ADAPTEC INC
Form 10-Q
November 07, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2005

or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 0-15071

ADAPTEC, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**94-2748530**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
691 S. MILPITAS BLVD., MILPITAS, CALIFORNIA	**95035**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(408) 945-8600**

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes x No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The number of shares of Adaptec s common stock outstanding as of November 2, 2005 was 113,376,831.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ADAPTEC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(in thousands, except per share amounts)			
Net revenues	$ 83,234	$ 99,752	$ 155,749	$ 198,609
Cost of revenues	54,315	53,145	103,525	104,992
Gross profit	28,919	46,607	52,224	93,617
Operating expenses:				
Research and development	15,680	22,336	31,856	46,127
Selling, marketing and administrative	16,273	20,153	33,555	37,248
Amortization of acquisition-related intangible assets	1,761	2,392	3,777	4,888
Restructuring charges	478	1,928	518	2,747
Goodwill impairment	90,602		90,602	
Total operating expenses	124,794	46,809	160,308	91,010
Income (loss) from continuing operations	(95,875)	(202)	(108,084)	2,607
Interest and other income	4,523	3,659	8,131	5,502
Interest expense	(868)	(1,145)	(1,840)	(2,267)
Income (loss) from continuing operations before income taxes	(92,220)	2,312	(101,793)	5,842
Provision for (benefit from) income taxes	2,557	(10,443)	3,445	(9,345)
Income (loss) from continuing operations	(94,777)	12,755	(105,238)	15,187
Discontinued operations, net of taxes (Note 4)				
Loss from discontinued operations, net of taxes	(4,053)	(20,818)	(29,565)	(23,240)
Loss from disposal of discontinued operations, net of taxes	(6,976)		(6,976)	
Loss from discontinued operations	(11,029)	(20,818)	(36,541)	(23,240)
Net loss	$ (105,806)	$ (8,063)	$ (141,779)	$ (8,053)
Net income (loss) per share:				
Basic				
Continuing operations	$ (0.84)	$ 0.12	$ (0.93)	$ 0.14
Discontinued operations	$ (0.10)	$ (0.19)	$ (0.32)	$ (0.21)
Net loss	$ (0.94)	$ (0.07)	$ (1.26)	$ (0.07)
Diluted				
Continuing operations	$ (0.84)	$ 0.10	$ (0.93)	$ 0.12
Discontinued operations	$ (0.10)	$ (0.15)	$ (0.32)	$ (0.17)
Net loss	$ (0.94)	$ (0.06)	$ (1.26)	$ (0.05)
Shares used in computing net income (loss) per share:				
Basic	112,965	110,312	112,705	110,076
Diluted	112,965	134,140	112,705	131,302

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2005	March 31, 2005
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 79,025	$ 441,588
Marketable securities	409,951	84,968
Restricted cash and marketable securities	1,665	1,766
Accounts receivable, net	74,121	70,159
Inventories	33,119	60,204
Prepaid expenses and other current assets	33,493	26,081
Current assets of discontinued operations	10,626	
Total current assets	642,000	684,766
Property and equipment, net	47,045	56,180
Restricted marketable securities, less current portion	3,870	4,615
Goodwill		91,486
Other intangible assets, net	25,064	79,457
Other long-term assets	10,293	47,002
Long-term assets of discontinued operations	26,671	
Total assets	$ 754,943	$ 963,506
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 52,702	$ 61,637
Accrued liabilities	86,374	116,007
Current liabilities of discontinued operations	4,554	
Total current liabilities	143,630	177,644
¾% Convertible Senior Subordinated Notes	225,000	225,000
3% Convertible Subordinated Notes	11,992	35,190
Other long-term liabilities	3,692	15,349
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock	113	112
Additional paid-in capital	167,846	165,707
Deferred stock-based compensation	(699)	(2,416)
Accumulated other comprehensive income (loss), net of taxes	(1,066)	706
Retained earnings	204,435	346,214
Total stockholders equity	370,629	510,323
Total liabilities and stockholders equity	$ 754,943	$ 963,506

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six-Month Period Ended September 30, 2005		Six-Month Period Ended September 30, 2004	
	(in thousands)			
Cash Flows From Operating Activities:				
Net income (loss) from continuing operations	$ (105,238	)	$ 15,187	
Adjustments to reconcile loss from continuing operations to net cash provided by (used for) operating activities:				
Non-cash restructuring charges			109	
Impairment of goodwill	90,602			
Stock-based compensation	264		1,519	
Non-cash effect of tax settlement			(4,068	)
Loss on extinguishment of debt	102			
Depreciation and amortization	13,044		19,037	
Deferred income taxes			31	
Other non-cash items	(129	)	104	
Changes in assets and liabilities (net of acquired businesses)	(15,050	)	(18,442	)
Net Cash Provided by (Used for) Operating Activities of Continuing Operations	(16,405	)	13,477	
Net Cash Provided by (Used for) Operating Activities of Discontinued Operations	5,080		(13,466	)
Net Cash Provided by (Used for) Operating Activities	$ (11,325	)	$ 11	
Cash Flows From Investing Activities:				
Purchases of certain net assets in connection with acquisitions, net of cash acquired			(65,380	)
Maturities of restricted marketable securities	844		1,369	
Purchases of property and equipment	(5,416	)	(6,486	)
Proceeds from the sale of property and equipment	2,684			
Purchases of marketable securities	(438,060	)	(211,741	)
Sales of marketable securities	107,141		296,524	
Maturities of marketable securities	4,511		42,777	
Net Cash Provided by (Used for) Investing Activities of Continuing Operations	(328,296	)	57,063	
Net Cash Provided by (Used for) Investing Activities of Discontinued Operations	(1,655	)	(59,341	)
Net Cash Provided by (Used for) Investing Activities	(329,951	)	(2,278	)
Cash Flows From Financing Activities:				
Repurchases and redemption of long-term debt	(22,988	)		
Proceeds from issuance of common stock	2,554		3,771	
Net Cash Provided by (Used for) Financing Activities	(20,434	)	3,771	
Effect of Foreign Currency Translation on Cash and Cash Equivalents	(853	)	(306	)
Net Increase (Decrease) in Cash and Cash Equivalents	(362,563	)	1,198	
Cash and Cash Equivalents at Beginning of Period	441,588		102,463	
Cash and Cash Equivalents at End of Period	$ 79,025		$ 103,661	

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

ADAPTEC, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying Unaudited Condensed Consolidated Interim Financial Statements (financial statements) of Adaptec, Inc. and its wholly-owned subsidiaries (collectively, the Company) have been prepared on a consistent basis with the March 31, 2005 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth therein. The financial statements have been prepared in accordance with the regulations of the SEC, and, therefore, omit certain information and footnote disclosure necessary to present the statements in accordance with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended March 31, 2005, which was filed with the SEC on June 14, 2005. The second quarters of fiscal 2006 and 2005 ended September 30, 2005 and October 1, 2004, respectively. For presentation purposes, the accompanying financial statements have been shown as ending on September 30. The results of operations for the second quarter and first half of fiscal 2006 are not necessarily indicative of the results to be expected for the entire fiscal year.

Certain reclassifications have been made to prior period reported amounts to conform to the current period presentation, including reclassification of auction rate securities from cash and cash equivalents to marketable securities. Previously, such auction rate securities were classified as cash and cash equivalents. Accordingly, the Company has revised its presentation and made adjustments to the accompanying Unaudited Condensed Consolidated Statement of Cash Flows to reflect the gross purchases and sales of these auction rate securities as investing activities. This adjustment resulted in a net increase in cash used for investing activities by $13.8 million in the first half of fiscal 2005. This reclassification had no impact on previously reported results of operations, operating cash flows or working capital of the Company.

In addition, as discussed in Note 4, on September 30, 2005, the Company completed the sale of its IBM i/p Series RAID component business (IBM i/p Series RAID Business) to International Business Machines (IBM) and on September 29, 2005 the Company s Board of Directors approved management s recommendation to divest its systems business. The IBM i/p Series RAID Business sale and the planned divestiture of the systems business have been accounted for as discontinued operations. Accordingly, the Company has reclassified the underlying Unaudited Condensed Consolidated Statements of Operations and Cash Flows and related disclosures for all periods presented to reflect the IBM i/p Series RAID Business and the systems business as discontinued operations. Unless otherwise indicated and other than balance sheet amounts as of March 31, 2005, the Notes to the Unaudited Condensed Consolidated Financial Statements relate to the discussion of the Company s continuing operations. In addition, in the second quarter of fiscal 2006, the Company reorganized its reportable segments. At September 30, 2005 the Company s reportable segments were DPS and DSG, which are described more fully in Note 14.

The net income (loss) per share and shares used in computing net income (loss) per share for diluted discontinued operations, net loss and related disclosures for the second quarter and first half of fiscal 2005 have been corrected from the amounts disclosed in the Form 8-K filed with the Securities and Exchange Commission on November 3, 2005.

The glossary of acronyms and accounting rules and regulations referred to within this Quarterly Report on Form 10-Q is listed in alphabetical order in Note 17.

2. Recent Accounting Pronouncements

In June 2005, the FASB issued SFAS No. 154, which changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, most voluntary changes in accounting principles were required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS No. 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the Statement does not change the transition provisions of any existing accounting pronouncements. The Company s results of operations and financial condition will only be impacted following the adoption of SFAS No. 154 if it implements changes in accounting principles that are addressed by the standard or corrects accounting errors in future periods.

In December 2004, the FASB issued SFAS No. 123(R). This statement replaces SFAS No. 123, amends SFAS No. 95 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires companies to apply a fair-value based measurement method in accounting for share-based payment transactions with employees and to record compensation expense for all stock awards granted and to awards modified, repurchased or cancelled after the required effective date. In addition, the Company is required to record compensation expense (as previous awards continue to vest) for the unvested portion of previously granted awards that remain outstanding at the date of adoption. In April 2005, the SEC approved that SFAS No. 123(R) will be effective for annual periods, as opposed to interim periods as originally issued by the FASB, beginning after June 15, 2005. The Company is currently evaluating the impact of adopting this statement; however, the Company expects that it will have a significant impact on the Company s consolidated financial statements. The impact on the Company s consolidated financial statements will depend on the transition method, the option-pricing model used to compute fair value and the inputs to that model such as volatility and expected life. The pro forma disclosures of the impact of SFAS No. 123 provided in Note 3 may not be representative of the impact of adopting this statement.

In March 2005, the SEC issued SAB 107, which offers guidance on SFAS No. 123(R). SAB 107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. SAB 107 creates a framework that is premised on two overarching themes: (a) considerable judgment will be required by preparers to successfully implement FAS No. 123(R), specifically when valuing employee stock options; and (b) reasonable individuals, acting in good faith, may conclude differently on the fair value of employee stock options. Key topics covered by SAB 107 include valuation models, expected volatility and expected term. The Company will apply the principles of SAB 107 in conjunction with its adoption of SFAS No. 123(R).

In November 2004, the FASB issued SFAS No. 151, which clarifies the accounting for abnormal amounts of facility expense, freight, handling costs and wasted materials (spoilage) to require them to be recognized as current-period charges. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

At its March 2004 meeting, the EITF reached a consensus on recognition and measurement guidance previously discussed under EITF 03-01. The consensus clarified the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS No. 115 and investments accounted for under the cost method or the equity method. In September 2004, the FASB delayed the recognition and measurement guidance to be applied to other-than-temporary impairment evaluations. The FASB expects to issue additional implementation guidance with respect to debt securities that are impaired solely due to interest rates and/or sector spreads. If this additional implementation guidance is issued as currently written, the Company may have to recognize unrealized losses on investments in the Statements of Operations. If there is a material decline in the fair value of investments, the Company s financial statements could be adversely affected.

3. Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic-value-based method, which is in accordance with APB Opinion No. 25 as interpreted by FIN 44 and complies with the disclosure provisions of SFAS No. 148, an amendment of SFAS No. 123. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and EITF No. 96-18, which requires that such equity instruments be recorded at their fair value on the measurement date, which is typically the date of grant.

The following table illustrates the effect on net loss and net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to employee and director stock option plans, including shares issued under the Company s ESPP, collectively called options, for all periods presented:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(in thousands, except per share amounts)			
Net loss, as reported	$ (105,806)	$ (8,063)	$ (141,779)	$ (8,053)
Add: Deferred stock-based compensation expense included in reported net loss	1,029	873	1,303	1,678
Deduct: Total stock-based compensation expense determined under the fair value-based method, net of tax	(2,884)	(2,589)	(6,380)	(6,086)
Pro forma net loss	$ (107,661)	$ (9,779)	$ (146,856)	$ (12,461)
Basic net loss per share:				
As reported	$ (0.94)	$ (0.07)	$ (1.26)	$ (0.07)
Pro forma	$ (0.95)	$ (0.09)	$ (1.30)	$ (0.11)
Diluted net loss per share:				
As reported	$ (0.94)	$ (0.06)	$ (1.26)	$ (0.05)
Pro forma	$ (0.95)	$ (0.07)	$ (1.30)	$ (0.09)

SFAS No. 123 requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option pricing model, used by the Company, was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option pricing models require the input of highly subjective assumptions, including the option s expected life and the price volatility of the underlying stock.

The fair value of options granted in the second quarter and first half of fiscal 2006 and 2005, as reported were estimated at the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Employee Stock Option Plans:				
Expected life (in years)	2.5	3	2.5	3
Risk-free interest rates	4.2 %	2.9 %	4.1 %	2.9 %
Expected volatility	39 %	56 %	38 %	56 %
Dividend yield				
ESPP:				
Expected life (in years)	1.1	1.4	1.1	1.4
Risk-free interest rates	3.8 %	2.1 %	3.8 %	2.1 %
Expected volatility	39 %	50 %	39 %	50 %
Dividend yield				

4. Discontinued Operations

IBM i/p Series RAID Business:

On September 30, 2005, the Company entered into a series of arrangements with IBM pursuant to which the Company sold its IBM i/p Series RAID Business to IBM for approximately $22.0 million plus $1.3 million for certain fixed assets. In addition, IBM purchased certain related inventory at the Company s net book value of $0.8 million. The consideration has been included in Prepaid expenses and other current assets on the Unaudited Condensed Consolidated Balance Sheet. Under the terms of the agreements, the Company granted IBM a nonexclusive license to certain intellectual property and sold to IBM substantially all of the assets dedicated to the engineering and manufacturing of RAID controllers and connectivity products for the IBM i/p Series RAID Business. Under the terms of the nonexclusive license, IBM will pay royalties to the Company for the sale of its board-level products over the next six quarters, which will be recognized as contingent consideration in discontinued operations when earned.

Under the terms of the arrangement, IBM forgave all outstanding liabilities that existed at June 30, 2005 which were due under the Distribution Agreement that was entered into in December 2004. Expenses incurred in the transaction primarily included costs of approximately $0.5 million for legal and accounting fees. In addition, the Company accrued $0.3 million for lease obligations. These amounts have been included in Accrued Liabilities and Other Long-Term Liabilities on the Unaudited Condensed Consolidated Balance Sheets. A loss of $7.0 million was incurred on the disposal of the IBM i/p Series RAID Business.

Net revenues and the components of income (loss) related to these discontinued operations, which were previously included in the Company s DPS segment, were as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(in thousands)			
Net revenues	$ 15,357	$ 5,186	$ 19,809	$ 5,186
Income (loss) from discontinued operations before income taxes	3,694	(2,604)	(14,663)	(5,604)
Provision for (benefit from) income taxes	(833)	11,809	(642)	10,811
Income (loss) from discontinued operations, net of taxes	$ 4,527	$ (14,413)	$ (14,021)	$ (16,415)

The components of net assets related to the discontinued operations were as follows:

	September 30, 2005 (in thousands)
Inventories	$ 838
Prepaid expenses	11,139
Property and equipment, net	3,326
Other intangibles, net	10,958
Other long-term assets	24,507
Accrued liabilities	(10,051)
Other long-term liabilities	(10,625)
Net assets of discontinued operations	$ 30,092

Accounts receivable related to the IBM i/p Series RAID Business were not included in discontinued operations as the Company will be retaining these assets.

Systems Business:

On September 29, 2005, the Company s Board of Directors approved management s recommendation to divest its systems business, which includes substantially all of the operating assets and cash flows that were obtained through the Snap Appliance and Eurologic Systems acquisitions as well as internally developed hardware and software. In connection with this action, the Company has classified the systems business as a discontinued operation in the financial statements. The Company has entered into an exclusive arrangement with an investment banker to sell this business and expects to receive proceeds, less cost to sell, in excess of its carrying value.

Net revenues and the components of loss related to the discontinued operations, were as follows:

	Three-Month Period Ended September 30, 2005 (in thousands)	Three-Month Period Ended September 30, 2004	Six-Month Period Ended September 30, 2005	Six-Month Period Ended September 30, 2004
Net revenues	$ 16,466	$ 16,762	$ 37,897	$ 33,407
Loss from discontinued operations before provision for income taxes	(8,538)	(8,222)	(15,476)	(8,735)
Provision for (benefit from) income taxes	42	(1,817)	68	(1,910)
Loss from discontinued operations, net of taxes	$ (8,580)	$ (6,405)	$ (15,544)	$ (6,825)

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The components of net assets related to the discontinued operations were as follows:

	September 30, 2005
	(in thousands)
Inventories	$ 10,542
Prepaid expenses	84
Current assets of discontinued operations	10,626
Property and equipment, net	1,911
Other intangibles, net	24,730
Other long-term assets	30
Total assets of discontinued operations	37,297
Accrued liabilities	(4,554)
Current liabilities of discontinued operations	(4,554)
Net assets of discontinued operations	$ 32,743

Accounts receivable related to the systems business were not included in discontinued operations as the Company intends to retain these assets.

5. Balance Sheet Details

Inventories:

	September 30, 2005	March 31, 2005
	(in thousands)	
Raw materials	$ 10,601	$ 15,914
Work-in-process	4,142	7,435
Finished goods	18,376	36,855
Total	$ 33,119	$ 60,204

In the first half of fiscal 2006, the Company recorded an excess inventory adjustment of $1.9 million related to the transition of its products to comply with the European Union Restriction on Use of Hazardous Substances Directive.

Accrued Liabilities:

	September 30, 2005	March 31, 2005
	(in thousands)	
Tax related	$ 48,003	$ 57,538
Acquisition related	3,650	6,748
Accrued compensation and related taxes	16,697	18,304
IBM distribution agreement		11,575
Other	18,024	21,842
Total	$ 86,374	$ 116,007

6. Goodwill and Other Intangible Assets

Goodwill:

Goodwill allocated to the Company s reportable segments and changes in the carrying amount of goodwill for the first half of fiscal 2006 was as follows:

	OEM	Channel	Total
	(in thousands)		
Balance at March 31, 2005	$ 48,783	$ 42,703	$ 91,486
Goodwill adjustments	(166)	(718)	(884)
Balance at June 30, 2005	48,617	41,985	90,602
Goodwill impairment	(48,617)	(41,985)	(90,602)
Balance at September 30, 2005	$	$	$

In the first quarter of fiscal 2006, adjustments were made to goodwill for changes to the acquisition-related restructuring reserves and other purchase price adjustments for the IBM i/p Series RAID business and Snap Appliance. As a result of the segment reorganization, discussed in Note 14, an assessment of the recoverability of goodwill was performed. Impairment of goodwill is tested at the Company s operating segment level by comparing each segment s carrying amount, including goodwill, to the fair value of that segment. To determine fair value, the Company s review process uses the income, or discounted cash flows, approach and the market approach. In performing its analysis, the Company uses the best information available under the circumstances, including reasonable and supportable assumptions and projections. If the carrying amount of the operating segment exceeds its implied fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. As a result of this review, the Company wrote-off its entire balance of goodwill in the second quarter of fiscal 2006. Factors that led to this conclusion were industry technology changes such as parallel to serial technology and migration of core functionality to server chipsets; required increased investments that eventually led to the sale of the i/p Series RAID Business and the proposed sale of the Systems Business; continued losses associated with sales of Systems to IBM; and general market conditions.

Other Intangible Assets:

	September 30, 2005		March 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Acquisition-related intangible assets:				
Patents, core and existing technologies	$ 39,578	$ (26,295)	$ 74,009	$ (26,265)
Supply agreement			7,600	(1,140)
Customer relationships	1,047	(643)	1,290	(631)
Trade names	674	(520)	10,930	(1,523)
Foundry agreement			600	(90)
Subtotal	41,299	(27,458)	94,429	(29,649)
Intellectual property assets and warrants	41,623	(30,400)	41,942	(27,265)
Total	$ 82,922	$ (57,858)	$ 136,371	$ (56,914)

Amortization of other intangible assets was $3.5 million and $4.1 million in the second quarter of fiscal 2006 and 2005, respectively. Amortization of other intangible assets was $7.2 million and $8.3 million in the first half of fiscal 2006 and 2005, respectively.

The annual amortization expense of the other intangible assets that existed as of September 30, 2005 is expected to be as follows:

	Estimated Amortization Expense	
	Acquisition-related Intangible Assets	Intellectual Property Assets
	(in thousands)	
Fiscal Years:		
2006 (remaining six months)	$ 3,376	$ 3,216
2007	5,726	6,316
2008	2,534	1,691
2009	2,205	
2010 and thereafter		
Total	$ 13,841	$ 11,223

7. Interest and Other Income

The components of interest and other income for the second quarter and first half of fiscal 2006 and 2005, were as follows:

	Three-Month Period Ended		Six-Month Period Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
	(in thousands)			
Interest income	$ 3,969	$ 3,034	$ 7,543	$ 5,760
Payment of license fee with NSE				(1,250)
Loss on redemption of debt	(16)		(102)	