	Fiscal Year Ended		
	October 3, 2008	**September 28, 2007**	**September 29, 2006**
Cost of goods sold	$ 303	$ 473	$ 494
Research and development	4,363	8,070	18,829
Selling, general and administrative	9,819	8,021	23,290

See accompanying notes to consolidated financial statements.

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	October 3, 2008	Fiscal Year Ended September 28, 2007 (In thousands)	September 29, 2006
Cash flows from operating activities			
Net loss	$ (300,176)	$ (402,462)	$ (122,591)
Adjustments to reconcile net loss to net cash used in operating activities, net of effects of acquisitions:			
Depreciation	19,311	25,091	19,670
Amortization of intangible assets	16,144	22,099	30,705
Asset impairments	263,535	350,913	
Gain on sale of business	(6,268)		
Loss on termination of defined benefit plan	6,294		
Impairment of marketable and non-marketable securities			20,286
(Reversal of) provision for bad debts, net	(751)	20	(2,192)
Charges for (reversal of) inventory provisions, net	7,253	(606)	(1,884)
Deferred income taxes	(39)	231	(792)
Stock-based compensation	15,869	19,751	44,945
Decrease in fair value of derivative instruments	14,881	952	16,666
(Gains) losses on equity method investments	(2,804)	(51,182)	8,164
Gain on cancellation of supply agreement			(17,500)
Gain on sales of equity securities, investments and other assets	(896)	(17,016)	(5,659)
Other items, net	4,506	(4,920)	(2,813)
Changes in assets and liabilities:			
Receivables	32,633	42,099	(33,593)
Inventories	9,326	36,131	(576)
Accounts payable	(45,010)	(30,732)	2,774
Accrued expenses and other current liabilities	(36,210)	3,710	(15,795)
Other, net	(15,948)	(5,930)	(8,140)
Net cash used in operating activities	(18,350)	(11,851)	(68,325)
Cash flows from investing activities			
Proceeds from sale of equity securities and other assets		168,186	6,870
Proceeds from sales and maturities of marketable debt securities		100,573	146,219
Purchases of marketable securities		(27,029)	(93,646)
Purchases of property, plant and equipment	(5,958)	(30,322)	(34,011)
Proceeds from sales of property, plant and equipment	8,949		
Payments for acquisitions, net of cash acquired	(16,088)	(5,029)	(11,531)
Purchases of equity securities	(755)	(1,200)	(2,454)
Restricted cash	(18,000)		(8,800)
Net proceeds from sale of business	95,367		

Net cash provided by investing activities	63,515	205,179	2,647
Cash flows from financing activities			
(Repayment) proceeds from short-term debt, net of expenses of $1,124, $1,198 and $1,541	(39,883)	(1,198)	78,459
Proceeds from long-term debt, net of expenses of $10,240 and $6,417		264,760	243,583
Repurchases and retirements of long-term debt	(133,600)	(456,500)	(254,684)
Proceeds from issuance of common stock	1,087	9,568	21,050
Interest rate swap security deposit	(2,516)		
Repayment of shareholder notes receivable	25	21	192
Net cash (used in) provided by financing activities	(174,887)	(183,349)	88,600
Net (decrease) increase in cash and cash equivalents	(129,722)	9,979	22,922
Cash and cash equivalents at beginning of year	235,605	225,626	202,704
Cash and cash equivalents at end of year	$ 105,883	$ 235,605	$ 225,626

See accompanying notes to consolidated financial statements.

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) AND COMPREHENSIVE LOSS

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Notes Receivable from Stock Sales	Treasury Stock	Unearned Compensation	Total Sharehold Equity (Deficit)
				(In thousands)					
ance at ober 1, 2005	47,468	$ 475	$ 4,662,173	$ (4,053,166)	$ (22,012)	$ (304)	$ (5,584)	$ (12,489)	$ 569,09
loss				(122,591)					(122,59
rency translation ustment					(376)				(37
nge in unrealized n on derivative tracts					180				18
pairment of rketable securities					18,870				18,87
nge in unrealized ses on ilable-for-sale urities					(11,007)				(11,00
nimum pension ility adjustment					2,249				2,24
mprehensive loss									(112,67
option of SFAS R			(20,691)					12,489	(8,20
uance of common ck	1,180	12	21,612						21,62
chase of treasury ck							(239)		(23
erest earned on es receivable						(9)			
tlement of notes eivable						192			19
ment of uisition-related re price guarantee			(4,631)						(4,63
ployee ck-based npensation ense			44,945						44,94

ance at tember 29, 2006	48,648	487	4,703,408	(4,175,757)	(12,096)	(121)	(5,823)	510,09
loss				(402,462)				(402,46
rency translation ustment					5,790			5,79
ange in unrealized n on derivative tracts					200			20
ange in unrealized es on ilable-for-sale urities					1,855			1,85
imum pension ility adjustment					2,866			2,86
mprehensive loss								(391,75
uance of common ck	716	7	9,930					9,93
cellation of sury stock	(128)	(1)	(5,822)				5,823	
erest earned on es receivable						(4)		
tlement of notes eivable						22		2
ployee ck-based pensation ense			18,213					18,21
ance at tember 28, 2007	49,236	493	4,725,729	(4,578,219)	(1,385)	(103)		146,51
loss				(300,176)				(300,17
rency translation ustment					(1,686)			(1,68
ange in unrealized n on derivative tracts					(837)			(83
ange in unrealized es on ilable-for-sale urities					(1,934)			(1,93
imum pension ility adjustment					3,759			3,75
mprehensive loss								(300,87
uance of common ck	365	3	1,084					1,08
lassification to ity award			1,458					1,45
option of FIN 48				(813)				(81

tlement of notes eivable						24			2
ployee ck-based npensation ense			15,869						15,86
ance at ober 3, 2008	49,601	$ 496	$ 4,744,140	$ (4,879,208)	$ (2,083)	$ (79)	$	$	$ (136,73

See accompanying notes to consolidated financial statements.

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1. Basis of Presentation and Significant Accounting Policies

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

Basis of Presentation The consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of the Company and each of its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year The Company s fiscal year is the 52- or 53-week period ending on the Friday closest to September 30. Fiscal year 2008 was a 53-week year and ended on October 3, 2008. Fiscal years 2007 and 2006 were 52-week years and ended on September 28, 2007 and September 29, 2006, respectively.

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

Common Stock On June 27, 2008, the Company effected a 1-for-10 reverse stock split. Accordingly, the accompanying consolidated financial statements have been retroactively restated to reflect the reverse stock split.

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 a 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. At September 28, 2007, deferred revenue related to sales to these distributors was $5.5 million. During the three months ended October 3, 2008, the Company evaluated three distributors for which revenue has historically been recognized when the purchased products are sold by the distributor to a third party due to the Company s inability in prior years to enforce the contractual terms related to any right of return. The Company s evaluation revealed that it is able to enforce the contractual right of return for the three distributors in an effective manner similar to that experienced with the other distributor customers. As a result, in the fourth quarter of fiscal 2008, the Company commenced the recognition of revenue on these three distributors upon shipment which is consistent with the revenue recognition point of other distributor customers. As a result, in the three month period 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 October 3, 2008, there is no significant deferred revenue related to sales to the Company s distributors.

Revenue with respect to sales to customers to whom the Company has significant obligations after delivery is deferred until all significant obligations have been completed. At October 3, 2008 and September 28, 2007, deferred revenue related to shipments of products for which the Company has on-going performance obligations was $0.2 million and $3.0 million, respectively.

Deferred revenue is included in other current liabilities on the accompanying consolidated balance sheets. During the first quarter of fiscal 2008, the Company recorded approximately $14.7 million of non-recurring revenue from the buyout of a future royalty stream.

Research and Development The Company s research and development (R&D) expenses consist principally of direct personnel costs to develop new semiconductor products, allocated indirect costs of the R&D function, photo mask and other costs for pre-production evaluation and testing of new devices and design and test tool costs. The Company s R&D expenses also include the costs for design automation, advanced package development and non-cash stock-based compensation charges for R&D personnel.

During the first quarter of fiscal 2008, 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 fiscal 2008, the Company recorded a correcting adjustment of $5.3 million, representing the unamortized portion of the capitalized photo mask costs as of September 29, 2007. Based upon an evaluation of all relevant quantitative and qualitative factors, and after considering the provisions of Accounting Principles Board Opinion No. 28 Interim Financial Reporting, (APB 28), paragraph 29, and SEC Staff Accounting Bulletin Nos. 99 Materiality (SAB 99) and 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), the Company believes that this correcting adjustment was not material to its estimated full year results for 2008. In addition, the Company does not believe the correcting adjustment is material to the amounts reported in previous periods.

Shipping and Handling In accordance with Emerging Issues Task Force (EITF) Issue No. 00-10, Accounting for Shipping and Handling Fees and Costs, the Company includes shipping and handling fees billed to customers in net revenues. Amounts incurred by the Company for freight are included in cost of goods sold.

Cash and Cash Equivalents The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less from the date of purchase to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

Restricted Cash The Company s short term debt credit 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 $8.8 million as restricted cash with respect to this credit agreement as of October 3, 2008 and September 28, 2007. See Note 6 for further information on the Company s short term debt.

As of October 3, 2008, the Company had one irrevocable stand-by letter of credit outstanding. The irrevocable stand-by letter of credit is collateralized by restricted cash balances of $18.0 million to secure inventory purchases from a vendor. The letter of credit expires on January 31, 2009. The restricted cash balance securing the letter of credit is classified as current restricted cash on the consolidated balance sheet. In addition, the Company has letters of credit collateralized by restricted cash aggregating $6.8 million to secure various long-term operating leases and the

Company s self-insured worker s compensation plan. The restricted cash associated with these letters of credit is classified as other long term assets on the consolidated balance sheets.

Liquidity The Company has an $80.0 million credit facility with a bank, under which it had borrowed $40.1 million as of October 3, 2008. On November 24, 2008, the term of this credit facility was extended through November 27, 2009 and the facility remains subject to additional 364-day extensions at the discretion of the bank. In connection with the extension, the Company lowered its borrowing limit on the credit facility to $50.0 million due to the to overall lower business volumes, primarily driven by the sale of the BMP business during fiscal 2008.

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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.

Inventories Inventories are stated at the lower of cost or market. Cost is computed using the average cost method on a currently adjusted standard basis (which approximates actual cost) and market is based upon estimated net realizable value. The valuation of inventories at the lower of cost or market requires the use of estimates as to the amounts of current inventories that will be sold and the estimated average selling price. These estimates are dependent on the Company s assessment of current and expected orders from its customers, and orders generally are subject to cancellation with limited advance notice prior to shipment. See Note 4 for further information regarding inventories.

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is based on estimated useful lives (principally 10 to 27 years for buildings and improvements, 3 to 5 years for machinery and equipment, and the shorter of the remaining lease terms or the estimated useful lives of the improvements for land and leasehold improvements). Maintenance and repairs are charged to expense. See Note 4 for further information regarding property, plant and equipment.

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 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. See Note 12 for information regarding other-than-temporary impairment charges recorded during fiscal 2006.

Long-Lived Assets Long-lived assets, including fixed assets and intangible assets (other than goodwill) are amortized over their estimated useful lives. They are also continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. Estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to the business model or changes in operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, an impairment loss will be recognized, measured as the amount by which the carrying value exceeds the fair value of the asset. Fair value is determined using available market data, comparable asset quotes and/or discounted cash flow models. See Note 10 for information regarding impairment charges for long-lived assets recorded during fiscal 2008 and 2007.

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. 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. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test would be unnecessary. 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.

In fiscal 2008 and 2007 the Company performed assessments of goodwill. In fiscal 2008 the Company reevaluated its reporting unit operations with particular attention given to various scenarios for the Broadband Media Processing (BMP) business. The determination was made that the net book value of certain assets within the BMP business unit were considered not fully recoverable. As a result, the Company recorded a goodwill impairment charge of $119.6 million. This impairment charge is included in net loss from discontinued operations. In addition, in fiscal 2008 the Company continued its review and assessment of the future prospects of its businesses, products and projects with particular attention given to the Broadband Access (BBA) business unit. The current challenges in the competitive DSL market have resulted in the net book value of certain assets within the BBA business unit to be considered not fully recoverable. As a result, the Company recorded a goodwill impairment charge of $108.6 million.

During fiscal 2007, the Company recorded goodwill impairment charges of $184.7 million in its results from continuing operations as a result of declines in the embedded wireless network product lines coupled with the Company s decision to discontinue further investment in stand-alone wireless networking product lines. In addition, during fiscal 2007, the Company s loss from discontinued operations includes goodwill impairment charges of $124.8 million resulting from declines in the performance of certain broadband media products in fiscal 2007.

Foreign Currency Translation and Remeasurement The Company s foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of the Company s principal foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign functional currencies are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates and income and expense items are translated at the average exchange rates prevailing during the period. The resulting foreign currency translation adjustments are included in accumulated other comprehensive income (loss). For the remainder of the Company s foreign subsidiaries, the functional currency is the U.S. dollar. Inventories, property, plant and equipment, cost of goods sold, and depreciation for those operations are remeasured from foreign currencies into U.S. dollars at historical exchange rates; other accounts are translated at current exchange rates. Gains and losses resulting from those remeasurements are included in earnings. Gains and losses resulting from foreign currency transactions are recognized currently in earnings.

Derivative Financial Instruments The Company s derivative financial instruments as of October 3, 2008 principally consist of (i) the Company s warrant to purchase six million shares of Mindspeed Technologies, Inc. (Mindspeed) common stock (ii) foreign currency forward exchange contracts and (iii) interest rate swaps. See Note 4 for information regarding the Mindspeed warrant.

Foreign currency forward exchange contracts The Company s foreign currency forward exchange contracts are used to hedge certain Indian Rupee-denominated forecasted transactions related to the Company s research and development efforts in India. The foreign currency forward contracts used to hedge these exposures are reflected at their fair values on the accompanying consolidated balance sheets and meet the criteria for designation as foreign currency cash flow hedges. The criteria for designating a derivative as a hedge include that the hedging instrument should be highly effective in offsetting changes in the designated hedged item. The Company has determined that its non-deliverable foreign currency forward contracts to purchase Indian Rupees are highly effective in offsetting the variability in the U.S. Dollar forecasted cash transactions resulting from changes in the U.S. Dollar to Indian Rupee spot foreign exchange rates. For these derivatives, the gain or loss from the effective portion of the hedge is reported as a component of accumulated other comprehensive loss on the Company s balance sheets and is recognized in the Company s statements of operations in the periods in which the hedged transaction affects operations, and within the same statement of operations line item as the impact of the hedged transaction.

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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.

At October 3, 2008, the Company had outstanding foreign currency forward exchange contracts with a notional amount of 210 million Indian Rupees, approximately $4.4 million, maturing at various dates through December 2008. Based on the fair values of these contracts, the Company recorded a derivative liability of $0.7 million at October 3, 2008. During fiscal 2008, the Company recorded a gain of $0.1 million for hedge ineffectiveness.

Interest Rate Swaps During fiscal 2008, the Company entered into three interest rate swap agreements with Bear Stearns Capital Markets, Inc. (counterparty) for a combined notional amount of $200 million to mitigate interest rate risk on $200 million of its Floating Rate Senior Secured Notes due 2010. Under the terms of the swaps, the Company will pay a fixed rate of 2.98% and receive a floating rate equal to three-month LIBOR, which will offset the floating rate paid on the Notes. The interest rate swaps meet the criteria for designation as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). As a result of the repurchase of $80 million of the Company s Floating Rate Senior Secured Notes, 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 swap agreements 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 October 3, 2008, the Company was required to post $2.5 million of cash collateral with the counterparty which is included in other non-current assets in the accompanying consolidated balance sheet. Based on the fair value of the swap agreements, the Company recorded a derivative asset of $0.05 million at October 3, 2008. 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.

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.

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

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

Fiscal Year Ended