CONEXANT SYSTEMS INC
Form 10-Q
May 07, 2008

Table of Contents

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

FORM 10-Q

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

For the Quarterly Period Ended March 28, 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	**25-1799439**
(State of incorporation)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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	Smaller reporting company o
		(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 o No þ

As of April 30, 2008 there were 493,573,393 shares of the registrant s common stock outstanding.

Table of Contents

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains statements relating to future results of Conexant Systems, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. Our actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to:

- pricing pressures and other competitive factors;
- our ability to anticipate trends and successfully develop products for which there will be market demand;
- the market acceptance and timing of our new product introductions, demand for existing products and product quality;
- the cyclical nature of the semiconductor industry and the markets addressed by our products and our customers products;
- continuing volatility in the technology sector and the semiconductor industry;
- the uncertainties of litigation, including claims of infringement of third-party intellectual property rights or demands that we license third-party technology, and the demands it may place on the time and attention of our management and the expense it may place on our company;
- our ability to develop and implement new technologies and to obtain protection for the related intellectual property;
- the risk that the value of our common stock may be adversely affected by market volatility;
- the substantial losses we have incurred recently;
- changes in product mix and product obsolescence;
- changes in general economic conditions, conditions in the markets we address, and changes in financial markets, including fluctuations in interest rates and exchange rates;
- the ability of our customers to manage inventory;
- the availability of manufacturing capacity;
- the risk that capital needed for our business and to repay our indebtedness will not be available when needed;
- the ability of management to structure and execute on new restructuring plans;
- possible disruptions in commerce related to terrorist activity or armed conflict,

as well as other risks and uncertainties, including those set forth herein and those detailed from time to time in our other Securities and Exchange Commission filings. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

CONEXANT SYSTEMS, INC.
INDEX

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 par value)

	March 28, 2008	September 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 164,112	$ 235,605
Restricted cash	8,800	8,800
Receivables, net of allowances of $961 and $1,659	73,084	80,906
Inventories	55,387	63,174
Other current assets	28,247	20,361
Total current assets	329,630	408,846
Property, plant and equipment, net	52,650	67,967
Goodwill	286,037	406,323
Intangible assets, net	18,218	26,067
Other assets	62,046	76,766
Total assets	$ 748,581	$ 985,969
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$	$ 58,000
Short-term debt	71,096	80,000
Accounts payable	69,924	80,667
Accrued compensation and benefits	22,809	26,154
Other current liabilities	51,751	70,631
Total current liabilities	215,580	315,452
Long-term debt	471,400	467,000
Other liabilities	59,669	57,002
Total liabilities	746,649	839,454
Commitments and contingencies (Note 5)		
Shareholders equity:		
Preferred and junior preferred stock		
Common stock, $0.01 par value: 1,000,000 shares authorized; 493,575 and 492,362 shares issued and outstanding	4,936	4,924
Additional paid-in capital	4,730,501	4,721,298

Accumulated deficit	(4,730,265)	(4,578,219)
Accumulated other comprehensive loss	(3,135)	(1,385)
Shareholder notes receivable	(105)	(103)
Total shareholders equity	1,932	146,515
Total liabilities and shareholders equity	$ 748,581	$ 985,969

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Net revenues	$ 173,992	$ 199,865	$ 370,950	$ 445,399
Cost of goods sold [1]	94,979	110,016	192,666	246,061
Gross margin	79,013	89,849	178,284	199,338
Operating expenses:				
Research and development [1]	52,477	69,345	112,867	140,795
Selling, general and administrative [1]	23,540	26,803	46,641	54,279
Amortization of intangible assets	3,069	6,254	7,850	12,492
Asset impairment	121,655	155,000	121,785	155,000
Special charges	3,973	5,121	9,757	8,019
Total operating expenses	204,714	262,523	298,900	370,585
Operating loss	(125,701)	(172,674)	(120,616)	(171,247)
Interest expense	10,969	13,220	22,532	26,256
Other expense (income), net	4,148	(9,660)	9,493	(22,721)
Loss before income taxes and gain of equity method investments	(140,818)	(176,234)	(152,641)	(174,782)
Provision for income taxes	972	1,232	2,140	1,703
Loss before gain of equity method investments	(141,790)	(177,466)	(154,781)	(176,485)
(Loss) gain of equity method investments	(214)	44,020	3,559	44,015
Net loss	$ (142,004)	$ (133,446)	$ (151,222)	$ (132,470)
Net loss per share basic	$ (0.29)	$ (0.27)	$ (0.31)	$ (0.27)
Shares used in computing basic net loss per share	493,122	489,302	492,743	487,630

(1) These captions include non-cash employee stock-based compensation expense as follows (see Note 6):

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Cost of goods sold	$ 81	$ 115	$ 195	$ 218
Research and development	1,378	2,715	3,538	5,082
Selling, general and administrative	2,307	1,941	3,317	3,808

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

	Six Months Ended	
	March 28, 2008	March 30, 2007
Cash flows from operating activities:		
Net loss	$ (151,222)	$ (132,470)
Adjustments to reconcile net loss to net cash provided by operating activities, net of effects of acquisitions:		
Depreciation	11,534	11,989
Amortization of intangible assets	7,851	12,492
Asset impairments	121,785	155,000
Reversals of provision for bad debts, net	(698)	(219)
Charges (reversals) for inventory provisions, net	4,715	(3,256)
Deferred income taxes	121	
Stock-based compensation	7,050	9,108
Decrease (increase) in fair value of derivative instruments	14,161	(6,924)
Gains of equity method investments	28	(44,015)
Gains on equity securities and other assets		(6,190)
Other items, net	451	(363)
Changes in assets and liabilities:		
Receivables	8,520	12,519
Inventories	3,072	25,451
Accounts payable	(10,743)	(19,586)
Accrued expenses and other current liabilities	(26,636)	(14,456)
Other, net	10,926	(7,306)
Net cash provided by (used in) operating activities	915	(8,226)
Cash flows from investing activities:		
Purchases of marketable debt securities		(25,877)
Proceeds from sales and maturities of marketable debt securities		78,645
Purchases of equity securities	(755)	(600)
Proceeds from equity securities and other assets		105,491
Purchases of property, plant and equipment	(3,689)	(14,939)
Proceeds from sale of property, plant and equipment	574	
Payments for acquisitions		(5,029)
Net cash (used in) provided by investing activities	(3,870)	137,691
Cash flows from financing activities:		
Interest rate swap security deposit	(6,741)	
Proceeds from short-term debt	39,287	

Repayments of short-term debt, net of expenses of $1,175 and $1,198	(48,191)	(1,198)
Proceeds from long-term debt, net of expenses of $9,249		265,751
Repurchases and retirements of long-term debt	(53,600)	(456,500)
Proceeds from issuance of common stock	707	7,202
Repayment of shareholder notes receivable		21
Net cash used in financing activities	(68,538)	(184,724)
Net decrease in cash and cash equivalents	(71,493)	(55,259)
Cash and cash equivalents at beginning of period	235,605	225,626
Cash and cash equivalents at end of period	$ 164,112	$ 170,367

See accompanying notes to consolidated financial statements.

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

1. Description of Business

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

2. Basis of Presentation and Significant Accounting Policies

Interim Reporting The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 28, 2007. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the periods indicated. All such adjustments are of a normal recurring nature. The year-end condensed balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Fiscal Periods The Company s fiscal year is the 52- or 53-week period ending on the Friday closest to September 30. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. Fiscal 2007 was a 52-week year, and fiscal 2008 will consist of 53 weeks.

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, except for certain distributors who have unlimited contractual rights of return or for whom the contractual terms were not enforced, or when significant vendor obligations exist. Revenue with respect to sales to distributors with unlimited rights of return or for who contractual terms were not enforced is deferred until the products are sold by the distributors to third parties. At March 28, 2008 and September 28, 2007, deferred revenue related to sales to these distributors was $5.6 million and $5.5 million, respectively. 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 March 28, 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. 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.

6

Table of Contents

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

Deferred revenue is included in other current liabilities on the accompanying condensed consolidated balance sheets.

Uncertain Tax Positions On September 29, 2007, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , or FIN 48, which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, a 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 should be 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 derecognition 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.

Adopting FIN 48 had the following impact on the Company s financial statements: increased long-term liabilities by $5.9 million and retained deficit by $0.8 million and decreased its long-term assets by $0.3 million and current income taxes payable by $5.3 million. As of September 29, 2007, the Company had $74.4 million of unrecognized tax benefits of which $5.2 million, if recognized, would affect its effective tax rate and $1.7 million, if recognized, would reduce goodwill. As of March 28, 2008, the Company had $74.0 million of unrecognized tax benefits of which $5.1 million, if recognized, would affect its effective tax rate and $1.1 million, if recognized, would reduce goodwill. The Company s policy is to include interest and penalties related to unrecognized tax benefits in provision for income taxes. As of September 29, 2007 and March 28, 2008, the Company had accrued interest related to uncertain tax positions of $0.9 and $0.6 million, net of income tax benefit, respectively, on its balance sheet.

In the six months ended March 28, 2008, the Company concluded certain foreign income tax audits that resulted in a decrease in uncertain tax positions of $1.2 million. In addition, primarily due to the expected expiration of certain acquired net operating loss carryovers, the Company expects its unrecognized tax benefits to decrease by an additional $2.9 million over the next twelve months. The Company does not expect its uncertain tax positions to otherwise change materially over the next twelve months.

Liquidity The Company has an $80.0 million credit facility with a bank, under which it had borrowed $71.1 million as of March 28, 2008. The term of this credit facility has been extended through November 28, 2008 and the facility remains subject to additional 364-day extensions at the discretion of the bank.

The Company believes that its existing sources of liquidity, together with cash expected to be generated from product sales, will be sufficient to fund its operations, research and development, anticipated capital expenditures and working capital for at least the next twelve months.

Reclassifications The Company has reclassified asset impairments from special charges to a separate line item in operating expenses on its condensed consolidated statements of operations for the three and six months ended March 30, 2007 to conform to the current period presentation. This reclassification on the condensed consolidated statements of operations did not affect the Company s reported revenues, gross margins, operating loss, or net loss for the period.

	Three Months Ended March 30, 2007	Six Months Ended March 30, 2007
Special charges, before reclassification	$ 160,121	$ 163,019
Asset impairments	(155,000)	(155,000)
Special charges, after reclassification	$ 5,121	$ 8,019

Review of Accounting for Research and Development Costs 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 the six months ended March 28, 2008, the Company recorded a correcting adjustment of $5.3 million, representing the unamortized portion of the capitalized photo mask costs as of September 29, 2007. Based upon an evaluation of all relevant quantitative and qualitative factors, and after considering the provisions of Accounting Principles Board Opinion No. 28 Interim Financial Reporting, (APB 28), paragraph 29, and SEC Staff Accounting Bulletin Nos. 99 Materiality (SAB 99) and 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), the Company believes that this correcting adjustment will not be 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.

7

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

Derivative Financial Instruments The Company s derivative financial instruments as of March 28, 2008 principally consist of (i) the Company s warrant to purchase 30 million shares of Mindspeed Technologies, Inc. (Mindspeed) common stock (ii) foreign currency forward exchange contracts and (iii) interest-rate swaps. See Note 4 for further information regarding the Mindspeed warrant.

The Company s foreign currency forward exchange contracts are used to hedge certain Indian Rupee-denominated forecasted transactions related to its 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 condensed 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 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 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 rate. 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 accompanying condensed consolidated balance sheets and is recognized in the consolidated statements of operations in the periods in which the hedged transaction affects operations, and within the same consolidated statement of operations line item as the impact of the hedged transaction. The gain or loss is recognized immediately in other expense (income), net in the consolidated statements of operations when a designated hedging instrument is either terminated early or an improbable or ineffective portion of the hedge is identified.

At March 28, 2008, the Company had outstanding foreign currency forward exchange contracts with a notional amount of 470.0 million Indian Rupees, approximately $11.7 million, maturing at various dates through September 2008. At March 30, 2007, the Company had outstanding foreign currency forward exchange contracts with a notional amount of 790.0 million Indian Rupees, approximately $17.3 million, maturing at various dates through October 2007. Based on the fair values of these contracts, the Company recorded a derivative liability of $0.2 million at March 28, 2008. During the three and six months ended March 28, 2008 the Company recorded a gain of $0.2 million for hedge ineffectiveness. During the three and six months ended March 30, 2007, there were no significant gains or losses recognized in the statements of operations for hedge ineffectiveness.

During the three months ended March 28, 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 swap agreements require the Company to post cash collateral with the counterparty in a minimum amount of $4.25 million. The amount of collateral will adjust monthly based on a mark-to-market of the swaps. At March 28, 2008, the Company was required to post $6.7 million of cash collateral with the counterparty. Based on the fair value of the swap agreements, the Company recorded a derivative liability of $1.6 million at March 28, 2008. During the three months ended March 28, 2008, there were no significant gains or losses recognized in the statements of operations for hedge ineffectiveness.

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 $19.7 million and $23.1 million for the six months ended March 28, 2008 and March 30, 2007, respectively. Cash paid for income taxes for the six months ended March 28, 2008 and March 30, 2007 was $1.6 million and $1.0 million, respectively.

Non-cash Investing Activity Non-cash investing activity committed to during the quarter will require future cash payments totaling $10 million between April and December of 2008.

Net Loss Per Share Net loss per share is computed in accordance with Statement of Financial Accounting Standards (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

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

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):

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Stock options and warrants	90,099	5,486	91,869	6,065
4.00% convertible subordinated notes due February 2007		3,890		7,318
4.00% convertible subordinated notes due March 2026	50,813	50,813	50,813	50,813
	140,912	60,189	142,682	64,196

Long-lived assets Long-lived assets, including fixed assets and intangible assets (other than goodwill), are 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 our 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.

Goodwill 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. See Note 3 for further information on goodwill.

Business Enterprise Segments The Company operates in one reportable segment, broadband communications. Standards 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 annual consolidated financial statements. Although the Company had three operating segments at March 28, 2008, under the aggregation criteria set forth in SFAS No. 131, it only operates in one reportable segment, broadband communications.

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

the nature of products and services;

Table of Contents

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

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

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

- the sale of semiconductor products is the only material source of revenue for each of the Company s three operating segments;
- the products sold by each of the Company s operating segments use the same standard manufacturing process;
- the products marketed by each of the Company s operating segments are sold to similar customers; and
- all of the Company s products are sold through its internal sales force and common distributors.

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

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of SFAS No. 157 may change current practice for some entities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS No. 157 in the first quarter of fiscal 2009. The Company is currently assessing the impact the adoption of SFAS No. 157 will have on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment to FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires company plan sponsors to display the net over- or under- funded position of a defined benefit postretirement plan as an asset or a liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of other comprehensive income in shareholders equity. The Company adopted the recognition provisions of SFAS No. 158 as of the end of fiscal year 2007 and will adopt the measurement provisions as of the end of fiscal year 2008. The Company is currently assessing the impact adopting the measurement provisions of SFAS No. 158 will have on its financial position and results of operations.

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

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure at fair value eligible financial instruments and certain other items that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 no later than the first quarter of fiscal 2009. The Company is currently assessing the impact the adoption of SFAS No. 159 will have on its financial position and results of operations.

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*, 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 no later than the first quarter of fiscal 2010 and 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 December 2007, the SEC issued Staff Accounting Bulletin No. 110 (SAB 110). SAB 110 expresses the views of the staff regarding the use of a simplified method, as discussed in SAB No. 107, Share-Based Payment , in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS No. 123 (R). The Company does not expect SAB 110 to have a material impact on its results of operations or financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires expanded disclosures regarding the location and amount of derivative instruments in and entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities , and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. SFAS 161 is effective for periods beginning on or after November 15, 2008. The Company is currently evaluating what impact SFAS 161 will have on its financial position and results of operations.

3. Impairments

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. Property Plant and Equipment are continually monitored and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The fair values of the reporting units are determined using a combination of a discounted cash flow model and revenue multiple model.

During the quarter ended March 28, 2008, the Company reevaluated its reporting unit operations with particular attention given to various scenarios for the Broadband Media Processing (BMP) business unit. The reduced revenue forecast resulting from the Company s decision to not support the future capital requirements necessary to achieve profitable growth in the BMP product lines caused the net book value of certain assets within the BMP business unit to be considered not fully recoverable. As a result, the Company recorded impairment charges of $119.6 million related to goodwill and $2.1 million related to property, plant and equipment which supports the BMP business unit, to write the assets down to their estimated fair market value.

Table of Contents

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

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

Goodwill at September 28, 2007	$ 406,323
Additions	
Impairments	(119,600)
Other Adjustments	(686)
Goodwill at March 28, 2008	$ 286,037

4. Supplemental Financial Information

Inventories

Inventories consist of the following (in thousands):

	March 28, 2008	September 28, 2007
Work-in-process	$ 21,477	$ 24,219
Finished goods	33,910	38,955
	$ 55,387	$ 63,174

At March 28, 2008 and September 28, 2007, inventories were net of excess and obsolete (E&O) inventory reserves of $25.4 million and $22.2 million, respectively.

Intangible Assets

Intangible assets consist of the following (in thousands):

	March 28, 2008			September 28, 2007		
	Gross Carrying Amount	Accumulated Amortization	Book Value	Gross Carrying Amount	Accumulated Amortization	Book Value
Developed technology	$ 74,985	$ (60,621)	$ 14,364	$ 75,865	$ (54,605)	$ 21,260
Product licenses	9,327	(7,044)	2,283	9,327	(6,547)	2,780
Other intangible assets	5,116	(3,545)	1,571	6,015	(3,988)	2,027
	$ 89,428	$ (71,210)	$ 18,218	$ 91,207	$ (65,140)	$ 26,067

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 2008	2009	2010	2011	2012	Thereafter
Amortization expense	$ 7,582	$ 7,700	$ 1,214	$ 679	$ 402	$ 641

Mindspeed Warrant

The Company has a warrant to purchase 30 million shares of Mindspeed common stock at an exercise price of $3.408 per share through June 2013. At March 28, 2008 and September 28, 2007, the market value of Mindspeed s common stock was $0.49 and $1.73 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 March 28, 2008 and September 28, 2007, the aggregate fair value of the Mindspeed warrant included on the accompanying condensed consolidated balance sheets was $1.0 million and $15.5 million, respectively. At March 28, 2008, the warrant was valued using the Black-Scholes-Merton model with expected terms for portions of the warrant varying from 1 to 5 years, expected volatility of 68%, a weighted average risk-free interest rate of 3.2% 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

Table of Contents

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

affect the fair value estimate. The Company could, at any point in time, ultimately realize amounts significantly different than the carrying value.

Short-Term Debt

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

Concurrent with the Company s agreements with Conexant USA, Conexant USA entered into an $80.0 million revolving credit agreement with a bank which is secured by the assets of Conexant USA. The credit agreement was renewed effective November 2007 and remains subject to additional 364-day renewal periods at the discretion of the bank. 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 agreement, which cannot exceed the lesser of $80.0 million and 85% of the uncollected value of purchased accounts receivable that are eligible for coverage under an insurance policy for the receivables, will bear interest equal to 7-day LIBOR (reset quarterly) plus 0.6%. Additionally, Conexant USA will pay a fee of 0.2% per annum for the unused portion of the line of credit.

The credit agreement requires the Company and its consolidated subsidiaries to maintain minimum levels of shareholders equity and 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 agreement to immediately become due and payable. At March 28, 2008, Conexant USA had borrowed $71.1 million under this credit agreement and was in compliance with all of the credit agreement requirements.

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

Long-Term Debt

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

	March 28, 2008	September 28, 2007
Floating rate senior secured notes due November 2010	$ 221,400	$ 275,000
4.00% convertible subordinated notes due March 2026 with a conversion price of $4.92	250,000	250,000
Total	471,400	525,000
Less: current portion of long-term debt		(58,000)
Long-term debt	$ 471,400	$ 467,000

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. At any time prior to November 15, 2008, the Company may redeem up to 35% of the senior secured notes with proceeds of one or more offerings of the Company s common stock at a redemption price equal to 100% of the aggregate principal amount thereof plus accrued and unpaid interest. 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, owned real property, plant and equipment now owned or hereafter acquired by the Company and the Subsidiary Guarantors. See Note 12 for condensed financial information regarding the Subsidiary Guarantors.

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

The sale of the Company s investment in Jazz Semiconductor, Inc. (Jazz) in February 2007 and the sale of two other equity investments in January 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 February 2007 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 to be 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 quarter ended March 28, 2008. The Company recorded a pretax loss on debt repurchase of $1.4 million during the quarter which included the write-off of deferred debt issuance costs. As of March 28, 2008, the Company has not had sufficient asset dispositions to trigger a required repurchase offer within 360 days.

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

At March 28, 2008, the fair value of the senior secured notes, based on quoted market prices, was approximately $208.4 million compared to their carrying value of $221.4 million.

4.00% convertible subordinated notes due March 2026 In March 2006, the Company issued $200.0 million aggregate 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 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 $4.92 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.

At March 28, 2008, the fair value of the convertible notes, based on quoted market prices, was approximately $170.0 million compared to their carrying value of $250.0 million.

5. Commitments and Contingencies

Legal Matters

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

IPO Litigation In November 2001, Collegeware Asset Management, LP, on behalf of itself and a putative class of persons who purchased the common stock of GlobeSpan, Inc. (GlobeSpan, Inc. later became GlobespanVirata, Inc., and is now the Company s Conexant, Inc. subsidiary) between June 23, 1999 and December 6, 2000, filed a complaint in the U.S. District Court for the Southern District of New York alleging violations of federal securities laws by the underwriters of GlobeSpan, Inc. s initial and secondary public offerings as well as by certain GlobeSpan, Inc. officers and directors. The complaint alleges that the defendants violated federal securities laws by issuing and selling GlobeSpan, Inc. s common stock in the initial and secondary offerings without disclosing to investors that the underwriters had (1) solicited and received undisclosed and excessive commissions or other compensation and (2) entered into agreements requiring certain of their customers to purchase the stock in the aftermarket at escalating prices. The complaint seeks unspecified damages. The complaint was consolidated with class actions against approximately 300 other companies making similar allegations regarding the public offerings of those companies during 1998 through 2000. In June 2003, Conexant, Inc. and the named officers and directors entered into a memorandum of understanding outlining a settlement agreement with the plaintiffs that would, among other things, result in the dismissal with prejudice of all the claims against the former GlobeSpan, Inc. officers and directors. The final settlement was executed in June 2004. On February 15, 2005, the Court issued a decision certifying a class action for settlement purposes and granting preliminary approval of the settlement, subject to modification of certain bar orders contemplated by the settlement, which bar orders have since been modified. On December 5, 2006, the United States Court of Appeals for the Second Circuit reversed the lower court ruling that no class was properly certified. It is not yet clear what impact this decision will have on the issuers settlement. The

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

settlement remains subject to a number of conditions and final approval. It is possible that the settlement will not be approved.

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 for New Jersey and alleges that the defendants breached their fiduciary duties under the Employee Retirement Income Security Act, as amended, to the Plan and the participants in the Plan. The plaintiff filed an amended complaint on August 11, 2005. On October 12, 2005, the defendants filed a motion to dismiss this case. The plaintiff responded to the motion to dismiss on December 30, 2005, and the defendants reply was filed on February 17, 2006. On March 31, 2006, the judge dismissed this case and ordered it closed. Plaintiff filed a notice of appeal on April 17, 2006. The appellate argument was held on April 19, 2007. On July 31, 2007 the United States Court of Appeals for the Third Circuit vacated the District Court s order dismissing Graden s complaint and remanded the case for further proceedings. On November 17, 2007, defendants filed a Renewed Motion to Dismiss in the U.S. District Court for New Jersey. Plaintiff filed his Opposition on February 8, 2008; and, defendants filed their Reply on March 10, 2008. On December 4, 2007 defendants also filed a petition for certiorari in the U.S. Supreme Court with respect to the Third Circuit Court of Apeals ruling, which petition was denied on March 3, 2008.

Based on its evaluation of legal matters which are pending or asserted, 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.

Guarantees and Indemnifications

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

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

Other

Capital Investments In connection with certain non-marketable equity investments, with carrying values totaling $8.3 million, the Company may be required to invest up to an additional $1.5 million and $2.3 million as of March 28, 2008 and September 28, 2007, respectively. These additional investments are subject to capital calls, and a decision by the Company not to participate could result in an impairment of the existing investments.

Income Taxes The Company is subject to income taxes in both the United States and numerous foreign jurisdictions and has also acquired and divested certain businesses for which it has retained certain tax liabilities. In the ordinary course of our business, there are many transactions and calculations in which the ultimate tax determination is uncertain and significant judgment is required in determining our worldwide provision for income

Table of Contents

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

taxes. The Company and its acquired and divested businesses are regularly under audit by tax authorities. Although the Company believes its tax estimates are reasonable, the final determination of tax audits could be different than that which is reflected in historical income tax provisions and accruals. Based on the results of an audit, a material effect on the Company s income tax provision, net income, or cash flows in the period or periods for which that determination is made could result. The Company files U.S. and state income returns in jurisdictions with varying statutes of limitation. The fiscal years 2004 through 2007 generally remain subject to examination by federal and most state tax authorities. The Company is subject to income tax in many jurisdictions outside the U.S., none of which are individually material to its financial position, statement of cash flows, or results of operations.

Table of Contents

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

6. Stock Option Plans

The Company has stock option plans and long-term incentive plans under which employees and directors may be granted options to purchase shares of the Company s common stock. As of March 28, 2008, approximately 63.7 million shares of the Company s common stock are available for grant under the stock option and long-term incentive plans. Stock options are granted with exercise prices of not less than the fair market value at grant date, generally vest over four years and expire eight or ten years after the grant date. The Company settles stock option exercises with newly issued shares of common stock. The Company has also assumed stock option plans in connection with business combinations.

The Company accounts for its stock option plans in accordance with SFAS No. 123(R), Share-Based Payment. Under SFAS No. 123(R), the Company is required to measure compensation cost for all stock-based awards at fair value on the date of grant and recognize compensation expense in its 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:

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Stock option plans:				
Expected dividend yield	$	$	$	$
Expected stock price volatility	67%	70%	66%	71%
Risk-free interest rate	3.2%	4.7%	3.8%	4.7%
Average expected life (in years)	5.25	5.25	5.0	5.25
Stock purchase plan:				
Expected dividend yield	$	$	$	$
Expected stock price volatility	68%	53%	68%	53%
Risk-free interest rate	3.0%	4.7%	3.0%	4.7%
Average expected life (in years)	0.50	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 average period of time that options or awards granted are expected to be outstanding, as calculated using the simplified method described in the Securities and Exchange Commission s Staff Accounting Bulletin No. 107.

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

	Shares	Weighted Average Exercise Price
Outstanding, September 28, 2007	100,812	$ 2.39
Granted	2,735	0.79
Exercised	(13)	0.62

Forfeited	(17,360)	2.28
Outstanding, March 28, 2008	86,174	2.37
Exercisable, March 28, 2008	57,550	2.74

Table of Contents

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

At March 28, 2008, of the 86.2 million stock options outstanding, approximately 69.1 million options were held by current employees and directors of the Company, and approximately 17.1 million options were held by employees of Rockwell, a former Rockwell business, or a former business of the Company (i.e., Mindspeed, Skyworks, Jazz) who remain employed by one of these businesses. At March 28, 2008, stock options outstanding had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 4.3 years. At March 28, 2008, exercisable stock options had an immaterial aggregate intrinsic value and a weighted-average remaining contractual term of 3.0 years. The total intrinsic value of options exercised and total cash received from employees as a result of stock option exercises during the six months ended March 28, 2008 was immaterial. During the six months ended March 30, 2007, 1.6 million stock options were granted with a weighted average exercise price of $2.02.

Directors Stock Plan

The Company has a Directors Stock Plan (DSP) which provides for each non-employee director to receive specified levels of stock option grants upon election to the Board of Directors (the Board) and periodically thereafter. Under the DSP, each non-employee director may elect to receive all or a portion of the cash retainer to which the director is entitled through the issuance of common stock. During the six months ended March 28, 2008, 0.1 million stock option grants were issued under the DSP. At March 28, 2008, approximately 1.2 million shares of the Company s common stock are available for grant under the DSP.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan (ESPP) which allows 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 on the purchase date. Under the ESPP, employees may authorize 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 are limited to the purchase of 2,000 shares per offering period. Offering periods generally commence on the first trading day of February and August of each year and are generally 6 months in duration, but may be terminated earlier under certain circumstances. During the six months ended March 28, 2008 1.2 million shares were issued under the ESPP at a weighted average per share price of $0.59, approximately 20.7 million shares of the Company s common stock are reserved for future issuance under the ESPP, of which 12.5 million shares will become available in 2.5 million share annual increases, subject to the Board selecting a lower amount.

During the three and six months ended March 28, 2008 and March 30, 2007, the Company recognized compensation expense of $3.3 million, $7.1 million, $4.0 and $8.9 million, respectively, related to the stock option and stock purchase plans. At March 28, 2008, the total unrecognized fair value compensation cost related to non-vested stock options and employee stock purchase plan awards was $14.5 million, which is expected to be recognized over a remaining weighted average period of approximately 2.3 years.

2001 Performance Share Plan and 2004 New Hire Equity Incentive Plan

The Company s long-term incentive plans also provide for the issuance of share-based awards to officers and other employees and certain non-employees of the Company. These awards are subject to forfeiture if employment terminates during the prescribed vesting period (generally within four years of the date of award) or, in certain cases, if prescribed performance criteria are not met. The Company has the 2001 Performance Share Plan (Performance Plan) under which it originally reserved 4.0 million shares for issuance as well as the 2004 New Hire Equity Incentive Plan (New Hire Plan) under which it originally reserved 12.0 million shares for issuance.

Table of Contents

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

Performance Plan

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

	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 28, 2007	900	$ 2.29
Granted	750	1.24
Forfeited	(700)	2.90
Outstanding, March 28, 2008	950	$ 1.46

	Shares	Weighted Average Grant Date Fair Value
Outstanding, September 29, 2006	275	$ 2.90
Granted	900	2.29
Vested	(275)	2.90
Outstanding, March 30, 2007	900	$ 2.29

During the three and six months ended March 28, 2008, the Company recorded a reversal of previously recognized stock based compensation expense of $0.04 and $1.1 million, respectively, related to the non-achievement of certain performance criteria and stock based compensation expense of $0.1 and $0.2 million, respectively, related to award grants that are still outstanding. During the three and six months ended March 30, 2007, the Company recorded stock based compensation expense of $0.3 and $0.6 million, respectively, related to these awards. At March 28, 2008, the total unrecognized fair value compensation cost related to non-vested Performance Plan share awards $0.6 million, which is expected to be recognized over a remaining weighted average period of approximately 1.6 years. At March 28, 2008, approximately 3.3 million shares of the Company s common stock are available for issuance under this plan.

2004 New Hire Plan

As of March 28, 2008, Company had approximately 2.1 million shares of service-based awards granted under the New Hire Plan and 1.3 million shares of awards with market conditions. Of the service-based awards granted, 0.5 million shares have a vesting period of one year and 1.6 million shares have a three year vesting period. The Company measures service-based awards at fair value on the grant-date.

Shares of the market condition awards may vest based upon two years of service and certain stock price appreciation conditions. The Company measures share awards with market conditions at fair value on the grant-date using valuation techniques in accordance with SFAS No. 123R, which gives consideration to the range of various vesting probabilities.

A summary of share-based award activity under the New Hire Plan for the six months ended March 28, 2008 is as follows (shares in thousands):

	Shares		Weighted Average Grant Date Fair Value
Outstanding, September 28, 2007	3,110	$	1.15
Granted	250		0.45
Forfeited			
Outstanding, March 28, 2008	3,360	$	1.10

Table of Contents

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

During the three and six months ended March 28, 2008, the Company recognized $0.45 million and $0.9 million in stock based compensation expense related to the New Hire Plan. During the six months ended March 30, 2007, no shares were issued, vested or forfeited and no expense was recognized under the New Hire Plan. At March 30, 2007 and September 29, 2006, there were no shares outstanding under the New Hire Plan. At March 28, 2008, the total unrecognized fair value compensation cost related to non-vested New Hire Plan was $2.4 million, which is expected to be recognized over a remaining weighted average period of approximately 1.7 years.

7. Comprehensive (Loss) Income

Comprehensive (loss) income consists of the following (in thousands):

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Net loss	$ (142,004)	$ (133,446)	$ (151,222)	$ (132,470)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	1,204	3,523	1,503	4,504
Unrealized (losses) gains on marketable securities		(5,052)		6,744
Unrealized (losses) gains on foreign currency forward hedge contracts	(1,805)	123	(2,182)	372
Minimum pension liability adjustments	37	55	(1,073)	109
Other comprehensive (loss) income	(564)	(1,351)	(1,752)	11,729
Comprehensive loss	$ (142,568)	$ (134,797)	$ (152,974)	$ (120,741)

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

	March 28, 2008	September 28, 2007
Foreign currency translation adjustments	$ 3,495	$ 1,994
Unrealized gains on foreign currency forward hedge contracts	(1,800)	380
Minimum pension liability adjustments	(4,830)	(3,759)
Accumulated other comprehensive loss	$ (3,135)	$ (1,385)

8. Special Charges

Special charges primarily consist of $4.0, $10.8, $3.5 and $6.4 million of Restructuring Charges for the three and six months ended March 28, 2008 and March 30, 2007, respectively. Special charges during the three and six months ended March 28, 2008 were offset by the reversal of a $0.9 million reserve related to the settlement of a proposed tax assessment related to an acquired foreign subsidiary.

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 March 28, 2008, the Company has remaining restructuring accruals of $24.9 million, of which $2.0 million relates to workforce reductions and $22.8 million relates to facility and other costs. Of the $24.9 million of restructuring accruals at March 28, 2008, $12.2 million is included in other current liabilities and $12.7 million is included in other non-current liabilities in the accompanying condensed consolidated balance sheet as of March 28, 2008. The Company expects to pay the amounts accrued for the workforce reductions through fiscal 2008 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 (SFAS No. 146). As a result, the Company recorded the net present value of the future lease obligations and will accrete the remaining amounts into expense over the remaining terms of the lease non-cancellable leases. Cash payments to

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

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 2008 Restructuring Actions During the six months ended March 28, 2008, the Company announced its decision to discontinue investments in standalone wireless networking solutions and other product areas. In relation to this announcement the Company has recorded $4.1 million of total charges for the cost of severance benefits for the affected employees. Additionally, the Company recorded charges of $1.2 million relating to the consolidation of certain facilities under non-cancelable leases which were vacated.

Activity and liability balances recorded as part of the Fiscal 2008 Restructuring Actions during the six months ended March 28, 2008 were as follows (in thousands):

	Workforce Reductions	Facility And Other	Total
Restructuring balance, September 28, 2007	$	$	$
Charged to costs and expenses	3,042	1,145	4,187
Cash payments	(1,756)	(53)	(1,809)
Restructuring balance, December 28, 2007	1,286	1,092	2,378
Charged to costs and expenses	1,107	85	1,192
Cash payments	(1,210)	(260)	(1,470)
Restructuring balance, March 28, 2008	$ 1,183	$ 917	$ 2,100

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.

Activity and liability balances recorded as part of the Fiscal 2007 Restructuring Actions during the six months ended March 28, 2008 were as follows (in thousands):

	Workforce Reductions	Facility And Other	Total
Restructuring balance, September 28, 2007	$ 3,636	$ 6,640	$ 10,276
Charged to costs and expenses	373	2,086	2,459
Non-cash items		(70)	(70)
Cash payments	(1,071)	(632)	(1,703)
Restructuring balance December 28, 2007	2,938	8,024	10,962
Charged to costs and expenses	(290)	2,050	1,760
Non-cash items		1,287	1,287
Cash payments	(1,818)	(1,110)	(2,928)
Restructuring balance March 28, 2008	$ 830	$ 10,251	$ 11,081

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 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 which were vacated. Activity and liability balances recorded as part of the Fiscal 2006 and 2005 Restructuring Actions during the six months ended March 28, 2008 were as follows (in thousands):

	Workforce Reductions	Facility And Other	Total
Restructuring balance, September 28, 2007	$ 131	$ 12,516	$ 12,647
Charged to costs and expenses		244	244
Cash payments	(1)	(506)	(507)
Restructuring balance, December 28, 2007	130	12,254	12,384
Charged to costs and expenses	(130)	59	(71)
Cash payments		(641)	(641)
Restructuring balance, March 28, 2008	$	$ 11,672	$ 11,672

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

9. Other (expense) income, net

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

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Investment and interest income	$ 2,042	$ 3,800	$ 4,813	$ 9,189
Increase (decrease) in the fair value of derivative instruments	(6,179)	3,882	(14,543)	6,924
Gains on investments in equity securities		1,337		6,469
Other	(11)	641	237	139
Other (expense) income, net	$ (4,148)	$ 9,660	$ (9,493)	$ 22,721

Other (expense) income, net in the three months ended March 28, 2008 was primarily comprised of $2.0 million of investment and interest income on invested cash balances offset by an $6.2 million decrease in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to a decrease in Mindspeed s stock price during the period. Other income, net during the six months ended March 28, 2008 was primarily comprised of $4.8 million of investment and interest income on invested cash balances and a $14.5 million decrease in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to an increase in Mindspeed s stock price during the period.

Other income, net during the three months ended March 30, 2007 was primarily comprised of $3.8 million of investment and interest income on invested cash balances and a $3.9 million increase in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to an increase in Mindspeed s stock price during the period. Other income, net during the six months ended March 30, 2007 was primarily comprised of $9.2 million of investment and interest income on invested cash balances and a $6.9 million increase in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to an increase in Mindspeed s stock price during the period.

10. Related Party Transactions

Mindspeed Technologies, Inc.

As of March 28, 2008, the Company holds a warrant to purchase 30 million shares of Mindspeed common stock at an exercise price of $3.408 per share exercisable through June 2013. In addition, two members of the Company s Board of Directors, including its Chairman, also serve on the Board of Mindspeed. No significant amounts were due to or receivable from Mindspeed at March 28, 2008 and September 28, 2007.

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 three months ended March 28, 2008, and March 30, 2007, the Company recorded income related to the Mindspeed sublease agreement of $0.7 million and $0.6 million, respectively. The Company recorded income related to the Mindspeed sublease agreement of $1.3 million and $1.2 million during the six months ended March 28, 2008 and March 30, 2007, respectively. Additionally, Mindspeed made payments directly to the Company s landlord totaling $2.1 million and 2.0 during the six months ended March 28, 2008 and March 30, 2007, respectively.

Table of Contents

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

11. Geographic Information

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

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
United States	$ 10,409	$ 15,648	$ 18,314	$ 42,550
Other Americas	2,980	9,939	9,822	20,811
Total Americas	13,389	25,587	28,136	63,361
China	106,447	105,162	223,752	234,655
South Korea	10,492	17,492	23,565	38,887
Taiwan	6,178	12,444	16,715	24,089
Other Asia-Pacific	28,097	25,476	59,368	57,700
Total Asia-Pacific	151,209	160,574	323,400	355,331
Europe, Middle East and Africa	9,394	13,704	19,414	26,707
	$ 173,992	$ 199,865	$ 370,950	$ 445,399

Table of Contents

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

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 10% of net revenues for the six months ended March 28, 2008 and March 30, 2007. Sales to the Company s twenty largest customers represented approximately 69% and 72% of net revenues for the six months ended March 28, 2008 and March 30, 2007, 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):

	March 28, 2008	September 28, 2007
United States	$ 77,282	$ 84,267
India	14,565	17,377
Other Asia-Pacific	11,419	10,934
Europe, Middle East and Africa	1,565	1,831
	$ 104,831	$ 114,409

12. 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 Conexant Systems, Inc. s (the Parent 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 Parent s wholly owned U.S. subsidiaries: Conexant, Inc., Brooktree Broadband Holding, Inc., and Ficon Technology, Inc. (collectively, 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 Parent 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 Parent 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 Parent 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.

Table of Contents

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

The following tables present the Company s condensed consolidating balance sheets as of March 28, 2008 and September 28, 2007 (in thousands):

	March 28, 2008				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 122,827	$	$ 41,285	$	$ 164,112
Restricted cash			8,800		8,800
Receivables, net	(3,753)		76,837		73,084
Inventories	55,387				55,387
Other current assets	19,970	3	8,274		28,247
Total current assets	194,431	3	135,196		329,630
Property and equipment, net	26,689		25,961		52,650
Goodwill	68,748	30,835	186,454		286,037
Intangible assets, net	4,412	1,572	12,234		18,218
Other assets	59,589		2,457		62,046
Investments in subsidiaries	392,859	12,892		(405,751)	
Total assets	$ 746,728	$ 45,302	$ 362,302	$ (405,751)	$ 748,581
Current liabilities:					
Short-term debt	$	$	$ 71,096	$	$ 71,096
Accounts payable	61,916		8,008		69,924
Accrued compensation and benefits	15,395		7,414		22,809
Intercompany payable (receivable)	110,038	(169,158)	59,120		
Other current liabilities	47,367	932	3,452		51,751
Total current liabilities	234,716	(168,226)	149,090		215,580
Long-term debt	471,400				471,400
Other liabilities	56,761		2,908		59,669
Total liabilities	762,877	(168,226)	151,998		746,649
Shareholders equity	(16,149)	213,528	210,304	(405,751)	1,932
Total liabilities and equity	$ 746,728	$ 45,302	$ 362,302	$ (405,751)	$ 748,581

Table of Contents

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

	September 28, 2007				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 199,263	$	$ 36,342	$	$ 235,605
Restricted cash			8,800		8,800
Receivables	(10,071)		90,977		80,906
Inventories	63,174				63,174
Other current assets	13,028	2	7,331		20,361
Total current assets	265,934	2	143,450		408,846
Property and equipment, net	39,543		28,424		67,967
Goodwill	68,834	307,051	30,438		406,323
Intangible assets, net	5,764	18,244	2,059		26,067
Other assets	73,635		3,131		76,766
Investments in subsidiaries	513,340	11,563		(524,903)	
Total assets	$ 966,510	$ 336,860	$ 207,502	$ (524,903)	$ 985,969
Current liabilities:					
Current portion of long-term debt	$ 58,000	$	$	$	$ 58,000
Short-term debt			80,000		80,000
Accounts payable	77,581		3,086		80,667
Accrued compensation and benefits	18,478		7,676		26,154
Intercompany payable (receivable)	96,258	(169,158)	72,900		
Other current liabilities	66,035	931	3,665		70,631
Total current liabilities	316,352	(168,227)	167,327		315,452
Long-term debt	467,000				467,000
Other liabilities	53,410		3,592		57,002
Total liabilities	836,762	(168,227)	170,919		839,454
Shareholders equity	129,748	505,087	36,583	(524,903)	146,515
Total liabilities and equity	$ 966,510	$ 336,860	$ 207,502	$ (524,903)	$ 985,969

Table of Contents

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

The following tables present the Company s condensed consolidating statements of operations for the fiscal quarters ended March 28, 2008 and March 30, 2007 (in thousands):

	Fiscal Quarter Ended March 28, 2008				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ 165,596	$ (3,278)	$ 8,396	$ 3,278	$ 173,992
Cost of goods sold	84,350		7,351	3,278	94,979
Gross margin	81,246	(3,278)	1,045		79,013
Operating expenses:					
Research and development	52,043		434		52,477
Selling, general and administrative	21,882		1,658		23,540
Amortization of intangible assets	677	243	2,149		3,069
Asset impairments	121,655				121,655
Special charges	3,459		514		3,973
Total operating expenses	199,716	243	4,755		204,714
Operating income (loss)	(118,470)	(3,521)	(3,710)		(125,701)
Equity in (loss) income of subsidiaries	(4,869)	(314)		5,183	
Interest expense	10,189		780		10,969
Other expense (income), net	8,234		(4,086)		4,148
(Loss) income before income taxes and gain (loss) on equity method investments	(141,762)	(3,835)	(404)	5,183	(140,818)
Provision for income taxes	28		944		972
Income (loss) before gain (loss) on equity method investments	(141,790)	(3,835)	(1,348)	5,183	(141,790)
(Loss) gain on equity method investments	(214)				(214)
Net (loss) income	$ (142,004)	$ (3,835)	$ (1,348)	$ 5,183	$ (142,004)

	Fiscal Quarter Ended March 30, 2007				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ 171,348	$ 6,198	$ 28,517	$ (6,198)	$ 199,865

Cost of goods sold	89,622		26,592	(6,198)	110,016
Gross margin	81,726	6,198	1,925		89,849
Operating expenses:					
Research and development	69,212		133		69,345
Selling, general and administrative	23,930		2,873		26,803
Amortization of intangible assets	754	5,256	244		6,254
Special charges	5,121	155,000			160,121
Total operating expenses	99,017	160,256	3,250		262,523
Operating loss	(17,291)	(154,058)	(1,325)		(172,674)
Equity in income (loss) of subsidiaries	(151,291)	742		150,549	
Interest expense	11,591		1,629		13,220
Other income, net	4,095		5,565		9,660
(Loss) income before income taxes and gain of equity method investments	(176,078)	(153,316)	2,611	150,549	(176,234)
Provision for (benefit from) income taxes	1,388		(156)		1,232
(Loss) income before gain of equity method investments	(177,466)	(153,316)	2,767	150,549	(177,466)
Gain of equity method investments	44,020				44,020
Net (loss) income	$ (133,446)	$ (153,316)	$ 2,767	$ 150,549	$ (133,446)

28

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

The following tables present the Company s condensed consolidating statements of operations for the six months ended March 28, 2008 and March 30, 2007 (in thousands):

	Six Months Ended March 28, 2008				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net revenues	$ 336,590	$ 7,918	$ 34,360	$ (7,918)	$ 370,950
Cost of goods sold	169,644		30,940	(7,918)	192,666
Gross margin	166,946	7,918	3,420		178,284
Operating expenses:					
Research and development	112,258		609		112,867
Selling, general and administrative	41,485		5,156		46,641
Amortization of intangible assets	1,353	487	6,010		7,850
Asset impairments	121,785				121,785
Special charges	8,871		886		9,757
Total operating expenses	285,752	487	12,661		298,900
Operating (loss) income	(118,806)	7,431	(9,241)		(120,616)
Equity in income (loss) of subsidiaries	4,212	1,327		(5,539)	
Interest expense	19,962		2,570		22,532
Other expense (income), net	19,417		(9,924)		9,493
(Loss) income before income taxes and gain of equity method investments	(153,973)	8,758	(1,887)	(5,539)	(152,641)
Provision for (benefit from) income taxes	808		1,332		2,142
(Loss) income before gain of equity method investments	(154,781)	8,758	(3,219)	(5,539)	(154,781)
Gain of equity method investments	3,559				3,559
Net (loss) income	$ (151,222)	$ 8,758	$ (3,219)	$ (5,539)	$ (151,222)

	Six Months Ended March 30, 2007				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated

Net revenues	$ 379,822	$ 13,103	$ 65,577	$ (13,103)	$ 445,399
Cost of goods sold	197,827		61,337	(13,103)	246,061
Gross margin	181,995	13,103	4,240		199,338
Operating expenses:					
Research and development	139,699		1,096		140,795
Selling, general and administrative	47,543		6,736		54,279
Amortization of intangible assets	1,481	10,512	499		12,492
Special charges	8,019	155,000			163,019
Total operating expenses	196,742	165,512	8,331		370,585
Operating loss	(14,747)	(152,409)	(4,091)		(171,247)
Equity in (loss) income of subsidiaries	(148,870)	1,207		147,663	
Interest expense	22,933		3,323		26,256
Other income, net	11,843		10,878		22,721
Income (loss) before income taxes and gain of equity method investments	(174,707)	(151,202)	3,464	147,663	(174,782)
Provision for (benefit from) income taxes	1,778		(75)		1,703

29

Table of Contents

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

	Six Months Ended March 30, 2007				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
(Loss) income before gain of equity method investments	(176,485)	(151,202)	3,539	147,663	(176,485)
Gain of equity method investments	44,015				44,015
Net (loss) income	$ (132,470)	$ (151,202)	$ 3,539	$ 147,663	$ (132,470)

The following tables present the Company s condensed consolidating statements of cash flows for the six months ended March 28, 2008 and March 30, 2007 (in thousands):

	Six Months Ended March 28, 2008				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (14,527)	$	$ 8,149	$ 7,293	$ 915
Cash flows from investing activities:					
Purchases of accounts receivable			(264,074)	264,074	
Collections of accounts receivable			271,367	(271,367)	
Purchases of equity securities and other assets	(755)				(755)
Proceeds from sale of property and equipment	574				574
Purchases of property and equipment	(2,094)		(1,595)		(3,689)
Net cash (used in) provided by investing activities	(2,275)		5,698	(7,293)	(3,870)
Cash flows from financing activities:					
Repayment of short-term debt, net			(8,904)		(8,904)
Interest rate swap security deposit	(6,741)				(6,741)
Repayment of long-term debt	(53,600)				(53,600)
Proceeds from common stock	707				707
Net cash provided by (used in) financing activities	(59,634)		(8,904)		(68,538)
Net increase (decrease) in cash and cash equivalents	(76,436)		4,943		(71,493)

Cash and cash equivalents at beginning of period	199,263		36,342		235,605
Cash and cash equivalents at end of period	$ 122,827	$	$ 41,285	$	$ 164,112

	Six Months Ended March 30, 2007				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash used in operating activities	$ (4,654)	$	$ 8,953	$ (12,525)	$ (8,226)
Cash flows from investing activities:					
Payments for acquisitions	(5,029)				(5,029)
Proceeds from equity securities and other assets	105,491				105,491
Purchases of equity securities	(600)				(600)
Proceeds from sales and maturities of marketable securities	78,645				78,645
Purchases of marketable securities	(25,877)				(25,877)
Purchases of property and equipment	(6,840)		(8,099)		(14,939)
Purchases of accounts receivable			(324,725)	324,725	
Collections of accounts receivable			327,895	(327,895)	
Net cash provided by (used in) investing activities	145,790		(4,929)	(3,170)	137,691

30

Table of Contents

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

	Six Months Ended March 30, 2007				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash flows from financing activities:					
Proceeds from short-term debt, net			(1,198)		(1,198)
Proceeds from long-term debt, net	265,751				265,751
Repurchases and retirements of long-term debt	(456,500)				(456,500)
Proceeds from issuance of common stock	7,202				7,202
Repayment of shareholder notes	21				21
Dividends paid			(15,695)	15,695	
Net cash used in financing activities	(183,526)		(16,893)	15,695	(184,724)
Net decrease in cash and cash equivalents	(42,390)		(12,869)		(55,259)
Cash and cash equivalents at beginning of period	175,398		50,228		225,626
Cash and cash equivalents at end of period	$ 133,008	$	$ 37,359	$	$ 170,367

31

Table of Contents

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

13. Subsequent Events

Asset Sale

On April 29, 2008 the Company and NXP B.V. (NXP) entered into an Asset Purchase Agreement (the Agreement), pursuant to which NXP has agreed to acquire certain assets related to the Company s Broadband Media Processing business. Under the terms of the agreement which is subject to customary closing conditions and regulatory approvals, NXP will acquire certain assets including, among other things, specified patents, inventory, contracts and certain employee-related liabilities. Pursuant to the Agreement, the Company obtained a license to utilize technology which was sold to NXP and NXP obtained a license to utilize certain IP which was retained by the Company. In addition, NXP has agreed to provide employment to approximately 700 of the Company s employees at locations in the United States, Europe, Israel, Asia-Pacific and Japan.

Under the terms of the Agreement, NXP will pay to the Company an aggregate of $110 million upon the closing of the transaction (which amount is comprised of $82.5 million in cash, and a cash payment of $27.5 million, payable to the Company no later than September 30, 2008, of which $11 million to 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 NXP. The Company may receive additional contingent consideration of up to $35 million upon the achievement of certain financial milestones over the six calendar quarters commencing on July 1, 2008.

If the Asset Sale is consummated, the Company will no longer obtain revenues from sales of BMP products. Such revenues were approximately 32% and 29%, and 32% and 36% of the Company s revenues in the three and six months ended March 28, 2008 and March 30, 2007, respectively, and 29%, 22% and 14% of the Company s revenues in fiscal years 2007, 2006 and 2005, respectively.

Employment Agreements

On April 14, 2008, under the terms of the employment agreement with the Company s new Chief Executive Officer, the Company granted 2.0 million shares of restricted stock with 50% vesting on the six and twelve month anniversary of the grant date. The Company intends to grant the RSUs under the Company s 1999 Long-Term Incentives Plan. In anticipation of this grant of RSUs, the Board has amended the 1999 Long-Term Incentives Plan to allow for an increase in the per-year average limit, over any three-year period, of awards granted to any individual recipient.

During April 2008, employment contracts for key executive management were executed resulting in an aggregate of $2.9 million in retention bonuses to be paid in May 2008 and deemed fully earned after 12-18 months of employment, an aggregate of 0.8 million RSUs with a one-year vesting period and an aggregate 0.3 million stock options with a vesting period of two years.

Severance Agreement

The Company s former President and Chief Executive Officer left the Company effective April 25, 2008. In accordance with the terms of his employment agreement he was paid approximately $2.7 million and 3.0 million shares of non-vested stock options and 1.5 million shares of non-vested service-based awards were fully vested resulting in the recognition of $3.0 million of compensation cost related to the immediate vesting in April 2008. Additionally, $0.2 million of stock-based compensation expense recognized in prior periods will be reversed for 1.0 million shares of market performance shares forfeited upon termination in April 2008.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements and the notes thereto included in Part I and Item 1 of this Quarterly Report, as well as other cautionary statements and risks described elsewhere in this Quarterly Report, and our audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2007.

Overview

We design, develop and sell 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. Our access solutions connect people through personal communications access products, such as personal computers (PCs) and television set-top boxes (STBs), to audio, video, voice and data services over wireless and wire line broadband connections as well as over dial-up Internet connections. Our 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, our 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.

We market and sell our semiconductor products and system solutions directly to leading original equipment manufacturers (OEMs) of communication electronics products, and indirectly through electronic components distributors. We also sell our products to third-party electronic manufacturing service providers, who manufacture products incorporating our semiconductor products for OEMs. Sales to distributors and other resellers accounted for approximately 31% of our net revenues in the six months ended March 28, 2008, compared to 33% of our net revenues in the comparable period in the prior year. One distributor accounted for 11% of net revenues for the six months ended March 28, 2008 and March 30, 2007. Our top 20 customers accounted for approximately 68% and 72% of net revenues for the six months ended March 28, 2008 and March 30, 2007, respectively. Revenues derived from customers located in the Americas, the Asia-Pacific region and Europe (including the Middle East and Africa) were 8%, 87% and 5%, respectively, of our net revenues for the six months ended March 28, 2008 and were 14%, 80% and 6%, respectively, of our net revenues for the six months ended March 30, 2007. We believe a portion of the products we sell to OEMs and third-party manufacturing service providers in the Asia-Pacific region are ultimately shipped to end-markets in the Americas and Europe.

On April 29, 2008 we entered into an Asset Purchase Agreement with NXP, pursuant to which NXP has agreed to acquire certain assets related to our BMP business. Under the terms of the agreement which is subject to customary closing conditions and regulatory approvals, NXP will acquire certain assets including, among other things, specified patents, inventory, contracts and certain employee-related liabilities. Pursuant to the Agreement, we obtained a license to utilize technology which was sold to NXP and NXP obtained a license to utilize certain IP which we retained. In addition, NXP has agreed to provide employment to approximately 700 of our employees at locations in the United States, Europe, Israel, Asia-Pacific and Japan.

Under the terms of the Agreement, NXP will pay to us an aggregate of $110 million upon the closing of the transaction (which amount is comprised of $82.5 million in cash, and a cash payment of $27.5 million, payable to us no later than September 30, 2008, of which $11 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 NXP. We may receive additional contingent consideration of up to $35 million upon the achievement of certain financial milestones over the six calendar quarters commencing on July 1, 2008.

If the Asset Sale is consummated, we will no longer obtain revenues from sales of BMP products. Such revenues were approximately 32% and 29%, and 32% and 36%, of our revenues in the three and six months ended March 28, 2008 and March 30, 2007, respectively and approximately 29%, 22% and 14% of our revenues in fiscal years 2007, 2006 and 2005, respectively.

Critical Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, revenues and expenses during the periods reported and related disclosures. Actual results could differ from those estimates. Information with respect to our critical accounting policies which we believe have the most significant effect on our reported results and require subjective or complex judgments of management is contained on pages 40-43 in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2007. Management believes that at March 28, 2008, there has been no material change to this information.

Business Enterprise Segments

We operate in one reportable segment, broadband communications. Statement of Financial Accounting Standards (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 consolidated financial statements. Although we had three operating segments at March 28, 2008, under the aggregation criteria set forth in SFAS No. 131, we only operate in one reportable segment, broadband communications.

Table of Contents

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

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

We meet each of the aggregation criteria for the following reasons:

- the sale of semiconductor products is the only material source of revenue for each of our three operating segments;
- the products sold by each of our operating segments use the same standard manufacturing process;
- the products marketed by each of our operating segments are sold to similar customers; and
- all of our products are sold through our internal sales force and common distributors.

Because we meet each of the criteria set forth above and each of our operating segments has similar economic characteristics, we aggregate our results of operations in one reportable segment.

Results of Operations

Net Revenues

Our net revenues decreased $26.9 million or 13% in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007. The decrease was driven by overall revenue declines across all business units including an $8.6 million decline in the BMP business unit due to decreased product shipments resulting from additional regulatory restrictions on conditional access set-top boxes. Declining volumes in the Broadband Access Products (BBA) business unit and former wireless product offerings also contributed to the decrease in net revenue.

Our net revenues decreased 17% during the first six months of fiscal 2008 compared to the first six months of fiscal 2007. The decrease was driven by overall revenue declines across all business units including a $53.0 million decline in the BMP business primarily attributable to the regulatory restrictions mentioned above. The BBA and Imaging and PC Media (IPM) business units experienced declines related to lower ASP s and order volumes. These decreases were offset slightly by $14.7 million of non-recurring revenue from the buyout of a future royalty stream which occurred in the first quarter of fiscal 2008.

We recognize 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, except for certain distributors who have unlimited contractual rights of return or for whom the contractual terms were not enforced, or when significant vendor obligations exist. Revenue with respect to sales to distributors with unlimited rights of return or for whom contractual terms were not enforced is deferred until the purchased products are sold by the distributors to third parties. At March 28, 2008 and September 28, 2007, deferred revenue related to sales to these distributors was $5.6 million and $5.5 million, respectively. Revenue with respect to sales to customers to whom we have significant obligations after delivery is deferred until all significant obligations have been completed. At March 28, 2008 and September 28, 2007, deferred revenue related to shipments of products for which we have on-going performance obligations was $0.2 million and $3.0 million, respectively. The majority of our distributors have limited stock rotation rights, which allow them to rotate up to 10% of product in their inventory two times a year. We recognize revenue to these distributors upon shipment of product to the distributor, as the stock rotation rights are limited and we believe that we have the ability to reasonably estimate and establish allowances for expected product returns in accordance with 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.

Gross Margin

Gross margin represents net revenues less cost of goods sold. As a fabless semiconductor company, we use third parties for wafer production and assembly and test services. Our cost of goods sold consists predominantly of purchased finished wafers, assembly and test services, royalties, amortization of production photo mask costs, other intellectual property costs, labor and overhead associated with product procurement, and non-cash stock-based compensation charges for procurement personnel. Our gross margin percentage for the second quarter of fiscal 2008 and 2007 remained relatively unchanged at 45%

Our gross margin percentage for the first six months of fiscal 2008 was 48% compared with 45% for the first six months of fiscal 2007. Our gross margin percentage for the first six months of fiscal 2008 includes a non-recurring royalty buy-out of $14.7 million which occurred in the first quarter of fiscal 2008. The royalty buy-out contributed 3% to our gross margin percentage during the first six months of fiscal 2008.

We assess the recoverability of our inventories on a quarterly basis through a review of inventory levels in relation to foreseeable demand, generally over the following twelve months. Foreseeable demand is based upon available information, including sales backlog and forecasts, product marketing plans and product life cycle information. When the inventory on hand exceeds the foreseeable demand, we write down the value of those inventories which, at the time of our review, we expect to be unable to sell. The amount of the inventory write-down is the excess of historical cost over estimated realizable value. Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those projected by management. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required. Similarly, in the event that actual demand exceeds original projections, gross margins may be favorably impacted in future periods. It is possible that some of these reserved products will be sold which will benefit our gross margin in the period sold.

Excess and Obsolete Inventory

During the three months ended March 28, 2008 and March 30, 2007, we recorded $3.1 million and $2.2 million in charges, respectively, related to excess and obsolete inventory. During the six months ended March 28, 2008 and March 30, 2007, we recorded $7.0 million and $3.8 million in charges, respectively, related to excess and obsolete inventory. Activity in our excess and obsolete inventory reserves for the three and six months ended March 28, 2008 and March 30, 2007 was as follows:

	Three Months Ended		Six Months Ended	
(in thousands)	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
E&O reserves, beginning of period	$ 23,299	$ 30,793	$ 22,181	$ 36,632
Additions	3,148	2,191	7,043	3,761
Release upon sales of product	(902)	(3,482)	(2,140)	(6,132)
Scrap	(37)	(1,346)	(1,648)	(6,018)
Standards adjustments and other	(111)	(1,525)	(39)	(1,612)
E&O reserves, end of period	$ 25,397	$ 26,631	$ 25,397	$ 26,631

Our products are used by communications electronics OEMs that have designed our products into communications equipment. For many of our products, we gain these design wins through a lengthy sales cycle, which often includes providing technical support to the OEM customer. Moreover, once a customer has designed a particular supplier s components into a product, substituting another supplier s components often requires substantial design changes which involve significant cost, time, effort and risk. In the event of the loss of business from existing OEM customers, we may be unable to secure new customers for our existing products without first achieving new design wins. When the quantities of inventory on hand exceed foreseeable demand from existing OEM customers into whose products our products have been designed, we generally will be unable to sell our excess inventories to others, and the estimated realizable value of such inventories to us is generally zero.

On a quarterly basis, we also assess the net realizable value of our inventories. When the estimated ASP, plus costs to sell our inventory, falls below our inventory cost, we adjust our inventory to its current estimated market value. Increases to the lower of cost or market (LCM) inventory reserves may be required based upon actual ASPs and changes to our current estimates, which would impact our gross margin percentage in future periods. Activity in our LCM inventory reserves for the three and six months ended March 28, 2008 and March 30, 2007 were immaterial.

Research and Development

Our 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. Our R&D expenses also include the costs for design automation advanced package development and non-cash stock-based compensation charges for R&D personnel.

R&D expense decreased $16.9 million or 24% in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 primarily due to expense reductions resulting from restructuring initiatives implemented during fiscal 2007 and 2008.

R&D expense decreased $27.9 million or 20% during the first six months of fiscal 2008 compared to the first six months of fiscal 2007 primarily due to headcount reductions, restructuring measures and additional cost cutting efforts.

We expect R&D expense to decrease over the next few quarters as we continue to implement additional cost reduction activities and finalize the sale of the BMP business. R&D expense for the first six months of fiscal 2008 also included 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 APB 28, paragraph 29, and SAB Nos. 99 and 108, we believe that this correcting adjustment will not be material to our estimated full year results for 2008. In addition, we do not believe the correcting adjustment is material to the amounts reported in previous periods.

Selling, General and Administrative

Our selling, general and administrative (SG&A) expenses include personnel costs, sales representative commissions, advertising and other marketing costs. Our SG&A expenses also include costs of corporate functions including legal, accounting, treasury, human resources, customer service, sales, marketing, field application engineering, allocated indirect costs of the SG&A function, and non-cash stock-based compensation charges for SG&A personnel.

SG&A expense decreased $3.3 million or 12% during the second quarter of fiscal 2008 versus the comparable period in the prior year and $7.6 or 14% million during the first six months of fiscal 2008 versus the comparable period in the prior year. The decrease in SG&A expense is attributable to the headcount reductions and cost cutting measures implemented during the second half of fiscal 2007. In addition, the restructuring actions taken in fiscal 2007 and 2008 have contributed to the decline in SG&A expense.

Amortization of Intangible Assets

Amortization of intangible assets consists of amortization expense for intangible assets acquired in various business combinations. Our intangible assets are being amortized over a weighted-average period of approximately five years. Amortization expense decreased $3.2 million in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 and $4.6 million in the six months ended March 28, 2008 versus the comparable period in the prior year. The decrease in amortization expense is attributable to the impairment of intangible assets related to our former wireless business unit recognized in the second half of fiscal 2007.

Table of Contents

Special Charges

Special charges in the second quarter of fiscal 2008 were comprised of $1.7 million of restructuring charges that were attributable to employee severance and termination benefit costs related to our fiscal 2008, 2007 and 2005 restructuring actions and $2.3 million of facilities related charges resulting from the accretion of rent expense related to our fiscal 2008 and 2005 restructuring actions. Special charges for the six months ended March 28, 2008 included $5.1 million of employee severance and termination benefits related to our fiscal 2008 and 2007 restructuring actions and $5.7 million of facilities related charges.

Special charges for the second quarter and first six months of fiscal 2007 included restructuring charges of $3.5 million and $6.4 million, respectively. These restructuring charges were primarily comprised of employee severance and termination benefit costs related to our fiscal 2007 restructuring actions and, to a lesser extent, facilities related charges resulting from the accretion of rent expense related to our fiscal 2005 restructuring action.

Asset Impairments

During the three and six months ended March 28, 2008, we recorded asset impairment charges of $121.8 million, primarily comprised of $119.6 million in goodwill related impairment and $2.1 million of property, plant and equipment impairment. During the second quarter of fiscal 2008, we performed a reevaluation of our operations with particular attention given to the various scenarios for the BMP business unit. The net book value of certain assets related to the BMP business unit was deemed to be not fully recoverable due to the reduced revenue forecast resulting from the Company s decision to not support the future capital requirements necessary to achieve profitable growth in the BMP product lines. As a result, those assets were written down to their estimated fair market value.

Asset impairments for the second quarter and first six months of fiscal 2007 include $155.0 million of asset impairment charges, including a $135.0 million impairment charge related to goodwill and a $20.0 million impairment charge for intangible assets. The goodwill and intangible asset impairment charges resulted from a reduced revenue forecast for wireless products targeted at the embedded cellular handset market.

Interest Expense

Interest expense decreased $2.3 million in the six months of fiscal 2008 compared to the first six months of fiscal 2007. The decrease is primarily attributable to debt refinancing activities implemented in fiscal 2007 and declines in interest rates on our variable rate debt.

Other (expense) income, net

	Three Months Ended		Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Investment and interest income	$ 2,042	$ 3,800	$ 4,813	$ 9,189
(Decrease) increase in fair value of derivative instruments	(6,179)	3,882	(14,543)	6,924
Gains on investments in equity securities		1,337		6,469
Other	(11)	641	237	139
	$ (4,148)	$ 9,660	$ (9,493)	$ 22,721

Other (expense) income, net in the three months ended March 28, 2008 was primarily comprised of $2.0 million of investment and interest income on invested cash balances, offset by a $6.2 million decrease in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed Technologies, Inc. (Mindspeed) common stock mainly due to a decrease in Mindspeed s stock price during the period. Other (expense) income, net during the six months ended March 28, 2008 was primarily comprised of $4.8 million of investment and interest income on invested cash balances and a $14.5 million decrease in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to an decrease in Mindspeed s stock price during the period.

Table of Contents

Other (expense) income, net during the three months ended March 30, 2007 was primarily comprised of $3.8 million of investment and interest income on invested cash balances and a $3.9 million increase in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to an increase in Mindspeed s stock price during the period. Other income, net during the six months ended March 30, 2007 was primarily comprised of $9.2 million of investment and interest income on invested cash balances and a $6.9 million increase in the fair value of the Company s warrant to purchase 30 million shares of Mindspeed common stock mainly due to an increase in Mindspeed s stock price during the period.

Provision for Income Taxes

We recorded a tax provision of $1.0 million and $2.1 million for the three and six months ended March 28, 2008, respectively, as compared to $1.2 million and $1.7 million for the three and six months ended March 30, 2007, 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.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents.

Our cash and cash equivalents decreased $71.5 million between March 28, 2008 and September 28, 2007. The decrease was primarily due to the payment of an $18.5 million litigation settlement, the repurchase of $53.6 million of our senior secured notes and a net repayment of $8.9 million on our revolving line of credit. These decreases were offset slightly by a reduction in our days sales outstanding (DSO) from 41 days in the fourth quarter of fiscal 2007 to 38 days in the second quarter of fiscal 2008.

We also have other assets, including real estate in Newport Beach, California and a warrant to purchase 30 million shares of Mindspeed common stock. The value of the Mindspeed warrant of $1.0 million is reflected as a long-term asset on our condensed consolidated balance sheet as of March 28, 2008. The valuation of this derivative instrument is subjective, and at any point in time could ultimately result in the realization of amounts significantly different than the carrying value. Further, there is no assurance that the equity markets would allow us to liquidate a substantial portion of this warrant within a short time period without significantly impacting the market value of Mindspeed s common stock and the warrant.

At March 28, 2008, we had a total of $250.0 million aggregate principal amount of 4.00% convertible subordinated notes outstanding. These notes are due in March 2026, but the holders may require us 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.

At March 28, 2008, we also had a total of $221.4 million aggregate principal amount of floating rate senior secured notes outstanding. These notes are due in November 2010, but we are 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 our business. The sale of our investment in Jazz in February 2007 and the sale of two other equity investments in January 2007 qualified as asset dispositions that required us to make an offer to repurchase a portion of the notes no later than 361 days following the February 2007 asset dispositions. Based on the proceeds received from these asset dispositions and our cash investments in assets (other than current assets) related to our business that were made within 360 days following the asset dispositions, we were 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 the offer by the Company s bondholders, $53.6 million of the senior secured notes were repurchased during the quarter ended March 28, 2008. The Company recorded a pretax loss on debt repurchase of $1.4 million during the quarter which included the write-off of deferred debt issuance costs. As of March 28, 2008, the Company has not had sufficient asset dispositions to trigger a required repurchase offer within 361 days.

Table of Contents

We also have an $80.0 million credit facility with a bank, under which we had borrowed $71.1 million as of March 28, 2008. The term of this credit facility has been extended through November 28, 2008, and the facility remains subject to additional 364-day extensions at the discretion of the bank.

We believe that our existing sources of liquidity, together with cash expected to be generated from product sales, will be sufficient to fund our operations, research and development, anticipated capital expenditures and working capital for at least the next twelve months.

Cash flows were as follows:

	Six Months Ended	
(in thousands)	March 28, 2008	March 30, 2007
Net cash provided by (used in) operating activities	$ 915	$ (8,226)
Net cash (used in) provided by investing activities	(3,870)	137,691
Net cash (used in) financing activities	(68,538)	(184,724)
Net (decrease) increase in cash and cash equivalents	$ (71,493)	$ 55,259

Cash provided by operating activities was $0.9 million for the first six months of fiscal 2008. During the six months ended March 28, 2008, we generated $15.8 million of cash from operations and used $14.9 million for working capital (accounts receivable, inventories and accounts payable). These cash outflows included $9.1 million of payments for restructuring related items. The changes in working capital were primarily driven by a decrease in accounts payable due to the payment of a litigation settlement in the first quarter of fiscal 2008 of $18.5 million, offset slight by a decrease in DSO from 50 days in the second quarter of fiscal 2007 to 38 days in the second quarter of fiscal 2008.

Cash used in investing activities was $3.9 million in the first six months of fiscal 2008. Cash used in investing activities in the first quarter of fiscal 2008 was primarily attributable to capital expenditures of $3.7 million and $0.8 million in payments related to our equity investments and was offset slightly by proceeds from the sale of fixed assets of $0.6 million .

Cash used in financing activities was $68.5 million the six months ended March 28, 2008. Cash used in financing activities in the first six months of fiscal 2008 primarily consisted of a $53.6 million repurchase of our senior secured notes and the posting of a $6.7 million collateral deposit with the counterparty of our interest rate swap agreements. In addition, we had net payments of $8.9 million on our line of credit which is supported by our accounts receivable which decreased by $7.8 million during the six months ended March 28, 2008.

Off-Balance Sheet Arrangements

We have made guarantees and indemnities, under which we may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. In connection with our spin-off from Rockwell International Corporation, we 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 our contribution of certain of our manufacturing operations to Jazz, we agreed to indemnify Jazz for certain environmental matters and other customary divestiture-related matters. In connection with the sales of our products, we provide intellectual property indemnities to our customers. In connection with certain facility leases, we have indemnified our lessors for certain claims arising from the facility or the lease. We indemnify our directors and officers to the maximum extent permitted under the laws of the State of Delaware.

The durations of our 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 we could be obligated to make. We have not recorded any liability for these guarantees and indemnities in our condensed consolidated balance sheets. Product warranty costs are not significant.

Table of Contents

Special Purpose Entities

We have one special purpose entity, Conexant USA, LLC, which was formed in September 2005 in anticipation of establishing an accounts receivable financing facility. This special purpose entity is a wholly-owned, consolidated subsidiary of ours. Conexant USA, LLC is not permitted, nor may its assets be used, to guarantee or satisfy obligations of Conexant Systems, Inc. or any subsidiary of Conexant Systems, Inc.

On November 29, 2005, we established an accounts receivable financing facility whereby we will sell, from time to time, certain insured accounts receivable to Conexant USA, LLC, and Conexant USA, LLC entered into an $80.0 million revolving credit agreement with a bank which is secured by the assets of the special purpose entity.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles, clarifies the definition of fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, the application of SFAS No. 157 may change current practice for some entities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We will adopt SFAS No. 157 in the first quarter of fiscal 2009. We are currently assessing the impact the adoption of SFAS No. 157 will have on our financial position and results of operations.

Table of Contents

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment to FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires company plan sponsors to display the net over- or under- funded position of a defined benefit postretirement plan as an asset or a liability, with any unrecognized prior service costs, transition obligations or actuarial gains/losses reported as a component of other comprehensive income in shareholders equity. We adopted the recognition provisions of SFAS No. 158 as of the end of fiscal year 2007 and we will adopt the measurement provisions as of the end of fiscal year 2008. We are currently assessing the impact adopting the measurement provisions of SFAS No. 158 will have on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure at fair value eligible financial instruments and certain other items that are not currently required to be measured at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We will adopt SFAS No. 159 no later than the first quarter of fiscal 2009. We are currently assessing the impact the adoption of SFAS No. 159 will have on its financial position and results of operations.

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51*, 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. We will adopt SFAS No. 160 no later than the first quarter of fiscal 2010 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on its financial position and results of operations.

In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (SAB 110). SAB 110 expresses the views of the staff regarding the use of a simplified method, as discussed in SAB No. 107, Share-Based Payment , in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS No. 123 (R). We do not expect SAB 110 to have a material impact on our results of operations or financial condition.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires expanded disclosures regarding the location and amount of derivative instruments in and entity s financial statements, how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities , and how derivative instruments and related hedged items affect an entity s financial position, operating results and cash flows. SFAS 161 is effective for periods beginning on or after November 15, 2008. We are currently evaluating what impact SFAS 161 will have on our financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents, marketable debt securities, marketable equity securities, the Mindspeed warrant, short-term debt, long-term debt and interest rate swaps. Our main investment objectives are the preservation of investment capital and the maximization of after tax returns on our investment portfolio. Consequently, we invest with only high credit quality issuers, and we limit the amount of our credit exposure to any one issuer. See also Part I, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual

Report on Form 10-K for the fiscal year ended September 28, 2007.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of March 28, 2008, the carrying value of our cash and cash equivalents approximates fair value.

We hold a warrant to purchase 30 million shares of Mindspeed common stock. For financial accounting purposes, this is a derivative instrument and the fair value of the warrant is subject to significant risk related to changes in the market price of Mindspeed s common stock. As of March 28, 2008 a 10% decrease in the market price of Mindspeed s common stock would result in an immaterial decrease in the fair value of this warrant. At March 28, 2008, the market price of Mindspeed s common stock was $0.49 per share. During the fiscal quarter ended March 28, 2008, the market price of Mindspeed s common stock ranged from a low of $0.47 per share to a high of $1.24 per share.

Our short-term debt consists of borrowings under a 364-day credit facility. Interest related to our short-term debt is at 7-day LIBOR plus 0.6%, which is reset weekly and was approximately 3.53% at March 28, 2008. We do not believe our short-term debt is subject to significant market risk.

Our long-term debt consists of convertible subordinated notes with interest at fixed rates and floating rate senior secured notes. Interest related to our floating rate senior secured notes is at three-month LIBOR plus 3.75%, which is reset quarterly and was approximately 6.82% at March 28, 2008. During the three months ended March 28, 2008, the Company entered into three interest rate swap agreements for a combined notional amount of $200 million to eliminate 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 fair value of our convertible subordinated notes is subject to significant fluctuation due to their convertibility into shares of our common stock.

The following table shows the fair values of our financial instruments as of March 28, 2008:

(in thousands)	**Carrying Value**	**Fair Value**
Cash and cash equivalents	$ 164,112	$164,112
Mindspeed warrant	976	976
Short-term debt	71,096	71,096
Long-term debt: senior secured notes	221,400	208,393
Long-term debt: convertible subordinated notes	250,000	170,000

We transact business in various foreign currencies, and we have established a foreign currency hedging program utilizing foreign currency forward exchange contracts to hedge certain foreign currency transaction exposures. Under this program, from time to time, we offset foreign currency transaction gains and losses with gains and losses on the forward contracts, so as to mitigate our overall risk of foreign transaction gains and losses. We do not enter into forward contracts for speculative or trading purposes. At March 28, 2008, we had outstanding foreign currency forward exchange contracts with a notional amount of 470 million Indian Rupees, approximately $11.7 million, maturing at various dates through September 2008. Based on the fair values of these contracts, we recorded a derivative liability of $0.2 million at March 28, 2008. Based on our overall currency rate exposure at March 28, 2008, a 10% change in the currency rates would not have a material effect on our financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting during the quarter ended March 28, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 our Conexant, Inc. subsidiary) between June 23, 1999 and December 6, 2000, filed a complaint in the U.S. District Court for the Southern District of New York alleging violations of federal securities laws by the underwriters of GlobeSpan, Inc. s initial and secondary public offerings as well as by certain GlobeSpan, Inc. officers and directors. The complaint alleges that the defendants violated federal securities laws by issuing and selling GlobeSpan, Inc. s common stock in the initial and secondary offerings without disclosing to investors that the underwriters had (1) solicited and received undisclosed and excessive commissions or other compensation and (2) entered into agreements requiring certain of their customers to purchase the stock in the aftermarket at escalating prices. The complaint seeks unspecified damages. The complaint was consolidated with class actions against approximately 300 other companies making similar allegations regarding the public offerings of those companies during 1998 through 2000. In June 2003, we and the named officers and directors entered into a memorandum of understanding outlining a settlement agreement with the plaintiffs that would, among other things, result in the dismissal with prejudice of all the claims against the former GlobeSpan, Inc. officers and directors. The final settlement was executed in June 2004. On February 15, 2005, the Court issued a decision certifying a class action for settlement purposes and granting preliminary approval of the settlement, subject to modification of certain bar orders contemplated by the settlement, which bar orders have since been modified. On December 5, 2006, the United States Court of Appeals for the Second Circuit reversed the lower court, ruling that no class was properly certified. It is not yet clear what impact this decision will have on the issuers settlement. The settlement remains subject to a number of conditions and final approval. It is possible that the settlement will not be approved. In either event, we do not believe the ultimate outcome of this litigation will have a material adverse impact on our financial condition, results of operations, or cash flows.

Class Action Suit In February 2005, we and certain of our current and former officers and our 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 our 401(k) Plan (Plan) during a specified class period. This suit was filed in the U.S. District Court for New Jersey and alleges that the defendants breached their fiduciary duties under the Employee Retirement Income Security Act, as amended, to the Plan and the participants in the Plan. The plaintiff filed an amended complaint on August 11, 2005. On October 12, 2005, the defendants filed a motion to dismiss this case. The plaintiff responded to the motion to dismiss on December 30, 2005, and the defendants reply was filed on February 17, 2006. On March 31, 2006, the judge dismissed this case and ordered it closed. Plaintiff filed a notice of appeal on April 17, 2006. The appellate argument was held on April 19, 2007. On July 31, 2007 the United States Court of Appeals for the Third Circuit vacated the District Court s order dismissing Graden s complaint and remanded the case for further proceedings. On November 17, 2007, defendants filed a Renewed Motion to Dismiss in the U.S. District Court for New Jersey. Plaintiff filed his Opposition on February 8, 2008; and, defendants filed their Reply on March 10, 2008. On December 4, 2007, defendants also filed a petition for certiorari in the U.S. Supreme Court with respect to the Third Circuit Court of Appeals ruling, which petition was denied on March 3, 2008.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors since September 28, 2007. For a summary of other risk factors relevant to our operations, see Part 1, Item 1A in our 2007 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Table of Contents

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following is a tabulation of the votes on proposals considered at our Annual Meeting of Shareowners held on February 20, 2008 in Austin, Texas:

1. To elect two members of the Board of Directors of the Company with terms expiring at the 2011 Annual Meeting of Shareowners.

	For	Withheld
S. J. Bilodeau	360,613,429	43,213,537
D. S. Mercer	360,213,537	43,018,784

2. To approve, at the discretion of the Board of Directors, an amendment to the restated certificate of incorporation to effect a reverse stock split at one of four ratios 1 for 4, 1 for 5, 1 for 8 or 1 for 10 at a time prior to the next annual shareowners meeting.

For	349,868,474
Against	52,611,012
Abstain	1,347,477
Broker non-vote	N/A

3. To ratify the appointment by the Audit Committee of the Board of Directors of the accounting firm of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for the current fiscal year.

For	384,742,209
Against	13,247,412
Abstain	5,837,343
Broker non-vote	N/A

ITEM 6. EXHIBITS

Exhibit No.	Description
10.1	Separation Agreement and Release, dated April 21, 2008, by and between the Company and Daniel Artusi
10.2	Employment Agreement dated as of April 14, 2008, by and between the Company and D. Scott Mercer
10.3	Employment Agreement dated as of April 14, 2008, by and between the Company and Christian Scherp
10.4	Employment Agreement dated as of April 14, 2008, by and between the Company and Sailesh Chittipeddi
10.5	Employment Agreement dated as of February 18, 2008, by and between the Company and Mark Peterson.
31.1	Certification of the Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or 15d-15(e).
31.2	Certification of the Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or 15d-15(e).
32	Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

Table of Contents

SIGNATURE

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

CONEXANT SYSTEMS, INC.
(Registrant)

Date: May 6, 2008

By /s/ KAREN ROSCHER

Karen Roscher
Senior Vice President and Chief Financial Officer
(principal financial officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.1	Separation Agreement and Release, dated April 21, 2008, by and between the Company and Daniel Artusi
10.2	Employment Agreement dated as of April 14, 2008, by and between the Company and D. Scott Mercer
10.3	Employment Agreement dated as of April 14, 2008, by and between the Company and Christian Scherp
10.4	Employment Agreement dated as of April 14, 2008, by and between the Company and Sailesh Chittipeddi
10.5	Employment Agreement dated as of February 18, 2008, by and between the Company and Mark Peterson.
31.1	Certification of the Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or 15d-15(e).
31.2	Certification of the Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or 15d-15(e).
32	Certification by Chief Executive Officer and Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.