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

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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 000-30649

CENTILLIUM COMMUNICATIONS, INC.
(Exact name of Registrant as Specified in its Charter)

Delaware	**94-3263530**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

215 Fourier Avenue
Fremont, California 94539
(Address of principal executive offices including zip code)
(510) 771-3700
(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 reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ YES ☐ NO

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

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

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

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of May 1, 2008 was 41,698,329.

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PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CENTILLIUM COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2008 (Unaudited)	December 31, 2007 (*)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,299	$ 32,596
Short-term investments	14,571	4,209
Accounts receivable (net of allowance for doubtful accounts of $17 at March 31, 2008 and $22 at December 31, 2007)	3,096	3,635
Inventories	1,221	2,802
Prepaid software tools	816	1,430
Other current assets	1,326	1,377
Assets held for sale	-	706
Total current assets	46,329	46,755
Restricted cash	1,800	-
Property and equipment, net	1,062	1,193
Other assets	680	678
Total assets	$ 49,871	$ 48,626
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short term bank borrowings	$ 1,300	$ 1,500
Accounts payable	4,708	4,765
Accrued compensation and related expenses	2,814	3,869
Accrued restructuring, current portion	1,876	475
Accrued liabilities and other	11,882	11,333
Total current liabilities	22,580	21,942
Long-term liabilities:		
Accrued restructuring, long-term portion	779	891
Other long-term liabilities	810	938
Total long-term liabilities	1,589	1,829
Total liabilities	24,169	23,771
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock; $0.001 par value:		
Authorized shares: 100,000,000; Issued and outstanding shares: 41,706,661 at March 31, 2008 and 41,718,601 at December 31, 2007	42	42
Additional paid-in capital	254,820	254,537
Accumulated deficit	(229,220)	(229,727)
Accumulated other comprehensive gain	60	3
Total stockholders' equity	25,702	24,855
Total liabilities and stockholders' equity	$ 49,871	$ 48,626

* Derived from audited financial statements at December 31, 2007

See accompanying notes.

CENTILLIUM COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2008	**2007**
Net revenues	$ 6,143	$ 10,552
Cost of revenues (a)	2,662	5,058
Gross profit	3,481	5,494
Operating expenses:		
Research and development (a)	5,172	6,745
Selling, general and administrative (a)	3,878	4,991
Gain on on sale of DSL related assets	(8,106)	-
Restructuring charges	2,274	-
Total operating expenses	3,218	11,736
Operating income (loss)	263	(6,242)
Interest income and other	350	677
Interest expense and other	56	(11)
Income (loss) before provision for income taxes	557	(5,554)
Provision for income taxes	50	334
Net income (loss)	$ 507	$ (5,888)
Basic net income (loss) per share	$ 0.01	$ (0.14)
Diluted net income (loss) per share	$ 0.01	$ (0.14)
Shares used to compute basic net income (loss) per share	41,720	41,149
Shares used to compute diluted net income (loss) per share	41,814	41,149
(a) Includes stock-based compensation as follows:		
Cost of revenues	$ 5	$ 10
Research and development	110	241
Selling, general and admininstrative	162	336
	$ 277	$ 587

See accompanying notes.

CENTILLIUM COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
OPERATING ACTIVITIES		
Net income (loss)	$ 507	$ (5,888)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	224	483
Stock-based compensation expense	277	587
Gain on sale of DSL related assets	(8,106)	-
Changes in operating assets and liabilities:		
Accounts receivable	539	1,791
Inventories	(342)	1,297
Prepaid software tools	614	389
Other current assets	(6)	(6)
Other assets	(2)	(509)
Accounts payable	(153)	(1,079)
Accrued compensation and related expenses	(992)	302
Accrued restructuring, current portion	1,401	(14)
Accrued liabilities	(780)	161
Accrued restructuring, long-term portion	(112)	(108)
Other long-term liabilities	(57)	(39)
Net cash used in operating activities	(6,988)	(2,633)
INVESTING ACTIVITIES		
Proceeds from the sale of DSL related assets	12,048	-
Increase in restricted cash	(1,800)	-
Purchases of available-for-sale securities	(10,305)	(4,330)
Sales and maturities of available-for-sale securities	-	3,540
Purchases of property and equipment	(58)	(163)
Net cash used in investing activities	(115)	(953)
FINANCING ACTIVITIES		
Short-term bank borrowings	1,300	-
Repayment of short-term bank borrowings	(1,500)	-
Proceeds from issuance of common stock	6	6
Net cash (used in) provided by financing activities	(194)	6
Net decrease in cash and cash equivalents	(7,297)	(3,580)
Cash and cash equivalents at beginning of period	32,596	26,121
Cash and cash equivalents at end of period	$ 25,299	$ 22,541
SUPPLEMENTAL DISCLOSURES OF CASH FLOW		
Cash paid for income taxes	$ 50	$ 186
Cash paid for income taxes	$ 1	$ -

See accompanying notes.

CENTILLIUM COMMUNICATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Description of Business

Centillium Communications, Inc. (Centillium or the Company) was incorporated in California in February 1997 and was reincorporated in Delaware in December 1999. The Company designs, develops and supplies highly-integrated programmable system-on-a-chip (SoC) solutions that enable high-speed broadband access, which is the delivery of high capacity bandwidth to consumers and enterprises for networking of data, voice and video signals. The Company's SoC products incorporate digital and mixed-signal semiconductors and related software. The Company serves the Voice over Internet Protocol (VoIP) and Fiber-To-The-Premises (FTTP), which is also known as optical networking, markets. From inception until February 2008, the Company also served the Digital Subscriber Line (DSL) market. Its customers are systems vendors and original equipment manufacturers that sell optical network equipment for deployment in central offices and customer premises, and VoIP equipment, for use in carrier-class and enterprise-class gateways and consumer telephony applications.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) that are necessary for a fair presentation of Centillium's consolidated financial position at March 31, 2008, the consolidated results of operations for the three months ended March 31, 2008 and 2007 and its consolidated cash flows for the three months ended March 31, 2008 and 2007. Operating results for the three months ended March 31, 2008 include DSL activities through the date of sale in February 2008. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The unaudited condensed consolidated financial statements include all the accounts of Centillium and those of its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

The accompanying unaudited condensed consolidated financial statements do not include certain financial footnotes and disclosures required under U.S. generally accepted accounting principles for audited financial statements. Therefore, these financial statements should be read in conjunction with Centillium's audited consolidated financial statements and footnotes thereto for the year ended December 31, 2007 included in Centillium's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 17, 2008. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires Centillium to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities reported in the condensed consolidated financial statements and accompanying notes. On an on-going basis, Centillium evaluates its estimates and assumptions related to revenue recognition, sales returns and allowances, allowance for doubtful accounts, inventories, warranty, taxes, royalties, compensation, compensation related benefits and litigation and contingencies. Estimates based on historical experience and on various other assumptions are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

Revenues related to product sales are generally recognized when the products have been shipped and risk of loss has passed to the customer, collection of the resulting receivable is reasonably assured, persuasive evidence of an arrangement exists, and the price is fixed or determinable. Certain royalty payments to a customer are recorded as a reduction in revenue. If sales arrangements contain customer-specific acceptance requirements, revenue is deferred and is recognized upon receipt of customer acceptance. Revenue from maintenance and support is deferred and recognized on a straight line basis over the life of the related agreement.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13", or FSP 157-1, and FASB Staff Position 157-2, "Effective Date of FASB Statement No. 157", or FSP 157-2. FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 in the first quarter of 2008, except as it applies to those non-financial assets and non-financial liabilities as described in FSP 157-2, and it did not have an impact on its consolidated financial position, results of operations or cash flows. The Company is currently evaluating the impact that SFAS No. 157 will have on its non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of 2009. See Note 14 to the Notes to Unaudited Condensed Consolidated Financial Statements under Item 1 of Part I of this quarterly report for information and related disclosures regarding the Company's fair value measurements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115", or SFAS 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurements, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS 159 became effective for the Company beginning January 1, 2008, although the Company has not chosen to measure eligible assets and liabilities at fair value under the provisions of FAS 159. As such, the adoption of FAS 159 did not have an impact on the Company's condensed consolidated statements of position, results of operations, or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standard "FAS No. 141(R)", "Business Combinations," or FAS 141R. FAS 141R replaces FAS No. 141 and provides greater consistency in the accounting and financial reporting of business combinations. FAS 141R requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, establishes principles and requirements for how an acquirer recognizes and measures any non-controlling interest in the acquiree and the goodwill acquired, and requires the acquirer to disclose the nature and financial effect of the business combination. In addition, acquired in-process research and development (IPR&D) is capitalized as an intangible asset and amortized over its estimated useful life. Among other changes, this statement also required that "negative goodwill" be recognized in earnings as a gain attributable to the acquisition, that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred and that any deferred tax benefits resulted in a business combination are recognized in income from continuing operations in the period of the combination. FAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will assess the impact that FAS 141R may have on its financial position and results of operations.

In December 2007, the FASB issued FAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51,” or FAS 160. FAS 160 addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by the Company in 2009. The Company is currently assessing the impact of this standard on its future consolidated results of operations and financial condition.

3. Stock-based Compensation

Determining Fair Value

Valuation and amortization method—The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing formula and a multiple option award approach. This fair value is then amortized on an accelerated basis over the requisite service periods of the awards, which is generally the vesting period.

Expected Term—The Company’s expected term represents the period that the Company’s stock-based awards are expected to be outstanding and is based on historical option exercise behavior.

Expected Volatility—The Company’s stock price volatility rates are estimated using the historical volatility of the Company’s common stock.

Expected Dividend—The Black-Scholes valuation model calls for a single expected dividend yield as an input. The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends in the future.

Risk-Free Interest Rate—The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Estimated Forfeitures—When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual option forfeitures.

Fair Value—The fair value of the Company’s stock options granted to employees for the three months ended March 31, 2008 and 2007 was estimated using the following weighted-average assumptions:

	Three Months Ended March 31,	
	2008	**2007**
Option Plan Shares		
Expected term (in years)	2.7 years	2.6 years
Volatility	55%	68%
Expected dividend	-%	-%
Risk free interest rate	1.79%	4.52%
Estimated forfeitures	8.34%	7.09%
Weighted-average fair value	$0.29	$0.85
ESPP Shares		
Expected term (in years)	0.5 years	0.5 years
Volatility	50%	69%
Expected dividend	-%	-%
Risk free interest rate	3.49%	5.10%
Weighted-average fair value	$0.40	$0.68

Stock-Based Compensation Expense

Under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," or SFAS 123(R), the Company recorded $277,000 and $587,000 of stock-based compensation expense in its consolidated statement of operations for the three months ended March 31, 2008 and 2007, respectively. The Company utilized the Black–Scholes valuation model for estimating the fair value of the stock-based compensation granted both before and after the adoption of SFAS 123(R).

At March 31, 2008 and 2007, the total compensation expense related to unvested stock-based awards granted to employees under the Company's stock option plans but not yet recognized was approximately $1.7 million and $1.8 million, respectively, net of estimated forfeitures of $488,000 and $349,000, respectively. The stock-based compensation expense which related to unvested stock options was approximately $1.1 million at March 31, 2008, which will be amortized on an accelerated basis over a weighted–average remaining period of approximately 1.2 years, and will be adjusted for subsequent changes in estimated forfeitures. The stock-based compensation expense related to restricted stock units not yet recognized was approximately $1.1 million at March 31, 2008, which will be amortized on a straight-line basis over a weighted-average remaining period of approximately 2.8 years, and will be adjusted for subsequent changes in estimated forfeitures. Total intrinsic value of options exercised for the three months ended March 31, 2008 and 2007 was approximately $3,000 and $2,000, respectively.

The following is a summary of additional information with respect to the stock option plans as of March 31, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term, in Years	Aggregate Intrinsic Value, in thousands
Outstanding at January 1, 2008	8,003,130	$ 4.31		
Granted	41,500	$ 0.80		
Exercised	(12,000)	$ 0.40		
Forfeitures and cancellations	(443,958)	$ 2.33		
Outstanding at March 31,2008	7,588,672	$ 4.41	4.65	$ 3
Vested and expected to vest at March 31, 2008	7,453,335	$ 4.45	4.58	$ 3
Exercisable at March 31, 2008	6,177,773	$ 4.93	3.85	$ 3

Restricted Stock Units

The Company issues new shares of common stock upon the vesting of restricted stock units. The Company calculates the fair value of each restricted stock unit based upon the fair market value of the Company stock at the date of grant and recognizes the expense straight line over the requisite period. The stock-based compensation expense related to these awards was $100,000 and $101,000 for the three months ended March 31, 2008 and 2007, respectively. Restricted stock unit activity for the three months ended March 31, 2008 is summarized below:

	Restricted Stock Units		
	Restricted Stock Units Outstanding	Weighted Average Remaining Contractual Term, in Years	Aggregate Intrinsic Value, in thousands
Balance at January 1, 2008	549,063		
Awarded	-		
Canceled or forfeited	(159,809)		
Balance at March 31, 2008	389,254	1.57	$ 257
Vested and expected to vest at March 31, 2008	340,057	1.49	$ 224

The weighted-average fair value on the date of the grant for the outstanding restricted stock units as of March 31, 2008 was $1.80.

The aggregate intrinsic value is hypothetically calculated as the difference between the exercise price of the shares which is zero, as the shares are granted without cost to the recipient and the quoted price of the Company's common stock for the 0.4 million outstanding restricted stock units at March 31, 2008.

Employee Stock Purchase Plan Information

To provide employees with an opportunity to purchase common stock of the Company through payroll deductions, the Company established the 2000 Employee Stock Purchase Plan, or ESPP, and initially reserved 500,000 shares of common stock for issuance to participants. In addition, the plan provides for automatic annual increases on the first day of each of the Company's years equal to the lesser of 400,000 shares or 1% of the Company's outstanding common stock on the date of the annual increase, or a lesser number of shares determined by the Board of Directors. Under the plan, the Company's employees, subject to certain restrictions, may purchase shares of common stock at the lesser of 85 percent of the fair market value at either the beginning or end of each six-month offering period.

During the three months ended March 31, 2008 and 2007, no shares were issued in connection with the Company's ESPP, and so the aggregate intrinsic value of options exercised under the Company's ESPP was $0 for both periods.

Note: 4. Financing Arrangements

Line of Credit

On September 27, 2007, the Company entered into a Loan and Security Agreement with a financial institution. The loan agreement provides commitments for up to $10 million under a revolving line of credit. The line of credit may also be used for letters of credit. As security for the line of credit, the Company granted the financial institution a security interest in all of its assets, except for the shares of certain of its foreign subsidiaries and certain of its intellectual property rights. The loan agreement requires monthly interest payments. Principal payments are not required on the revolving loan until the maturity date, or sooner if an event of default occurs. The maturity date under the loan agreement is September 24, 2008, unless sooner terminated. The interest rate on any outstanding loans is the financial institution’s prime rate as then in effect and any adjustments to the interest rate are effective on the effective date of any prime rate changes. The credit agreement also contains certain financial, operating and reporting covenants, including a quarterly “quick ratio” of at least 1.50 to 1 and a tangible net worth ratio, and various negative covenants including, among others, prohibitions on certain dispositions, changes in business, indebtedness, encumbrances, dividends or other distributions, and affiliate transactions. Legal expenses associated with the line of credit are expensed as incurred and other fees are amortized over the life of the line of credit. The Company was in compliance with the loan covenants as of March 31, 2008 and a consent from the bank was received for the sale of the DSL related assets.

As of March 31, 2008, the Company had drawn down $1.3 million from the line of credit at the prime rate of 5.25% and $1.2 million in letters of credit, resulting in an available, unused line of credit balance of $7.5 million. Further draws and other extensions of credit under the Loan Agreement are subject to specified conditions, including the continued accuracy of the Company's representations (which include, among others, the absence of specified litigation and of a material deterioration in the Company’s financial condition, the absence of certain claims and other conditions in respect of the collateral, continued legal compliance, and the continued absence of specified types of investments and equity interests) and the absence of a material adverse change involving the Company since June 30, 2007.

5. Commitments and Contingencies

The Company leases its facilities under operating leases, expiring through February 2011. In conjunction with its lease of facilities in Fremont, California, in March 2004 the Company capitalized $731,000 of lease incentives, which are being amortized over the seven year lease period as a reduction of rent expense. Additionally, the Company is obligated to make future payments of $1.9 million in connection with certain software licensing arrangements.

The Company does not own or operate a fabrication facility, and foundries located in Asia currently supply substantially all of its wafer requirements. The Company’s purchase obligations to these foundries are based on non-cancelable purchase orders. As of March 31, 2008, the Company’s non-cancelable purchase obligations for wafers and masks, all expected to be delivered within the next six months, were $2.7 million.

Under certain circumstances, Centillium provides intellectual property infringement protection to its customers. Centillium indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally to its customers, in connection with certain patent, copyright or other intellectual property infringement claims by any third parties with respect to its products. This indemnification obligation is generally perpetual but is typically subject to an overall cap on liability. Although these indemnification obligations may give rise to material accruals, to date, Centillium has not incurred significant costs to defend itself or settle claims related to these indemnification obligations. However, in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies”, FAS 5, the Company had determined certain of these obligations are both probable and reasonably estimable. Centillium has accrued $4.3 million in connection with certain contingent liabilities as of March 31, 2008 and as of December 31, 2007. The indemnification obligations are included in the Company’s royalty accrual.

In addition, Centillium responds to other claims arising in the ordinary course of business. Although the ultimate outcome of such claims is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on Centillium's results of operations, but could have a material adverse effect on its financial position and cash flows.

6. Balance Sheet Information

Inventories (in thousands):

	March 31, 2008	December 31, 2007
Work-in-process	$ 775	$ 1,166
Finished goods	446	1,636
	$ 1,221	$ 2,802

In the three months ended March, 2008 and 2007, the Company recorded charges to cost of revenues for the write-down of excess inventory of $43,000 and $0, respectively. Additionally, during the three months ended March 31, 2008 the Company's recorded gross margin benefited from unexpected sales of previously written-down inventory of $336,000, compared to $16,000 of such sales in the three months ended March 31, 2007. The Company sold $2.0 million of inventory to Ikanos as part of the sale of the DSL product lines in February 2008.

Property and equipment, net (in thousands):

	March 31, 2008	December 31, 2007
Equipment and software	$ 20,734	$ 20,492
Furniture and fixtures	465	469
Leasehold improvements	1,439	1,388
	22,638	22,349
Accumulated depreciation and amortization	(21,576)	(21,156)
Property and equipment, net	$ 1,062	$ 1,193

Assets held for sale of $0.7 million as of December 31, 2007 included $6.8 million of costs less $6.1 million of accumulated depreciation for equipment related to the DSL product lines sold to Ikanos in February 2008 and were reported at the lower of the carrying amount or fair value less costs to sell. See Note 12 in this section of the quarterly report. In accordance with the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-lived Assets,"* the Company has not accounted for this transaction as a discontinued operation because the operations and cash flows of these assets could not be clearly distinguished, operationally or for financial reporting purposes, from the rest of the Company's business.

Accrued liabilities and other (in thousands):

	March 31, 2008	December 31, 2007
Accrued royalties	$ 9,070	$ 9,117
Accrued other liabilities	2,812	2,216
	$ 11,882	$ 11,333

Accrued liabilities as of December 31, 2007 include the impact of a partial reversal of $8.9 million of accrued royalties. The Company periodically evaluates any contingent liabilities in connection with any payments to be made for any potential intellectual property infringement asserted or unasserted claims in accordance with FAS 5, "Accounting for Contingencies". The Company's accrued royalties as of March 31, 2008 and December 31, 2007 represents the contingent payments for asserted or unasserted claims that are probable as of the respective balance sheet dates based on the applicable patent law.

Warranty reserve (in thousands):

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance at beginning of period	$ 98	$ 242
Product warranty accruals	17	50
Adjustments related to pre-existing warranties including expirations and changes in estimates	(9)	(33)
Warranty costs incurred	(23)	(17)
Balance at end of period	$ 83	$ 242

7. Cash Equivalents, Short-term Investments and Restricted Cash

Cash equivalents and short-term investments (in thousands):

	March 31, 2008		
	Amortized Cost	Gross Unrealized Gains/ (Losses)	Estimated Fair Value
Cash Equivalents			
Money Market Funds	$ 15,768	$ -	$ 15,768
	15,768	-	15,768
Short-term Investments			
Obligations of the U.S. government and affiliated agencies	12,499	56	12,555
Corporate Bonds	2,012	4	2,016
	14,511	60	14,571
Restricted Cash			
Money Market Funds	1,800	-	1,800
	1,800	-	1,800
Total	$ 32,079	$ 60	$ 32,139

	December 31, 2007		
	Amortized Cost	Gross Unrealized Gains/ (Losses)	Estimated Fair Value
Cash Equivalents			
Money market funds	$ 27,883	$ -	$ 27,883
	27,883	-	27,883
Short-term Investments			
Obligations of the U.S. government and affiliated agencies	3,200	-	3,200
Corporate Bonds	1,006	3	1,009
	4,206	3	4,209
Total	$ 32,089	$ 3	$ 32,092

The estimated fair value of short-term investments is based on fair value. See Note 14 for information and related disclosures regarding the Company's fair value measurements.

8. Provision for Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, California and various state and foreign tax jurisdictions in which the Company has a subsidiary or branch operations. All tax years from inception remain open to examination by the Internal Revenue Service, the State of California and various states until such time as the net operating losses and research credits are either fully utilized or expire. The foreign tax jurisdictions remain open to examination for the years between 2002 to 2007.

The provision for income taxes for the three months ended March 31, 2008 and 2007 relates to taxes payable for Centillium's subsidiaries located in foreign jurisdictions. Income tax expense differs from the expected benefit that was derived by applying the applicable U.S. federal statutory rate to the loss from operations primarily due to losses that are not currently available for tax benefit. Due to Centillium's loss position, a full valuation allowance has been established against Centillium's deferred tax assets, consisting primarily of net operating loss carryforwards.

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109", or FIN 48. No changes to the liability for uncertain tax positions were recorded in the three months ended March 31, 2008.

The tax jurisdiction in India operates under a tax holiday which will expire at the end of March 2009. No changes to the unrecognized tax benefits were recorded in the three months ended March 31, 2008.

No changes to deferred tax assets for unrecognized tax benefits were recorded in the three months ended March 31, 2008.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. Our accrual for payment of interest and penalties as of March 31, 2008 and December 31, 2007, is $105,000.

9. Net Income (Loss) Per Share

Basic and diluted net loss per share have been computed using the weighted average number of shares of common stock outstanding during the period. The following table presents the computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2008	**2007**
Net income (loss)	$ 507	$ (5,888)
Basic weighted average outstanding	41,720	41,149
Effect of dilutive securities		
Stock options	81	-
Restricted stock	13	-
Total dilutive securities	94	-
Weighted average diluted common and equivalent shares outstanding	41,814	41,149
Basic net income (loss) per common share	$ 0.01	$ (0.14)
Diluted net income (loss) per common share	$ 0.01	$ (0.14)

During the periods ended March 31, 2007 and March 31, 2008, the Company had securities outstanding that could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive due to recorded net loss. Options and restricted stock units to purchase 7,729,343 and 504,280, respectively, shares of common stock have been excluded from computing diluted net loss per share at March 31, 2007. Options and restricted stock units to purchase 7,846,964 and 482,216, respectively, shares of common stock have been excluded from computing diluted net income per share at March 31, 2008.

10. Comprehensive Net Income (Loss)

The following table presents the computation of comprehensive net income (loss) (in thousands):

	Three Months Ended March 31,	
	2008	2007
Net gain (loss) as reported	$ 507	$ (5,888)
Change in unrealized gain (loss) on available-for-sale investments	57	3
Total comprehensive gain (loss)	$ 564	$ (5,885)

11. Business Segment Information and Customer Concentration

Centillium operates in one operating segment, broadband communications. Centillium's foreign operations consist primarily of design centers in India and France, and sales and marketing offices in several locations around the world. Geographic sales information is based on the location of the Company's end customer.

The following customers accounted for more than 10% of net revenues in the periods indicated:

	Three Months Ended March 31,	
	2008	2007
OKI Electric Industry Co.,Ltd.	31%	*
Lucent	24%	*
Sumitomo Electric Industries	20%	*
NEC	11%	23%
Ericsson**	-%	35%
Huawei Technologies Corporation	-%	10%

* Less than 10%
** Indirect revenues through distributor

The following is a summary of net revenues by major geographic area (in thousands):

	Three Months Ended March 31,	
	2008	2007
Europe	$ 273	$ 4,234
Japan	3,913	3,617
China	21	1,109
United States	1,907	1,009
Other Asia-Pacific	29	583
	$ 6,143	$ 10,552

Long-lived assets by geographical area were as follows (in thousands):

	March 31, 2008	December 31, 2007
U.S.	$ 711	$ 717
India	832	899
Others	199	255
	$ 1,742	$ 1,871

Note 12. Gain on Sale of DSL Related Assets

The Company recognized an $8.1 million gain on sale of DSL related assets during the three months ended March 31, 2008. In February 2008, the Company completed the sale of certain fixed and certain intangible assets comprising its digital subscriber product lines (the "DSL Product Lines") to Ikanos Communications, Inc. (Ikanos), a publicly-held provider of silicon and software for interactive broadband for total cash consideration of $12.1 million. Upon closing of the transaction, Ikanos paid the Company net cash proceeds of $10.3 million cash after placing $1.8 million (or 15%) of the aggregate purchase price in an escrow for one year as security for certain indemnification obligations of the Company pursuant to the asset sale agreement, including breaches of its representations and warranties. Additionally, in February 2009, the Company will be obligated to pay up to $0.5 million for certain contingency payments that were stipulated in the asset sale agreement. In addition, the Company incurred approximately $0.8 million in transaction costs. Costs from the sale were reduced by $0.1 million of sabbatical accrual reversal that was associated with the employees transferred to Ikanos. In accordance with the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-lived Assets,"* we did not account for this transaction as a discontinued operation because the operations and cash flows of these assets could not be clearly distinguished, operationally or for financial reporting purposes, from the rest of our business. The following is a summary of the gain on the sale of DSL related assets (in thousands):

	Sale of DSL Related Assets
Proceeds from Sale	$ 12,048
Costs:	
Inventory	2,019
Fixed assets, net and associated sales tax	711
Transaction costs	846
Retention accrual	500
Release of sabbatical accrual	(134)
Total	3,942
Gain on sale of DSL related assets	$ 8,106

Note 13. Restructuring

In 2005, the Company recorded $2.2 million in charges for surplus space in its Fremont, California location, which it abandoned. Due to current real estate market conditions, the Company increased the surplus space reserve, to extend the estimated vacant lease period, by $0.8 million during 2007. The operating lease for this location expires in February 2011. Centillium has no future use for the surplus space as a result of the decrease in personnel in Fremont. This charge has been included primarily within selling, general and administrative expense in the statement of operations.

In February 2008, the Company announced a restructuring plan in conjunction with the sale of its DSL product lines, which was intended to further reduce the operating and employee related costs. Restructuring charges of $2.3 million were incurred during the three months ended March 31, 2008 which consisted primarily of $1.4 million of software license termination costs and $0.9 million of employee severance related expenses, net of $0.1 million reversal of sabbatical accrual related to severed employees.

A summary of the Company's restructuring expenses, accrued surplus space and accrued restructuring expenses is as follows for the three month's ended March 31, 2008 (in thousands):

	Balance December 31, 2007	Accrued	Paid	Released from Asset /Liability	Balance March 31, 2008
Abandonment of surplus space*	$ 1,366	$ -	$ (123)	$ -	$ 1,243
Severance and related expenses	-	940	(528)	-	412
Release of sabbatical accrual	-	(110)	-	110	-
Contract termination expenses**	-	1,444	-	(444)	1,000
	$ 1,366	$ 2,274	$ (651)	$ (334)	$ 2,655

*Lease payments offset against liability
**$444 Release of prepaid contract expense

Note 14. Fair Value Measurements

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company's adoption of SFAS No. 157 did not have an impact on our financial position or results of operations. The following table represents the fair value hierarchy for the financial assets (cash equivalents, short-term investments and restricted cash) measured at fair value on a recurring basis as of March 31, 2008 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash Equivalents				
Money Market Funds	$ 15,768	$ 15,768	$ -	$ -
Short-term Investments				
Obligations of the U.S. government and affiliated agencies	12,555		12,555	
Corporate Bonds	2,016		2,016	
Restricted Cash				
Money Market Funds	1,800	1,800	-	-
	$ 32,139	$ 17,568	$ 14,571	$ -

Note 15. Subsequent Events

In December 2005, Accton Technology Corporation, or Accton, filed a suit against Centillium in the California Superior Court for the County of Alameda alleging a variety of claims, including breach of contract, breach of express warranty, and fraud and concealment in connection with certain products Accton purchased in 2002 and 2003. The parties settled the dispute on July 12, 2007 for a payment by Centillium of $2.5 million which was expensed in 2007. In May 2008, the Company signed a settlement agreement with insurance companies who agreed to pay $2.0 million to Centillium in connection with the Accton settlement and related legal fees.

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

You should read the following discussion and analysis in conjunction with our condensed consolidated financial statements and related notes in Item 1 above, and our consolidated financial statements and the related notes thereto included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 17, 2008. The information in this report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC.

All statements included or incorporated by reference in this report, other than statements or characterizations of historical fact, are "forward-looking statements" that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to, statements concerning projected net revenues, costs and expenses and gross margin; anticipated cost savings; our anticipated cash flows and future capital resources; our accounting estimates, assumptions and judgments; the impact of accounting rules related to the expensing of stock options on our future reported results; the impact of anticipated market and customer trends and developments; our ability to penetrate the VoIP and FTTP markets and to expand our business after the recent divestiture of our DSL product lines; our ability to control expenses; and the impact of competition and technological change in the telecommunications and networking market. Additional forward-looking statements may be preceded by words that imply a future state such as "expected," "estimated," "planned" or "anticipated" or imply that a particular future event or events will occur such as "will". These forward-looking statements are based on our current expectations, estimates and projections about our industry and business, management's beliefs, and certain assumptions made by us, all of which are subject to change. Investors are cautioned that all forward-looking statements involve risks and uncertainties and actual results could be materially different from those expressed in or implied by any forward-looking statement. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

The section entitled "Risk Factors" set forth below under Part II, Item 1A, and similar discussions in our other reports filed with the SEC discuss some of the important risk factors that may affect our business, results of operations and financial condition and could cause actual results to differ from those expressed or implied by our forward-looking statements. Copies of our reports filed with the SEC are available from us without charge and on the SEC's website at www.sec.gov. You should carefully consider those risks, in addition to the other information in this report and in our other filings with the SEC, before deciding to invest in Centillium or to maintain or increase your investment.

Overview

We design, develop and supply highly-integrated programmable system-on-a-chip (SoC) solutions that enable high-speed broadband access, which is the delivery of high capacity bandwidth to consumers and enterprises for networking of data, voice and video signals. Our SoC products incorporate digital and mixed-signal semiconductors and related software. We serve the Voice over Internet Protocol (VoIP) and Fiber-To-The-Premises (FTTP), which is also known as optical networking, markets. Our customers are systems vendors and original equipment manufacturers, or OEMs, that sell optical network equipment, for deployment in central offices and customer premises, and VoIP equipment, for use in carrier-class and enterprise-class gateways and consumer telephony applications. We also served the Digital Subscriber Line (DSL) market until February 2008, when we sold our DSL product lines in order to focus exclusively on our VoIP and FTTP businesses. Our DSL product lines had previously accounted for a majority of our revenues but had been declining in recent periods. Our DSL products consisted of Asymmetric DSL (ADSL), and a next generation of DSL products, referred to as VDSL2 products. Our DSL customers also consisted of systems vendors and OEMs.

Sale of DSL Related Assets

In February 2008, we completed the sale of certain fixed and certain intangible assets comprising our product lines serving digital subscriber line customers to Ikanos Communications, Inc., a publicly-held provider of silicon and software for interactive broadband, for total cash consideration of $12.1 million. Upon closing of the transaction, Ikanos paid us net cash proceeds of $10.3 million cash after placing $1.8 million (or 15%) of the aggregate purchase price in an escrow for one year as security for certain indemnification obligations pursuant to the asset sale agreement, including breaches of our representations and warranties. Additionally, in February 2009 we will be obligated to pay Ikanos up to $0.5 million for certain contingency payments that were stipulated in the asset sale agreement. In addition, we incurred approximately $0.8 million in transaction costs. We recorded a gain on this sale of DSL related assets of $8.1 million in the first quarter of 2008. In accordance with the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-lived Assets,"* we did not account for this transaction as a discontinued operation because the operations and cash flows of these assets could not be clearly distinguished, operationally or for financial reporting purposes, from the rest of our business. This sale significantly reduced the size of our business and revenues, and our business model now focuses exclusively on our optical and VoIP products, which have historically generated fewer revenues than our legacy DSL products. In 2007, optical and VoIP net revenues represented 15% and 25%, respectively, of our total net revenues.

Restructuring Plan

In February 2008, we also announced a restructuring plan in conjunction with the sale of our DSL product lines, which is intended to further reduce our operating and employee related costs. Restructuring charges of $2.3 million were incurred during the three months ended March 31, 2008 which consisted primarily of $1.4 million of software license termination costs and $0.9 million of employee severance related expenses. Further execution of our restructuring plan in the second quarter of 2008 will result in additional estimated restructuring charges of $1.9 million related to severance related expenses and contract termination costs.

Trends and Factors Affecting Our Business

Our products are components of broadband access infrastructure equipment, and we rely on OEMs to select our products over our competitors' products to be designed into their equipment. These "design wins" are an integral part of the long sales cycle for our products. The sales cycle of our products is lengthy and typically involves a detailed initial technical evaluation of our products by our prospective customers, followed by the design, construction and testing of prototypes incorporating our products. Our focus is on design, development, sales and marketing. We outsource our semiconductor fabrication, assembly and test functions.

We currently market and sell through our direct sales force, through independent sales representatives and through an independent distributor in Europe and Russia.

We have not reported an operating profit for any year since inception and experienced a net income of $0.5 million (primarily as a result of gain on sale of the DSL related assets) and a net loss of $5.9 million for the three months ended March 31, 2008 and 2007, respectively. We incurred a net loss of $17.6 million for the year ended December 31, 2007. We expect to continue to incur operating losses and negative cash flows in the near term.

In the first quarter of 2008, our net revenues were $6.1 million compared with $10.6 million in the first quarter of 2007, a decrease of 42%. Furthermore, in 2007 our net revenues were $39.2 million, compared with $64.6 million in 2006, a decrease of 39%. We experienced a significant revenue decline in the DSL market in 2007 and 2006. We expect that our net revenues in 2008 will be substantially lower than in 2007, due to the sale of our DSL product lines in February 2008. Revenues for the first quarter of 2008 include $522,000 of DSL revenues. Our first quarter 2008 net income was $0.5 million, which was primarily due to the gain on the sale of the DSL related assets, in comparison to the first quarter 2007 net loss of $5.9 million. Our first quarter 2008 net income, excluding the gain on the sale of the DSL related assets of $8.1 million, partially offset by related restructuring expense of $2.3 million, was a loss of $5.3 million in comparison to the first quarter 2007 net loss of $5.9 million. The change was primarily due to the decrease in operating expenses being greater than the decrease in gross margin between the comparable periods. Our net loss in 2007 was $17.6 million, compared with $10.7 million and $11.3 million in 2006 and 2005, respectively.

From inception through the sale of our DSL product lines in early 2008, the majority of our net revenues were derived primarily from the sale of our ADSL products to two customers in Japan. These two customers are NEC Corporation, or NEC, and Sumitomo Electric Industries, Ltd., or Sumitomo. The ADSL new subscriber market in Japan shrank dramatically in 2007, 2006 and 2005. Our Japan ADSL revenues declined 55%, 35% and 17% in 2007, 2006 and 2005, respectively. We consummated the sale of our DSL product lines to Ikanos in February 2008 and as a result, we will no longer generate any future revenues from the sale of our DSL products. Revenues for the first quarter of 2008 include $522,000 of DSL revenues.

We must achieve substantial revenue growth and continue to effectively execute our restructuring plan in the first half of 2008 to improve our financial position. Our ability to achieve the necessary revenue growth will depend on how successful we are in further penetrating the VoIP and FTTP markets, on which we are now exclusively dependent.

Our VoIP revenues were $2.4 million and $2.3 million in the three months ended March 31, 2008 and 2007, respectively. Our VoIP revenues were $9.9 million and $10.8 million for the years ended December 31, 2007 and 2006, respectively, and can vary significantly from quarter to quarter. This is largely due to the variable nature of the growth of this market and the related deployments of VoIP equipment by telecommunications service providers. Moreover, sales of our VoIP products are concentrated with a relatively limited number of customers, which may cause our sales to vary widely depending on changes even in a single customer's deployment schedule and testing requirements. We expect our net revenues from VoIP in the second quarter of 2008 to increase, compared to the first quarter of 2008, as the demand from two VoIP customers has strengthened.

Our FTTP revenues were $3.2 million and $252,000 in the three months ended March 31, 2008 and 2007, respectively, and $5.9 million and $4.0 million for the years ended December 31, 2007 and 2006, respectively. We have been heavily engaged in the development of a gigabit Ethernet passive optical networking, or GEPON, solution for the FTTP market. We introduced our newest generation of GEPON chips, called ME300 in 2007. We also entered into an agreement with a third party in May 2007 that gives us exclusive rights to an EPON chip that they developed. This EPON chip was an improvement on a previous solution of this third party that had already been tested by service providers in Japan. It was designed specifically to meet the requirements of the targeted service providers. Obtaining these exclusive rights to this chip allows us to improve our chances of success by providing us with additional technology to penetrate our primary target market, Japan. We refer to this EPON chip as the ME250.

After discussions with a major customer, we decided to move forward with the ME250 for this customer as the principal telecommunications service provider in Japan has already accepted this customer's internal ME250 test results and has begun its own validation of this customer's FTTP system with that chip. We also signed a strategic agreement with this customer for the delivery of the ME250 PON chips. This customer's FTTP system with the ME250 has been validated by the principal telecommunications service provider but we must obtain the anticipated market share of that service provider's business for us to grow our FTTP revenues from this product in 2008 and beyond. Shipments for the ME250-based solution resulted in revenues of $1.9 million in the three months ended March 31, 2008 and $3.1 million in the last four months of 2007. There can be no assurance that this service provider will purchase our customer's FTTP systems with the ME250 in the anticipated quantities or that the remainder of these orders will not be canceled, or the anticipated delivery delayed.

Another FTTP product, the ME300, is also currently being validated internally by another customer. If the ME300 is validated, we anticipate that it will be the platform that we will generally market going forward with other customers, due to its more aggressive integration and ease of roadmap migration. There can be no assurance that the ME300 will be validated or selected by any customer and even if it is, that it will meet our customers' requirements or that our customers will purchase this product. Moreover, even if all this occurs, there can be no assurance that any of our customers' FTTP systems with the ME300 will be validated by the principal telecommunications service provider and even if it is, that this service provider will purchase any customer's FTTP systems with the ME300 in the anticipated quantities, if at all.

We have traditionally sold our products on the basis of our standard terms and conditions. We are increasingly being required to enter into purchase agreements with key customers and potential customers as a condition to doing business with them. These agreements shift significantly more risk and cost on to us. Doing business under terms of this nature could increase our costs, cause us to bear greater inventory risk and increase our liabilities, which could materially affect our business, results of operations and financial condition.

Our planned actions for 2008 and beyond are based on certain assumptions concerning the adoption of broadband technologies, the successful qualification and deployment of our FTTP products in Japan, the extent of demand for our VoIP products, execution of our restructuring plan in the first half of 2008 and the cost and expense structure of our business. These assumptions could prove to be inaccurate. If economic or market conditions deteriorate to an unexpected degree, if our products and technologies are not accepted and deployed to the extent we currently assume, or if our planned actions are not successful in achieving our goals, there could be additional adverse impacts on our revenues, profitability, financial position and cash flows. In that case, we might need to modify our strategic focus or take other corrective actions.

Moreover, as our quarterly net revenues for the next few quarters of 2008 are expected to be lower than our revenues for the last two quarters, we anticipate that we will continue to incur operating losses and use cash for the foreseeable future. While we believe that existing cash and short-term investments will be sufficient to support our current operations for the next twelve months, that cannot be assured. This belief is based on a variety of assumptions that are subject to risks and uncertainties, and if any of those assumptions proves to be inaccurate or if our cash flows from operations do not meet our expectations, our cash and short-term investments could be inadequate to meet our liquidity requirements. For example, we have assumed that new product introductions will occur on a timely basis and will achieve market acceptance, but there is no guarantee that this will happen. We also have significant litigation risk, and if we are required to make any substantial payments due to adverse results in litigation, this could seriously affect our liquidity and materially affect our business, results of operations and financial condition. Other risks that could cause our actual cash position to vary are set forth below, under item 1A, "Risk Factors," of this report.

Our operating results have been and will continue to be materially affected by additional stock-based compensation expense. Pursuant to Statement of Financial Accounting Standards No. 123 (revised 2004), or SFAS 123(R), which we adopted effective January 1, 2006, we must reflect the fair value of stock options and other stock-based awards as an expense in our financial statements. We anticipate that these stock-based compensation charges will continue to be material to our future operating results. As of March 31, 2008 and 2007, the total unrecognized compensation expense related to unvested stock-based awards, as determined by SFAS 123(R), using the assumptions we had in effect as of that date, was approximately $1.7 million and $1.8 million, net of estimated forfeitures of $448,000 and $349,000, respectively. That total expense is expected to be recognized over an estimated weighted average period of 1.2 years for unvested stock-based awards to 2.8 years for restricted stock units.

Net Revenues. VoIP and FTTP revenues accounted for 92% of our net revenues and DSL accounted for 8% for the three months ended March 31, 2008. We will no longer generate any revenues from the sale of DSL products. Our DSL revenues accounted for 8%, 60%, 77% and 79% of our net revenues for the three months ended March 31, 2008 and for the years ended December 31, 2007, 2006 and 2005, respectively.

For the three months ended March 31, 2008, OKI Electric Industry Co., Ltd. (OKI) accounted for 31% of our net revenues. For the three months ended March 31, 2008 and for the years ended December 31, 2007, 2006, and 2005, Lucent Technologies accounted for 24%, 15%, 12% and 13% of net revenues, Sumitomo Electric Industries, Ltd (Sumitomo) accounted for 20%, 26%, 26% and 35% of net revenue, and NEC Corporation (NEC) accounted for 11%, 15%, 23% and 26% of net revenue, respectively. Ericsson accounted for 23% and 16% of net revenues in 2007 and 2006, respectively. No other customer accounted for 10% or more of our net revenues during the three months ended March 31, 2008 and the years ended December 31, 2007, 2006 and 2005.

The following is a summary of net revenues by product family for sales to NEC, Sumitomo, Lucent and Ericsson as a percentage of revenue we generated from the sale of our product to that customer in 2007:

Products	NEC	SEI	Lucent	Ericsson
DSL	96%	74%	-%	84%
VoIP	4	-	100	16
FTTP	-	26	-	-
Total	100%	100%	100%	100%

While our sales have historically been denominated in U.S. dollars, major fluctuations in foreign currency exchange rates could materially impact our customers' demand for our products as most of our major customers are foreign entities.

The cycle for test, evaluation and adoption of our products by customers can range from three to more than six months with an additional three to more than nine months before a customer commences volume production of equipment incorporating our products. Additionally, this cycle may be as long as 18 to 24 months for certain VoIP and FTTP products. Due to this lengthy sales cycle, we may experience significant delays from the time we incur expenses for research and development, marketing and selling, and investment in inventory, to the time we generate corresponding revenues, if any. We anticipate that the rate of orders will vary significantly from quarter to quarter. If anticipated shipments in any quarter do not occur when expected, expenses and inventory levels could be disproportionately high or low, and our results of operations for that quarter, and potentially for future quarters, would be materially and adversely affected. This volatility may become more pronounced as our sales for the remainder of 2008 will be generated entirely by our VoIP and FTTP products.

Competition and technological change in the rapidly evolving VoIP and optical networking markets have influenced, and may continue to influence our quarterly and annual net revenues and results of operations. Average selling prices of our products tend to be higher at the time of introduction and decline over time due to competitive pressures. We expect this pattern to continue with existing and future products. Our average selling prices are also impacted by our customer and product mix. We are increasingly selling into certain markets where pricing is very competitive. As a result, our gross margins are lower in these markets. If the gross profit generated from these markets is not sufficient to offset the cost of business in these markets, this may have a negative impact on our financial results.

Cost of Revenues: We are a fabless semiconductor company: we outsource the wafer fabrication, assembly and testing of our products. Our cost of revenues primarily consists of purchased finished wafers, assembly and test services, royalties, overhead associated with procurement and production engineering, provisions for excess and obsolete inventories, and product warranty costs.

Research and Development Expenses: Research and development (R&D) expenses consist primarily of employee compensation including stock-based compensation expense and related personnel expenses, fees paid to consultants, new product development costs, evaluation and testing of pre-production parts and engineering design tools. We expense our research and development costs as they are incurred. Several components of our research and development effort require significant expenditures, the timing of which can cause significant quarterly variability in our expenses.

Selling, General and Administrative Expenses: Selling, general and administrative (SG&A) expenses include employee compensation including stock-based compensation expense and related personnel expenses in sales and marketing, product marketing, applications engineering, and corporate functions including accounting, finance, legal, human resources and information systems.

Gain on Sale of DSL Related Assets: In February 2008, we completed the sale of certain fixed and certain intangible assets comprising our product lines serving digital subscriber line customers to Ikanos Communications, Inc., a publicly-held provider of silicon and software for interactive broadband, for total cash consideration of $12.1 million. Upon closing of the transaction, Ikanos paid us net cash proceeds of $10.3 million cash after placing $1.8 million (or 15%) of the aggregate purchase price in an escrow for one year as security for certain indemnification obligations pursuant to the asset sale agreement, including breaches of our representations and warranties. Additionally, in February 2009 we will be obligated to pay Ikanos up to $0.5 million for certain contingency payments that were stipulated in the asset sale agreement. In addition, the we incurred approximately $0.8 million in transaction costs. We recorded a gain on this sale of DSL related assets of $8.1 million in the first quarter of 2008. In accordance with the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-lived Assets,"* we did not account for this transaction as a discontinued operation because the operations and cash flows of these assets could not be clearly distinguished, operationally or for financial reporting purposes, from the rest of our business.

Restructuring Charges: In February 2008, we announced a restructuring plan to reduce operating and employee related costs. Restructuring charges of $2.3 million were incurred during the three months ended March 31, 2008, which consisted primarily of $1.4 million of software license termination costs and $0.9 million of employee severance related expenses. Further execution of our restructuring plan in the second quarter of 2008 will result in an additional restructuring charge, which we estimate will be approximately $1.9 million. In 2005, we recorded restructuring charges for surplus space in our Fremont, California location, which we abandoned. Due to current real estate market conditions, we increased the surplus space reserve in 2007, to extend the estimated vacant lease period through February 2011.

Interest and Other Income: Interest income consists of interest earned on cash and cash equivalent balances and short-term investments.

Interest and Other Expense: Interest and other expense primarily consist of foreign currency losses.

Provision for Income Taxes: The provisions for income taxes relate to current taxes payable for income generated by our subsidiaries located in foreign jurisdictions. Income tax expense differs from the expected benefit that was derived by applying the applicable U.S. federal statutory rate to the loss from operations primarily due to losses that are not currently available for tax benefit. Due to our loss position, a full valuation allowance has been established against our deferred tax assets, consisting primarily of net operating loss carry-forwards, research and development tax credits and reserves and accruals not currently deductible.

Critical Accounting Policies

General: Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires that we make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities reported in the condensed consolidated financial statements and accompanying notes. On an on-going basis, we evaluate our estimates and assumptions related to revenue recognition, sales returns and allowances, allowance for doubtful accounts, inventories, warranty and litigation and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition: Revenues related to product sales are generally recognized when the products have been shipped and risk of loss has passed to the customer, collection of the resulting receivable is reasonably assured, persuasive evidence of an arrangement exists, and the price is fixed or determinable. Certain royalty payments to a customer are recorded as a reduction in revenue. If sales arrangements contain customer-specific acceptance requirements, revenue is deferred and is recognized upon receipt of customer acceptance. Revenue from maintenance and support is deferred and recognized on a straight line basis over the life of the related agreement.

Stock-Based Compensation: We adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," or SFAS 123(R) effective January 1, 2006. SFAS 123(R) requires the recognition of the fair value of stock-based compensation in operating results. SFAS 123(R) is a new and very complex accounting standard. Applying this standard requires significant judgment and the use of estimates, particularly surrounding Black-Scholes option pricing model assumptions, such as stock price volatility and expected option lives, as well as expected option forfeiture rates to value equity-based compensation. These assumptions and estimates are subject to change over time, which may affect the related stock-based compensation expenses that we recognize in our financial statements. The fair value of our restricted stock units is calculated based upon the fair market value of Company stock at the date of grant in accordance with SFAS 123(R). The stock-based compensation expense related to stock options is amortized on an accelerated basis. The stock-based compensation expense related to restricted stock units is amortized on a straight-line basis.

Sales Returns and Allowances: Upon shipment of our products, we establish a provision for estimated returns. Under certain circumstances, we allow our customers to return products and a provision is made for such returns. Our estimate of product returns is based on contractual terms or sales agreements, historical experience and expectation of future conditions. Additional provisions and allowances may be required, resulting in decreased net revenues and gross profit, should we experience increased product returns.

Allowance for Doubtful Accounts: We perform ongoing credit evaluations of our customers and adjust credit limits, as determined by our review of current credit information. We record allowances for doubtful accounts for estimated losses based upon specifically identified amounts that we believe to be uncollectible. We record additional allowances based on certain percentages of our aged receivables, which are determined based on historical experience and our assessment of the general financial condition of our customer base. If our actual collections experience changes, revisions to our allowances may be required. We have a limited number of customers with individually large amounts due at any given balance sheet date. Any unanticipated change in one of those customers' creditworthiness or other matters affecting the collectibility of amounts due from such customers could have a material effect on our results of operations in the period in which such changes or events occur.

Inventories: Inventories are stated at the lower of standard cost, which approximates actual cost, or net realizable value. Cost is based on a first-in, first-out basis. We perform detailed reviews of the net realizable value of inventories, both on hand and those we are committed to purchase, with consideration given to deterioration, obsolescence, and other factors. Currently, we use a nine-month rolling forecast based on the type of products, anticipated product orders, product order history, forecasts and backlog. We compare our current or committed inventory levels to these forecasts on a regular basis and any adverse changes to our future product demand may result in increased write-downs, resulting in decreased gross profit. In the event we experience unanticipated demand and are able to sell previously written down inventories, gross profit will increase.

Warranty: A limited warranty is provided on our products, generally for a period of one year, and allowances for estimated warranty costs are recorded during the period of sale. While we engage in product quality programs and processes, including monitoring and evaluating the quality of our suppliers, our warranty obligation is affected by product failure rates, the cost of replacing chipsets, rework costs and freight incurred in replacing a chipset after failure. We monitor chipset returns for warranty and maintain a reserve for the related warranty expenses based on historical experience of similar products. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We periodically assess the adequacy of the warranty liability and adjust such amounts as necessary.

Accounting for Uncertainty in Income Taxes: Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109", or FIN 48, which prescribes how a company should recognize, measure, present and disclose uncertain tax positions that such company has taken or expects to take in its income tax returns. FIN 48 requires that only income tax benefits that meet the "more likely than not" recognition threshold be recognized or continue to be recognized on its effective date. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Litigation and Contingencies: From time to time, we receive various inquiries or claims or are involved in litigation in connection with patent and other intellectual property rights as well as breach of contract and other claims. When the liability is probable and estimable, we have accrued estimates of the amounts we expect to pay upon resolution of such matters. Based on the applicable patent law and depending on developments and new information in these matters, these estimates may change and may result in increased accruals, resulting in decreased profit or decreased accruals, resulting in increased profit, respectively.

The above items are not a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles with no need for our management's judgment in their application. There are also areas in which our management's judgment in selecting any available alternative would not produce a materially different result.

Results of Operations for the Three Months Ended March 31, 2008 and 2007

The following table sets forth, for the periods presented, certain data from our unaudited condensed consolidated statements of operations expressed as a percentage of net revenues.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net revenues	100%	100%
Cost of revenues	43	48
Gross profit	57	52
Operating expenses:		
Research and development	84	64
Selling, general and administrative	63	47
Gain on divestiture	(132)	-
Restructuring charges	37	-
Total operating expenses	52	111
Operating income (loss)	5	(59)
Interest income and other	5	6
Interest expense and other	1	*
Income (loss) before provision for income taxes	9	(53)
Provision for income taxes	1	3
Net income (loss)	8%	(56) %

* Less than 1%

Net Revenues. The following tables present net revenues, cost of revenues and gross profit for the three months ended March 31, 2008 and 2007 (in thousands except for percentages):

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007			
	Amount	% of Net Revenues	Amount	% of Net Revenues	Increase/ (Decrease)	% Change
Net revenues	$ 6,143	100%	$ 10,552	100%	$ (4,409)	-42%
Cost of revenues	2,662	43%	5,058	48%	(2,396)	-47%
Gross Profit	$ 3,481	57%	$ 5,494	52%	$ (2,013)	-37%

During 2007 and 2006, our revenues were generated principally from sales of our DSL, VoIP and FTTP products. As noted above, we sold our DSL product lines in February 2008. Our revenues are derived from sales of our VoIP and FTTP products. The following tables present net revenues from each of our major product lines for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007 (in thousands except for percentages):

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007			
Products	**Amount**	**% of Net Revenues**	**Amount**	**% of Net Revenues**	**Increase/ (Decrease)**	**% Change**
DSL	$ 522	8%	$ 8,000	76%	$ (7,478)	-93%
VoIP	2,394	39%	2,300	22%	94	4%
FTTP	3,227	53%	252	2%	2,975	1181%
Net revenues	$ 6,143	100%	$ 10,552	100%	$ (4,409)	-42%

Net revenues for the three months ended March 31, 2008 were $6.1 million, compared with $10.6 million for the three months ended March 31, 2007, a decrease of $4.5 million or 42%. Revenues from our DSL products accounted for $522,000, or 8%, of net revenues in the three months ended March 31, 2008, as compared to $8.0 million, or 76%, of net revenues in the three months ended March 31, 2007. The decline in DSL revenues was due to the sale of our DSL product lines in February 2008.

Revenues from VoIP products accounted for $2.4 million of net revenues in the three months ended March 31, 2008, as compared to $2.3 million of net revenues for the three months ended March 31, 2007, or 39% and 22% of net revenues, respectively. Our VoIP revenues vary significantly from quarter to quarter as they are currently derived from only a few customers which have varying deployment schedules and testing requirements. We expect that our VoIP revenues will increase in the second quarter of 2008, compared to the first quarter of 2008, as demand from certain of our VoIP customers has strengthened.

Revenues from our FTTP products accounted for $3.2 million of net revenues in the three months ended March 31, 2008, as compared to $252,000 of net revenues for the three months ended March 31, 2007, or 53% and 2% of net revenues, respectively. Shipments for the ME250-based solution resulted in revenues of $1.9 million in the three months ended March 31, 2008 and $3.1 million in the last four months of 2007. Growth in FTTP revenues, if any, is highly dependent on the successful execution of our longer term FTTP strategy, including the continued purchase of significant quantities of the ME250 chip by our customer, as well as having our ME300 chip successfully validated by the principal telecommunications service provider and another Japan customer achieving the expected market share with our ME300 chip.

Revenues from Japan, which are currently attributable to our FTTP products and historically were largely attributable to our DSL products, were $3.9 million and $3.6 million for the three months ended March 31, 2008 and 2007, or 64% and 34% of net revenues, respectively. We anticipate revenues from Japan to remain significant for the foreseeable future.

The following customers accounted for more than 10% of net revenues in the periods indicated:

	Three Months Ended March 31,	
	2008	**2007**
OKI Electric Industry Co.,Ltd.	31%	*
Lucent	24%	*
Sumitomo Electric Industries	20%	*
NEC	11%	23%
Ericsson**	-%	35%
Huawei Technologies Corporation	-%	10%

* Less than 10%

** Indirect revenues through distributor

Gross Profit. Gross profit represents net revenues less the cost of revenues. Gross profit decreased by $2.0 million, to $3.5 million for the three months ended March 31, 2008, from $5.5 million for the three months ended March 31, 2007. The $2.0 million decrease in gross profit for the three months ended March 31, 2008 was primarily attributable to lower shipments due to the divestiture of the DSL product line. The gross margin increased to 57% for the three month period ended March 31, 2008 as compared to 52% in the respective period of 2007 because we recorded $336,000 of our gross profit, representing five percentage points of our gross margin, due to the unexpected sale of previously written-down inventory compared to $16,000 of such sales in the three months ended March 31, 2007. The write-down of excess inventory was $43,000 in the three months ended March 31, 2008, compared to no write-down in the comparable period in 2007. We anticipate the benefit to gross margin for the sale of previously written-down inventory will be smaller in the second quarter of 2008, based on the reduction of inventory that is fully written-down and the sale of the DSL product lines.

Research and Development Expenses. Research and development expenses decreased by 23% to $5.2 million for the three months ended March 31, 2008, from $6.7 million for the three months ended March 31, 2007. The $1.5 million decrease resulted primarily from $0.8 million decrease in compensation and related expenses, $0.4 million decrease of evaluation and testing of pre-production parts, $0.2 million in decreased depreciation expense, $0.1 million decrease due to increased allocations to manufacturing efforts, $0.1 million decrease in new product development expenses and $0.1 million in lower stock-based compensation expense, partially offset by $0.2 million increase in consulting expenses. The decreased compensation and related expenses was primarily attributable to the divestiture of our DSL business and our restructuring plan. We reduced the number of research and development employees from 181 at December 31, 2007 to 111 at March 31, 2008. The increased consulting expense was primarily due to our reliance to a greater extent on consultants for our new product development projects, which we expect to continue through the second quarter of 2008. We expect research and development expenses to remain approximately the same in the second quarter of 2008 as in the first quarter of 2008, as we anticipate a significant increase in tapeout, engineering evaluation board and preproduction expenses related to our Atlanta product line, partially offset by reduced compensation and related expenses associated with a full quarter of savings from the sale of DSL related assets and restructuring of early February and completing our reduction in force.

We have been committed to significant research and development efforts to extend our technology in the broadband communications markets in which we operate. We held 14 U.S. patents and 1 foreign patent as of March 31, 2008, and we maintain an active program of filing for additional U.S. and foreign patents in the broadband communications field.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by 22% to $3.9 million for the three months ended March 31, 2008 as compared to $5.0 million for the three months ended March 31, 2007. The $1.1 million decrease was primarily due to $0.4 million in decreased legal expenses, $0.3 million in decreased employee compensation and related expenses, $0.1 million in decreased auditing fees, $0.2 million in lower stock-based compensation expense, and $0.1 million decrease in other outside services. The decreased compensation and related expenses was primarily attributable to the sale of our DSL related assets and our restructuring plan. We reduced the number of selling, general and administrative employees from 57 at December 31, 2007 to 43 at March 31, 2008. We expect that selling, general and administrative expenses in the second quarter of 2008 will decrease in absolute dollars and as a percentage of revenues compared to the first quarter of 2008 primarily due to reduced compensation and related expenses associated with a full quarter of savings from the divesture and restructuring of early February and completing our reduction in force.

Our overall selling, general and administrative expenses may increase further in the future, and there can be no assurance that we will develop and sustain a cost structure that will lead to profitability under the current and expected revenue levels.

Gain on Sale of DSL Related Assets. In February 2008, we completed the sale of certain fixed and certain intangible assets comprising our product lines serving digital subscriber line customers to Ikanos Communications, Inc., a publicly-held provider of silicon and software for interactive broadband, for total cash consideration of $12.1 million. Upon closing of the transaction, Ikanos paid us net cash proceeds of $10.3 million cash after placing $1.8 million (or 15%) of the aggregate purchase price in an escrow for one year as security for certain indemnification obligations of ours pursuant to the asset sale agreement, including breaches of our representations and warranties. Additionally, in February 2009 we will be obligated to pay up to $0.5 million for certain contingency payments that were stipulated in the asset sale agreement. In addition, we incurred approximately $0.8 million in transaction costs. We recorded a gain on this sale of DSL related assets of $8.1 million in the first quarter of 2008. In accordance with the provisions of SFAS 144, *"Accounting for the Impairment or Disposal of Long-lived Assets,"* we did not account for this transaction as a discontinued operation because the operations and cash flows of these assets could not be clearly distinguished, operationally or for financial reporting purposes, from the rest of our business.

Restructuring Charges. In February 2008, we announced a restructuring plan to reduce operating and employee related costs. Restructuring charges of $2.3 million were incurred during the three months ended March 31, 2008, which consisted primarily of $1.4 million of software license termination costs and $0.9 million of employee severance related expenses. Further execution of our restructuring plan in the second quarter of 2008 will result in an additional restructuring charge, which we estimate will be approximately $1.9 million. In 2005, we recorded restructuring charges for surplus space in our Fremont, California location, which we abandoned. Due to current real estate market conditions, we increased the surplus space reserve in 2007, to extend the estimated vacant lease period through February 2011.

Interest and Other Income. Interest income, net, was $350,000 for the three months ended March 31, 2008 as compared to $677,000 for the three months ended March 31, 2007. A decrease in cash available for investment and lower available interest rates resulted in lower interest income for the three months ended March 31, 2008 as compared to the comparable periods ended March 31, 2007.

Interest and Other Expense. Interest and other expense was $56,000 for the three months ended March 31, 2008 as compared to a gain of $11,000 for the three months ended March 31, 2007. The increase in the expense was primarily attributable to foreign currency exchange due to the weakening U.S. dollar.

Provision for Income Taxes. Income tax expense was $50,000 and $334,000 for the three months ended March 31, 2008 and 2007, respectively. The provisions for income taxes relate to current taxes payable for income generated by Centillium subsidiaries located in foreign jurisdictions. Income tax expense differs from the expected benefit that was derived by applying the applicable U.S. federal statutory rate to the loss from operations primarily due to losses that are not currently available for tax benefit. Due to our loss position, a full valuation allowance has been established against our deferred tax assets, consisting primarily of net operating loss carry-forwards.

The decrease in the provision was mainly due to $300,000 recorded in the three months ended March 31, 2007 as an income tax expense for uncertain tax positions as an adjustment due to the adoption of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109," or FIN 48. See Note 9 to the Notes to Unaudited Condensed Consolidated Financial Statements under Item 1 of Part I of this quarterly report for information on the adoption of FIN 48." Income tax expense differs from the expected benefit that was derived by applying the applicable U.S. federal statutory rate to the loss from operations primarily due to losses that are not currently benefited. Due to our loss position, a full valuation allowance has been established against our deferred tax assets, consisting primarily of net operating loss carry-forwards.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. SFAS 157, "Fair Value Measurements," or SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13", or FSP 157-1, and FASB Staff Position 157-2, "Effective Date of FASB Statement No. 157", or FSP 157-2. FSP 157-1 amends SFAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for fiscal years beginning after November 15, 2007.. We adopted SFAS No. 157 in the first quarter of 2008, except as it applies to those non-financial assets and non-financial liabilities as described in FSP FAS No. 157-2, and it did not have an impact on our consolidated financial position, results of operations or cash flows. We are currently evaluating the impact that SFAS No. 157 will have on our non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of 2009. See Note 14 to the Notes to Unaudited Condensed Consolidated Financial Statements under Item 1 of Part I of this quarterly report for information and related disclosures regarding the Company's fair value measurements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115", or SFAS 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is expected to expand the use of fair value measurements, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. FAS 159 became effective for us beginning January 1, 2008, although the we have not chosen to measure eligible assets and liabilities at fair value under the provisions of FAS 159. As such, the adoption of FAS 159 did not have an impact on our condensed consolidated statements of position, results of operations, or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standard ("FAS") No. 141(R), "Business Combinations," or FAS 141R. FAS 141R replaces FAS No. 141 and provides greater consistency in the accounting and financial reporting of business combinations. FAS 141R requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, establishes principles and requirements for how an acquirer recognizes and measures any non-controlling interest in the acquiree and the goodwill acquired, and requires the acquirer to disclose the nature and financial effect of the business combination. Among other changes, this statement also required that "negative goodwill" be recognized in earnings as a gain attributable to the acquisition, that acquisition-related costs are to be recognized separately from the acquisition and expensed as incurred and that any deferred tax benefits resulted in a business combination are recognized in income from continuing operations in the period of the combination. FAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will assess the impact that FAS 141R may have on our financial position and results of operations.

In December 2007, the FASB issued FAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51," or FAS 160. FAS 160 addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. FAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. FAS 160 is effective for fiscal years beginning after December 15, 2008, and will be adopted by us in 2009. We are currently assessing the impact of this standard on our future consolidated results of operations and financial condition.

Liquidity and Capital Resources

Our future capital requirements depend on many factors, some of which are outside of our control. We expect our cash used in operations to decrease in 2008 as compared to 2007 due to the sale of the DSL product lines and our restructuring activities. In February 2008, we received $10.3 million in cash consideration from the sale of the DSL product lines after placing $1.8 million (or 15%) of the aggregate purchase price in an escrow for one year as security for certain indemnification obligations pursuant to the asset sale agreement, including breaches of our representations and warranties. Additionally, in February 2009 we will be obligated to pay Ikanos up to $0.5 million depending on contingencies specified in the agreement. In addition, we incurred approximately $0.8 million in transaction costs. We believe that existing cash and investment securities and anticipated cash flows from operations will be sufficient to support our current operating plan for the next twelve months. However, these cash flow and operating results expectations are subject to numerous assumptions, many of which may not actually occur. If some or all of such assumptions do not occur, our results may be substantially lower or different than expected, and our cash resources could be reduced faster than currently anticipated. Such assumptions include, without limitation, assumptions that our cost reduction efforts will be successful, that product introductions will occur on a timely basis and achieve market acceptance, that customer testing and service provider deployments occur as anticipated, that our customer base will grow, that we do not experience an adverse result in existing litigation or new legal or regulatory proceedings, and that our industry's competitive landscape will not change adversely. For more information about the risks relating to our business, please read carefully the section of this report entitled "Risk Factors".

We expect to devote capital resources to continue our research and development efforts, to support our sales and marketing, and to fund general corporate activities. Depending on the needs of our business, we may also consider making strategic investments in complementary products or technologies, which could require further cash expenditures. We expensed a $2.5 million loss in full settlement relating to the Accton matter in 2007. In May 2008, we signed a settlement agreement with insurance companies who agreed to pay $2.0 million to us in connection with the Accton settlement and related legal fees. Depending on the amount and timing of any future legal proceedings against us, our cash flows could be materially adversely affected in one or more future periods, and our financial condition could be severely impaired.

Since our inception, we have financed our operations primarily through operating activities, the sale of equity securities, the proceeds from the sale of our DSL product lines and our revolving line of credit established in 2007. If our existing resources and cash generated from operations are insufficient to satisfy our liquidity requirements, we may seek to raise additional funds through public or private debt or equity financings. The sale of equity or debt securities could result in additional dilution to our stockholders, could require us to pledge additional assets to secure the financing, or could impose additional restrictive covenants on us. These additional securities could have rights senior to those of our common stock. We established a credit facility with a financial institution in September 2007, which provides for commitments for up to $10.0 million of revolving loans or letters of credit which matures in September 2008. As security for the line of credit, we granted the bank a security interest in all of our assets, except for the shares of certain foreign subsidiaries and certain intellectual property rights. We received a consent from the bank for the sale of our DSL assets. Further extensions of credit will be subject to various conditions, including the continued accuracy of our representations to the bank and the absence of a material adverse change, which is defined to include a material impairment in the value of the collateral or in the bank's prospects of repayment. Due to these conditions, we cannot assure you that we will be able to draw down further amounts under this agreement. We cannot be certain that additional financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results, or to sell assets or otherwise restructure our business to remain viable.

As of March 31, 2008, we had drawn down $1.3 million from our line of credit and $1.2 million in the form of a letter of credit with a financial institution, resulting in an available, unused line of credit balance of $7.5 million. Further draws and other extensions of credit under this loan agreement are subject to various conditions. The agreement includes affirmative and negative covenants, including compliance with a "quick ratio" test and specified levels of tangible net worth, and restrictions on various actions including the incurrence of further indebtedness, acquisitions, divestitures, mergers, changes in business, dividends and other distributions to stockholders, and investments. We were in compliance with the loan covenants as of March 31, 2008.

At March 31, 2008, we had $41.7 million in cash, cash equivalents, short-term investments and restricted cash, which includes $1.3 million in cash that we borrowed under our line of credit and $1.8 million of restricted cash, compared to $36.8 million in cash, cash equivalents and short-term investments at December 31, 2007, which included $1.5 million in cash borrowed under our line of credit. The restricted cash will be held in escrow for one year (February 2009) as security for certain of our indemnification obligations pursuant to the asset sale agreement with Ikanos, including breaches of our representations and warranties.

Operating activities for the three months ended March 31, 2008 used $7.0 million in cash primarily due to our $0.5 million net income and non-cash expenses of $0.3 million for stock-based compensation expense and $0.2 million for depreciation adjusted for $8.1 million gain on sale of DSL related assets and cash provided of $0.1 million for net changes in assets and liabilities. The cash provided by net changes in assets and liabilities was primarily due to $1.4 million increase in accrued restructuring, current portion, $0.6 million decrease in prepaid software tools and $0.5 million decrease in accounts receivable partially offset by $0.9 million decrease in accrued compensation and related expenses, $0.8 million decrease in accrued liabilities, $0.3 increase in inventories (net of DSL asset sale), $0.1 million decrease in long-term liabilities, $0.2 million decrease in accounts payable and $0.1 million decrease in long-term restructuring.

The $0.9 million decrease in accrued compensation and related expenses corresponds to our decreased headcount after our restructuring efforts and transfer of employees to Ikanos with the sale of the DSL product lines. The $0.8 million decrease in accrued liabilities is due to activity related to the Ikanos sale. The decrease in other long-term liabilities, exclusive of the current year restructuring charges, resulted from amortization of the prior years' restructuring charges related to surplus space, lease incentives and deferred rent. Accounts payable decreased due to decreased business activity levels. The $1.4 million increase in current accrued restructuring is comprised of $1.0 million in contract termination costs and $0.4 million severance related costs to be paid in the second quarter 2008. The $0.6 million decrease in prepaid software tools is a result of write-off of $0.4 million due to our restructuring efforts and also due to timing of contract payments. The accounts receivable decrease of $0.5 million resulted from a decrease in shipments in the quarter ended March 31, 2008 in comparison to the quarter ended December 31, 2007.

Net cash used by investing activities was $0.1 million for the three months ended March 31, 2008. Net cash used by investing activities was a result of $10.3 million purchases of available-for-sale securities and the purchase of $0.1 million of property and equipment, partially offset by $12.1 of proceeds from the divestiture of the DSL product line, reduced by $1.8 million increase in restricted cash in the escrow.

Net cash used by financing activities was $0.2 million for the three months ended March 31, 2008, which consisted of $1.5 million of bank loan payments partially offset by borrowings of $1.3 million under the $10.0 million line of credit.

Our principal source of liquidity as of March 31, 2008 consisted of $39.9 million of unrestricted cash, cash equivalents and short-term investments, which includes $1.3 million that we borrowed under our revolving line of credit, and $1.8 million in restricted cash and $7.5 million available balance from the line of credit. As noted above, our ability to borrow under the line of credit is subject to various conditions. We believe our cash, cash equivalents and investment securities will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next twelve months.

Significant contractual obligations and commercial commitments are shown in the table below (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Short-term bank borrowings	$ 1,300	$ 1,300	$ -	$ -	$ -
Operating leases - facilities	2,305	1,096	1,209	-	-
Operating leases - software	1,909	1,784	125	-	-
Purchase obligations	2,655	2,655	-	-	-
Contingency obligation	500	500	-	-	-
Total	$ 8,669	$ 7,335	$ 1,334	$ -	$ -

Off-Balance Sheet Arrangements

As of March 31, 2008, we did not have any significant off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we may invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment will decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, government and non-government debt securities, with maturities of less than eighteen months. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. As of March 31, 2008, all of our investments were in money market funds, certificate of deposits, high quality commercial paper and government and non-government debt securities. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately $112,000 in the fair value of our available-for-sale securities as of March 31, 2008.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In December 2005, Accton Technology Corporation, or Accton, filed a suit against Centillium Communications, Inc. (“Centillium”) in the California Superior Court for the County of Alameda alleging a variety of claims, including breach of contract, breach of express warranty, and fraud and concealment in connection with certain products Accton purchased in 2002 and 2003. The complaint sought monetary damages against Centillium. Centillium disputed each of these claims. The parties settled and expensed the dispute on July 12, 2007 for $2.5 million. In May 2008, Centillium signed a settlement agreement with insurance companies who agreed to pay $2.0 million to the Company in connection with the Accton settlement and related legal fees.

We are involved in other litigation and responding to claims arising in the ordinary course of business. We intend to defend ourselves vigorously in these other matters, although management is unable to predict the outcome of these other matters. In certain cases, management has accrued estimates of the amounts it expects to pay upon resolution of such matters and such amounts are included in accrued liabilities. Should we not be able to secure the terms we expect, these estimates may change and will be recognized in the period in which they are identified. Although the ultimate outcome of such inquiries is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on our results of operations, but could have a material adverse effect on our financial position or cash flows.

ITEM 1A. RISK FACTORS

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below, in addition to the other cautionary statements and risks described elsewhere and the other information contained in this Report and in our other filings with the SEC, including subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be seriously harmed.

Risks Related to Our Business

We have a history of losses and expect to continue to experience losses.

We have not reported an operating profit for any year since our inception and experienced net losses of $17.6 million, $10.7 million and $11.3 million in 2007, 2006 and 2005, respectively. Additionally, stock-based compensation expense required to be recorded in our financial statements by SFAS 123(R) since January 1, 2006 has had and will continue to have a material adverse impact on our operating results.

Our success will depend in large part upon the adoption and utilization of our optical and VoIP products and technology, as well as our ability to effectively maintain existing relationships and develop new relationships with customers and strategic partners. If we do not succeed in doing so, we will not achieve profitability. If we ever become profitable, we may not be able to maintain profitability. In particular, we intend to expend significant financial and management resources on product development, sales and marketing, strategic relationships, technology and operating infrastructure. This includes our focus on development of optical networking and VoIP products, given the sale of our DSL product lines in February 2008, but those development efforts have not resulted in significant revenues. Our operating expenses may increase further in the future, and we cannot assure you that we will develop and sustain a cost structure that will lead to profitability under current and expected revenue levels. The disposition of our DSL product lines will reduce our overall revenues and will result in restructuring charges and other costs in the short term. As a result, we expect to incur additional losses and continued negative cash flow from operations for the foreseeable future.

Our strategic direction has changed through the recent sale of our DSL product lines, and our focus on our optical and VoIP product lines may not be successful.

In February 2008, we sold certain assets associated with our DSL product lines to Ikanos Communications, Inc. This sale significantly reduced the size of our business and revenues, and our business model now focuses exclusively on our optical and VoIP products, which have historically generated fewer revenues than our legacy DSL products. In 2007, optical and VoIP net revenues represented 15% and 25%, respectively, of our total net revenues. There can be no assurance that our focus on these two product areas will produce acceptable results. If we are not successful in expanding our optical and VoIP revenues and operating those product lines successfully, our stock price will suffer. Moreover, any other future changes to our business may not prove successful in the short or long term due to a variety of factors, including competition, customer acceptance and demand for our products, and other factors described in this section, and may have a material negative impact on our financial results.

In addition, we have in the past and may in the future find it advisable to streamline operations and reduce expenses, including such measures as reductions in the workforce, discretionary spending, or capital expenditures, as well as other steps to reduce expenses. We have streamlined operations and reduced certain expense areas as a result of the sale of our DSL product lines, including reductions in our workforce. We may find it advisable to undertake further actions of this type in 2008, to further align our resources with our more focused business strategy. Any restructuring or streamlining places significant strains on management, our employees and our operational and other resources, and could impair our sales and customer support efforts or alter our product development plans. Restructuring or streamlining may also cause us to incur liability from early termination or assignment of contracts, potential failure to meet required support levels due to loss of relevant employees, and other adverse effects. Those effects, and any restructuring-related accounting charges that we may record, could have a negative impact on our financial results.

Because of our lack of diversity in geographic sources of revenues, factors specific to Japan may adversely affect our business and operating results.

Historically, our revenues were largely dependent on the growth of new ADSL subscribers in Japan, but that market declined significantly in recent periods, resulting in our decision to sell our DSL product lines in early 2008. Revenues from Japan comprised 49%, 52% and 64% of our net revenues for 2007, 2006 and 2005, respectively. Revenues from Japan in 2007 as compared to 2006, which were largely attributable to our ADSL products, decreased by $16.0 million, or 55%.

We expect that approximately half of our VoIP and optical revenues in 2008 will be generated by sales into the Japanese market. For the three months ended March 31, 2008, $3.9 million or 64% of our revenues originated in Japan. Because a substantial portion of our revenues has been derived from sales into Japan, our revenues have been heavily dependent on developments in the Japanese market. Our sales in Japan have been historically denominated in U.S. dollars and major fluctuations in currency exchange rates could materially affect our Japanese customers' demand, thereby causing them to reduce their orders, which could adversely affect our operating results. While part of our strategy is to diversify the geographic sources of our revenues, failure to further penetrate markets outside of Japan could harm our business and results of operations and subject us to increased currency risk.

After the sale of our DSL product lines in February 2008, we are now entirely dependent on our VoIP and FTTP products, which previously accounted for less than half of our revenues.

Historically, the majority of our revenues was derived from the sale of our ADSL products, which accounted for 60%, 77% and 79% of our net revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Due to our sale of those product lines in early 2008, our future revenues will be entirely dependent on our VoIP and FTTP product lines, which were introduced more recently. Because of our dependence on these products, we will be disproportionately affected by any decline in demand for optical or FTTP equipment that arises due to changes in telecommunications service providers' strategies or deployment budgets, increased competition from other access technologies, or other factors. We also expect to face increasing pricing pressures in our target markets. If we are unsuccessful in generating meaningful sales of our VoIP and FTTP products, we will not achieve or sustain profitability.

We may need to raise additional capital which might not be available or which, if available, could be on terms adverse to our common stockholders.

We do not expect to generate cash from operations for the foreseeable future. Our cash, cash equivalents, short-term investments and restricted cash balance was $41.7 million as of March 31, 2008. We used approximately $7.0 million in cash for operations in the first quarter of 2008. If any of the assumptions on which we have based our spending plans proves to be inaccurate, or if we encounter unexpected cash demands due to adverse results in litigation or for other reasons, we may need to raise additional funds. We cannot be certain that additional financing will be available in amounts or on terms acceptable to us, if at all. In 2007 we established a $10.0 million credit facility, under which we had borrowed $1.3 million and drew down a $1.2 million letter of credit as of March 31, 2008, but there are significant conditions on our ability to borrow further amounts under that facility. We may also require additional capital for the acquisition of businesses, products and technologies that are complementary to ours, and for operational needs such as product development due to the rapidly changing technologies and customer demands associated with our VoIP and optical product lines. If we issue equity securities, the ownership percentage of our stockholders would be reduced, and the new equity securities may have rights, preferences or privileges senior to those existing holders of our common stock. Our existing credit facility restricts our ability to sell assets, merge, incur additional indebtedness, make investments, pay dividends and distributions, or take other actions without the consent of the bank. The facility also requires us to comply with a "quick ratio" test and maintain specified levels of tangible net worth. The terms of any new debt or equity financing may also include restrictive covenants that impair our business and financial flexibility. If we are unable to obtain additional financing, we may not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could seriously harm our business, operating results and financial condition and could require us to sell assets or otherwise restructure our business to remain viable.

If we are unable to develop and introduce new products successfully and in a cost-effective and timely manner or to achieve market acceptance of our new products, our operating results would be adversely affected.

Our future success is dependent upon our ability to develop new semiconductor products for existing and new markets, introduce these products in a cost-effective and timely manner and have these products selected by leading equipment manufacturers for design into their own new products. This is particularly important due to our sale of our DSL product lines in February 2008. The development of new silicon products is highly complex, and from time to time we have experienced delays in completing the development and introduction of new products and lower than anticipated manufacturing yields in the early production of such products, as well as unanticipated failures of equipment manufacturers to select our products. Our ability to develop and deliver new products successfully will depend on various factors, including our ability to:

- timely and accurately predict market requirements and evolving industry standards;
- successfully anticipate and develop new products;
- timely and accurately identify opportunities in new markets;
- timely complete and introduce new product designs;
- scale our operations in response to changes in demand for our products and services;
- license any desired third party technology or intellectual property rights;
- timely qualify and obtain industry interoperability certification of our products and the products of our customers into which our products will be incorporated;
- obtain sufficient foundry capacity and packaging materials;
- achieve high manufacturing yields;

- shift our products to smaller geometry process technologies to achieve lower cost and higher levels of design integration; and

- gain market acceptance of our products and our customers' products.

If we are not able to develop and introduce new products successfully and in a cost-effective and timely manner, we may need to explore purchasing new products, which could give rise to substantial costs and disruption of our existing operations and sales efforts. Moreover, if we are unsuccessful in introducing or acquiring new products, we may be unable to attract new customers or to retain our existing customers, which would materially and adversely affect our results of operations. For example, we previously entered into an agreement with a third party that gives us exclusive rights to an EPON chip that they developed, which we refer to as the ME250. A customer has agreed to purchase this EPON chip for its FTTP system through approximately the end of the third quarter of 2010. However, our customer's FTTP system incorporating this EPON chip must obtain the anticipated market share of the principal telecommunications service provider business for us to significantly grow our FTTP revenues in 2008 and beyond. We cannot predict whether this EPON chip, which we did not design, will contain unexpected performance problems or whether we will encounter unexpected difficulties with the supply of this chip. There also can be no assurance that our customer's FTTP system with this EPON chip will be validated by the targeted service provider and that even if it is, that this service provider will purchase our customer's FTTP systems with the ME250 in the anticipated quantities, if at all.

In the first quarter of 2007, we also introduced our own next generation PON chip, which we refer to as the ME300. It is in the process of being validated by our customer. If it is validated, it will be the platform that we will market going forward with other customers. If we are not successful with this PON chip, however, it could lead us to decide to scale down or exit our own optical product line. This could have a materially adverse effect on our results of operations for 2008 and future periods and would impair our growth prospects, particularly given our recent sale of our DSL product lines, which had previously accounted for a substantial portion of our revenues despite continued declines in the Japanese DSL market. Even if we are successful in convincing a customer to accept our new FTTP PON product, we may be required to incur further product development and support expenses, and do not expect to recognize any appreciable revenues from this product until the fourth quarter of 2008 at the earliest. There can be no assurance that our PON chip will be validated or will meet customer requirements now or in the future and that even if it does meet these requirements, that our customers will purchase this product.

Because manufacturers of communications equipment may be reluctant to change their sources of components, if we do not achieve design wins with such manufacturers, we may be unable to secure sales from them in the future.

Once a manufacturer of communications equipment has designed a supplier's semiconductor into its products, the manufacturer may be reluctant to change its source of semiconductors due to the significant costs associated with qualifying a new supplier. Accordingly, our failure to achieve design wins, or our competitors' ability to achieve design wins, with equipment manufacturers, could create barriers to future sales opportunities with these manufacturers.

We depend on a few customers, and if we lose any of them, our sales and operations will suffer.

We sell our products primarily to a small number of network equipment manufacturers. Four manufacturers accounted for 55%, 79% and 77% of our net revenues for the three months ended March 31, 2008 and the years ended December 31, 2007 and 2006, respectively. An additional manufacturer, OKI Electric Industry Co., Ltd. (OKI) accounted for 31% of our net revenues for the three months ended March 31, 2008. For the three months ended March 31, 2008 and for the years ended December 31, 2007, 2006, and 2005, Lucent Technologies accounted for 24% 15%, 12% and 13% of net revenues, Sumitomo Electric Industries, Ltd (Sumitomo) accounted for 20%, 26%, 26% and 35% of net revenue, and NEC Corporation (NEC) accounted for 11%, 15%, 23% and 26% of net revenue, respectively. Ericsson accounted for 23% and 16% of net revenues in 2007 and 2006, respectively. No other customer accounted for 10% or more of our net revenues during the three months ended March 31, 2008 and the years ended December 31, 2007, 2006 and 2005.

We expect that our dependence on a few customers will be even more pronounced in 2008, because we sold our DSL product lines in February 2008, and our remaining products are sold to an even more concentrated group of customers. We do not have contractual volume commitments with these customers; instead, we sell our products to them on an order-by-order basis. Our ability to maintain relationships with these large customers is essential to our operating results and financial condition. However, this dependence means that we are especially susceptible to factors that affect their purchasing decisions that are, in many instances, outside of our direct control. These factors include, among other things:

- the fact that many of our customers have pre-existing or concurrent relationships with our competitors that may affect the customers' decision to purchase our products;
- the success of our largest OEM customers;
- competition for end customers' business from certain of our OEM customers, who develop their own semiconductor solutions;
- our customers' budgeting processes and strategies; and
- the continued demand for our customers' systems products.

As a result, we may not be able to maintain or increase sales to certain of our large customers for various reasons. Our concentration of business and on-going relationships with our major customers may also deter other potential customers who compete with these existing customers from buying our products. We expect to be dependent upon a relatively small number of large customers in future periods, although the specific customers may vary from period to period. Sales of our VoIP and Optical products are currently highly concentrated with only a few customers, which may lead to greater variability in our sales of those products depending on the actions of even a single customer. If we are not successful in maintaining relationships with key customers and winning new customers, our business and results of operations will suffer. Moreover, our customers are in most cases larger than us, and because our revenues are concentrated among a relatively small number of customers, they tend to have greater bargaining power to demand lower prices and other terms and conditions that may materially adversely affect our business, financial condition and results of operations. Among other things, our customers are increasingly requiring us to agree to terms of sale that impose greater costs and risks on us than in the past.

Our quarterly operating results are volatile, which may cause our stock price to decline.

Our operating results have fluctuated from quarter to quarter based on a number of factors, many of which are outside of our control. These factors include:

- the size, timing and shipment of orders, especially large orders from our largest customers;
- increasing operating expenses;
- difficulty forecasting customers' order levels, because they are susceptible to changes in customers' strategies, budgets and success in selling their own systems;
- excess inventory resulting from the need to make purchasing decisions in advance of customer purchase orders and from any deferred or canceled orders; ongoing pricing pressure; and limitations on our ability to further reduce fixed expenses to correspond to declines in revenues;
- ongoing pricing pressure;
- limitations on our ability to further reduce fixed expenses to correspond to declines in revenues; and
- the impact of the sale of the DSL product lines on our business.

We anticipate lower margins as products mature and as we experience aggressive competition, which could adversely affect our profitability.

We expect the average selling prices of our products to decline as they mature. Historically, competition in the semiconductor industry has driven down the average selling prices of products. If we price our products too high, our customers may use a competitor's product or an in-house solution. To maintain profit margins, we must reduce our costs sufficiently to offset declines in average selling prices, or successfully sell proportionately more new products with higher average selling prices. Yield or other production problems, or shortages of supply may preclude us from lowering or maintaining current product costs.

We have also experienced more aggressive price competition from competitors in certain market segments in which we are attempting to expand our business. These circumstances may make some of our products less competitive and we may be forced to decrease our prices significantly to win a design. We may lose design opportunities or may experience overall declines in gross margins and gross profits as a result of increased price competition.

We base orders for inventory on our forecasts of our customers' demand and if our forecasts are inaccurate, our financial condition, results of operation and cash flows will suffer.

We place orders with our suppliers based on our forecasts of our customers' demand. Our forecasts are based on multiple assumptions, each of which may introduce errors into our estimates. In the past, when the demand for our customers' products increased significantly, we were not always able to meet demand on a timely basis, and we expended a significant amount of time working with our customers to allocate limited supply and maintain positive customer relations. If we underestimate customer demand, we may forego revenue opportunities, lose market share and damage our customer relationships. Conversely, if we overestimate customer demand, we may allocate resources to manufacturing products that we may not be able to sell when we expect to or at all. As a result, we would have excess or obsolete inventory, resulting in a decline in the value of our inventory, which would increase our cost of revenues and create a drain on our liquidity. For example, we recorded write-downs of $3.0 million of excess inventory in 2006 due to a substantial decrease in customer forecasted customer purchases. We recorded write-downs of $643,000 for the year ended December 31, 2007. Our failure to accurately manage inventory against demand would adversely affect our financial results.

Our markets are highly competitive and many of our competitors are established and have greater resources than we have.

The market for communications semiconductor is intensely competitive. Given our stage of development, there is a substantial risk that we will not have the financial resources, technical expertise or marketing and support capabilities to compete successfully. In addition, a number of other semiconductor companies have entered or may enter the market segments adjacent to or addressed by our products. These competitors may have longer operating histories, greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than we have. We also face competition from customers' or prospective customers' own internal development efforts. Any of these competitors may be able to introduce new technologies, respond more quickly to changing customer requirements or devote greater resources to the development, promotion and sale of their products than we can.

Third-party claims regarding intellectual property matters could cause us to stop selling our products, pay monetary damages or obtain licenses on adverse terms.

There is a significant risk that third parties, including current and potential competitors, will claim that our products, or our customers' products, infringe on their intellectual property rights. From time to time, third parties have asserted, and may in the future assert, patent, copyright, trademark or other intellectual property rights to technologies that are important to our business and have demanded or in the future may demand that we license their patents and technology. Any such litigation, whether or not determined in our favor or settled by us, would be costly and divert the attention of our management and technical personnel. For example, commencing in August 2004, we and our Japanese subsidiary were subject to patent litigation brought in Japan by Fujitsu Limited. The complaint sought significant monetary damages, and although we were successful in defending this lawsuit, we incurred substantial costs in defending it. Inquiries with respect to the coverage of our intellectual property could develop into litigation. In such a litigation, a court could issue a preliminary injunction that would require us to withdraw or recall certain products. Moreover, we cannot assure you that we would prevail in litigation given the complex technical issues and inherent uncertainties in intellectual property litigation. In the event of an adverse ruling for an intellectual property infringement claim, we could be required to obtain a license or pay substantial damages (including treble damages) or have the sale of our products stopped by a permanent injunction. Such a license may not be available on reasonable terms, or at all. We may be unable to redesign our products to avoid infringing the third party's intellectual property rights. Even if we are able to do so, the redesign would likely require considerable time and expense, and the redesigned products could be less attractive to customers. In addition, if a current or prospective customer of our products cannot acquire a required license on commercially reasonable terms, that customer may choose not to use our products.

We indemnify our customers under some circumstances for infringement of third-party intellectual property rights. We have also received requests from certain customers to include increasingly broad indemnification provisions in our agreements with them. These indemnification provisions may, in some circumstances, result in liability for combinations of components or system level designs and consequential damages and/or lost profits and the associated costs to us could be substantial. Even if indemnification claims against us are not valid or successfully asserted, responding to them could entail significant costs, impair customer goodwill, and divert the attention of management and other key employees. Any third-party intellectual property claim against one of our customers whom we may be obligated to indemnify could result in substantial costs to us, as well as damaging our customer relationships.

We operate in the highly cyclical semiconductor industry, which is subject to significant downturns.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles and wide fluctuations in product supply and demand. From time to time these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry, and in our business in particular. Periods of industry downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship product compared to our competitors and result in deteriorating market share. These factors have caused substantial fluctuations in our revenues and results of operations. We have experienced these cyclical fluctuations in our businesses in the past and we may experience cyclical fluctuations in the future.

Recent changes to environmental laws and regulations applicable to manufacturers of electrical and electronic equipment are causing us to redesign our products, and may result in increases to our costs and greater exposure to liability.

The implementation of new environmental regulatory legal requirements, such as lead free initiatives, could impact our product designs and manufacturing processes. The impact of such regulations on our product designs and manufacturing processes could affect the timing of compliant product introductions as well as their commercial success. For example, a recent directive in the European Union has banned the use of lead and other heavy metals in electrical and electronic equipment since July 1, 2006. As a result, our customers selling products in Europe have been demanding product from component manufacturers that do not contain these banned substances. We have redesigned our products to meet customer demands, but these redesigns may result in increased manufacturing and quality control costs. In addition, the products that we manufacture that comply with the new regulatory standards may not perform as well as our current products. Moreover, if we are unable to successfully and timely introduce new products that meet the standards set by environmental regulation and our customers, sales of our products could decline, which could materially adversely affect our business, financial condition and results of operations.

We depend on sole or limited source suppliers for the manufacture of our products.

As a fabless semiconductor company that neither owns nor operates a fabrication or manufacturing facility, we are heavily dependent on certain suppliers. We obtain certain parts, components and packaging used in the delivery of our products from sole or limited sources of supply. For example, we obtain certain semiconductor wafers on a sole source basis from Taiwan Semiconductor Manufacturing Company and IBM. We will also be entirely dependent on a single third party for the supply of the ME250 EPON chip for our optical business targeting the principal telecommunications service provider in Japan. Developing and maintaining these strategic relationships with our vendors is critical for us to be successful. Any of our sole or limited source suppliers may:

- experience delays in meeting our customer demand on a timely basis, or at all;
- enter into exclusive arrangements with our competitors or compete with us through their own development efforts;
- stop selling their products or components to us at commercially reasonable prices;
- refuse to sell their products or components to us at any price; or
- be subject to production disruptions caused by factors such as power outages, labor problems, earthquakes and financial difficulties.

Our business is susceptible to disruption, and our results of operations can be adversely affected, by any disruption in supply or other adverse developments in our relationships with vendors. In periods of high demand in the semiconductor market, our suppliers may have insufficient capacity to enable us to meet our customers' delivery requirements on a timely basis. In addition, we could experience similar delays due to technical and quality control problems at our suppliers' facilities. If any of these events occur, or if our suppliers' facilities suffer any damage or disruption, we may not be able to meet our customer demand on a timely basis, or at all, and may need to quickly and successfully qualify an alternative supplier in order to not disrupt our business. We typically require a significant period of time to qualify a new supplier or process before we can begin shipping products. If we cannot accomplish this qualification in a timely manner, we would experience a significant interruption in supply of the affected products. If we are unable to secure sufficient capacity at our suppliers' existing facilities, or in the event of a closure or significant delay at any of these facilities, our relationships with our customers would be harmed and our market share and operating results would suffer as a result.

If the demand for VoIP and FTTP broadband access services does not increase, we may not be able to generate substantial sales.

Sales of our products depend on the increased use and widespread adoption of broadband access services, especially VoIP and FTTP, and the ability of telecommunications service providers to market and sell broadband access services. Our business would be harmed, and our financial condition and results of operations would be adversely affected, if the use of broadband access services, and in particular the VoIP and FTTP services on which our future growth prospects are entirely dependent, does not increase as anticipated. Certain critical factors will likely continue to affect the development of the broadband access service market. These factors include:

- inconsistent quality and reliability of service;
- lack of availability of cost-effective, high-speed service;
- lack of interoperability among multiple vendors' network equipment;
- congestion in service providers' networks;
- inadequate security; and
- slow deployment of new broadband services.

In addition, our FTTP PON products, including the ME250 chip which we recently licensed on an exclusive basis from a third party, are based on a variant of passive optical networking technology that is currently utilized by only a few service providers in Japan and Asia. Accordingly, even if service providers deploy FTTP more widely in the future, demand for our products may not increase to a commensurate extent or at all.

Rapid changes in the market for broadband access chip sets may render our chip sets obsolete or unmarketable.

The market for our products is characterized by:

- intense competition;
- rapid technological change;
- frequent new product introductions by our competitors;
- changes in customer demands; and
- evolving industry standards.

Any of these factors could make our products obsolete or unmarketable. In addition, the life cycles of some of our products may depend upon the life cycles of the end products into which our products will be designed. Products with short life cycles require us to closely manage production and inventory levels. Unanticipated changes in the estimated total demand for our products and/or the estimated life cycles of the end products into which our products are designed may result in obsolete or excess inventories, which in turn may adversely affect our operating results. To compete, we must innovate and introduce new products. If we fail to successfully introduce new products on a timely and cost-effective basis that meet customer requirements and are compatible with evolving industry standards, then our business, financial condition and results of operations will be seriously harmed.

Because the sales cycle for our products typically lasts up to one year or longer, and may be subject to delays, it is difficult to forecast sales for any given period.

The sales cycle of our products is lengthy and typically involves a detailed initial technical evaluation of our products by our prospective customers, followed by the design, construction and testing of prototypes incorporating our products. Our customers' evaluation can include lengthy product approval processes. In the past, we have experienced delays and difficulties in obtaining product approvals from some customers. Only after evaluation, approval and prototyping are complete will we receive a purchase order from a customer for volume shipments. This process generally takes from 9 to 12 months, and may last longer. Additionally, this cycle may be as long as 18 to 24 months for certain VoIP products. Given this lengthy sales cycle, it is difficult to accurately predict when sales to a particular customer will occur. In addition, we may experience unexpected delays in orders from customers, which may prevent us from realizing forecasted sales for a particular period and in turn adversely impact our stock price. Our products are typically sold to equipment manufacturers, who incorporate our products in the products that they in turn sell to consumers or to network service providers. As a result, any delay by our customers, or by our customers' customers, in the manufacture or distribution of their products will result in a delay in obtaining orders for our products, which could cause our business and results to suffer.

Other broadband technologies may compete effectively with the broadband services addressed by our products, and a slowdown in deployment of FTTP or VoIP services, the lack of significant growth in the markets that we are targeting and our lack of success in penetrating such markets would adversely affect our business and operating results.

Our revenues are heavily dependent on the demand for FTTP and VoIP services. Those services are competing with several different broadband data transmission technologies, including cable modems, satellite and other wireless technologies. Competition from other broadband access technologies, such as broadband over power lines, is expected in the future. While we recently decided to focus exclusively on FTTP and VoIP, we have experienced difficulties in penetrating those markets. If any technology that is competing with the technologies that we offer is more reliable, faster and/or less expensive or has any other advantages over the technologies for which we have products, then the demand for our products may decrease. The lack of significant growth in those markets we are targeting in general and the lack of success of our products in particular would also adversely affect our business, financial condition and results of operations.

Because our products are components of other equipment, if broadband equipment manufacturers do not incorporate our products in their equipment, or if the equipment incorporating our products are not successful, we may not be able to generate sales of our products in volume quantities.

Our products are not sold directly to the end-user; they are components of other products. As a result, we rely upon equipment manufacturers to design our products into their equipment. We further rely on the successful manufacturing and deployment of the equipment, which we cannot control. Our customers are typically not obligated to purchase our products and can choose at any time to stop using our products if their own products are not commercially successful or for any other reason. If equipment that incorporates our products is not accepted in the marketplace, our revenues will be materially impaired.

We are subject to order and shipment uncertainties, and any significant order cancellations or deferrals could adversely affect our business.

We typically sell products pursuant to purchase orders that customers cannot generally cancel or defer on short notice. Increasingly, customers have been requesting to cancel or postpone orders on short notice and at times, we have accommodated such requests. Any significant cancellations or deferrals in the future could materially and adversely affect our business, results of operations and financial condition. In addition, cancellations or deferrals of product orders, the return of previously sold products or the overproduction of products due to the failure of anticipated orders to materialize could cause us to hold excess or obsolete inventory, which could reduce our profit margins, increase product obsolescence and restrict our ability to fund our operations. Furthermore, we generally recognize revenues upon shipment of products to a customer. If a customer refuses to accept shipped products, we could incur significant charges against our revenues.

We derive a substantial amount of our revenues from international sources, and difficulties associated with international operations could harm our business.

A substantial portion of our revenues has been derived from customers located outside of the United States. Customers located in Asia accounted for 64%, 56%, 70% and 74% of our net revenues for the three months ended March 31, 2008 and the years ended December 31, 2007, 2006 and 2005, respectively. Customers located in Europe accounted for 4%, 28%, 17% and 7% of our net revenues for the three months ended March 31, 2008 and the years ended December 31, 2007, 2006 and 2005, respectively. We may be unable to successfully overcome the difficulties associated with international operations. These difficulties include:

- exposure to different legal standards, particularly with respect to intellectual property;
- natural disasters and public health emergencies;
- nationalization of business and blocking of cash flows;
- trade and travel restrictions;
- the imposition of governmental controls and restrictions;
- burdens of complying with a variety of foreign laws, such as environmental directive and regulations governing the content of semiconductor products;
- import and export license requirements and restrictions of the United States and each other country in which we operate, as discussed more fully below;
- unexpected changes in regulatory requirements;
- foreign technical standards;
- changes in taxation and tariffs;

- difficulties in staffing and managing international operations;
- foreign currency exchange rates;
- political, social and economic instability;
- difficulties in collecting receivables from foreign entities or delayed revenue recognition; and
- potentially adverse tax consequences.

Any of the factors described above may have a material adverse effect on our ability to increase or maintain our foreign sales.

We recently voluntarily notified the U.S. Department of Commerce that we had failed to make certain export control reports and to obtain export licenses in respect of sales of VoIP and optical products in Europe and Asia. If we are subject to any regulatory investigation or other proceeding resulting from this or any future export control issue, we could be required to expend substantial resources. An adverse result in any regulatory proceeding relating to exports of our products could subject us to substantial fines or restrictions on selling our products into certain countries until appropriate licenses are obtained. Any of these developments could have a material adverse effect on our business, results of operations and financial condition.

Because sales of our products are denominated exclusively in United States dollars, increases in the value of the United States dollar relative to a particular foreign currency could make our products more expensive to customers in that country, leading to a reduction in sales and profitability.

We are exposed to increased costs and risks associated with complying with increasing and new regulation of corporate governance and disclosure standards.

Management continues to spend time and internal and external resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ Stock Market rules. In particular, our management, including our CEO and CFO, does not expect that our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, involving Centillium have been, or will be, detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Although our management determined, and our independent registered public accounting firm attested, that our internal control over financial reporting was effective as of December 31, 2007, we cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal control in the future. A material weakness in our internal control over financial reporting would require management and our independent registered public accounting firm to assess our internal control as ineffective. If our internal control over financial reporting is not considered effective, we may experience a loss of public confidence, which could have an adverse effect on our business and our stock listing and price.

Additional slowdowns in spending in the telecommunications industry have affected and may continue to negatively affect our business and operating results.

The worldwide telecommunications industry, including the broadband communications segment, has experienced pronounced economic downturns that result in delays in the build-out of new infrastructure, lower equipment production volumes, and reductions in component inventory levels. Any such downturn could result in lower than expected demand for our products, excess inventories and intensified pricing pressures, which could have a material adverse effect on our revenues and results of operations generally, and could cause the market price of our common stock to decline. Specifically, during the most recent downturn in the telecommunications industry, we experienced:

- reduced demand for our products;
- increased price competition for our products;
- increased risk of excess and obsolete inventories; and
- higher research and development and general and administrative costs, as a percentage of revenues.

Recent geopolitical and social turmoil in many parts of the world, including actual incidents and potential future acts of terrorism and war, may continue to put pressure on global economic conditions. These geopolitical and social conditions, together with the resulting economic uncertainties, make it extremely difficult for us, our customers and our vendors to accurately forecast and plan future business activities. This reduced predictability challenges our ability to operate profitably or to increase revenues. In particular, it is difficult to develop and implement strategies to create sustainable business models and efficient operations, and to effectively manage outsourced relationships for services such as contract manufacturing and information technology. If the current uncertain economic conditions continue or deteriorate, there could be an additional material adverse impact on our financial position, revenues, results of operations, and cash flows.

We have incurred, and expect to continue to incur, increased costs as a result of being a public company.

Laws and regulations affecting U.S. public companies, including the provisions of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and rules enacted by the SEC and the Nasdaq Stock Market, have resulted in substantially increased costs to us. In particular, the costs to comply with Section 404 of Sarbanes-Oxley, as presently in effect, has and could continue to have an adverse effect on our results of operations. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as executive officers.

We may be unable to attract, retain and motivate qualified personnel, which could seriously harm our business.

Our future success depends on our ability to attract, retain and motivate qualified personnel, including executive officers and other key management and technical personnel. As the source of our technological and product innovations, our key technical personnel represent a significant asset. The competition for such personnel can be intense in the semiconductor industry. We do not have employment agreements with these executives, or any other key employees, that govern the length of their service. Additionally, in February 2008 we completed the first phase of our restructuring plan. We have had, and may continue to have, particular difficulty attracting and retaining key personnel during periods of poor operating performance and this period following our restructuring. Among other things, 99% of our stock options had exercise prices above the closing price of our common stock on April 29, 2008. The loss of the services of certain key senior management or technical personnel, or our inability to attract, retain and motivate qualified personnel, could materially and adversely affect our business, financial condition and results of operations.

Future consolidation in the telecommunications and telecommunications equipment industry may increase competition that could harm our business.

The markets in which we compete are characterized by increasing consolidation both within the telecommunications equipment sector and by companies combining or acquiring data communications assets and assets for delivering voice-related services. We cannot predict how industry consolidation will affect our competitors or customers. We may not be able to compete successfully in an increasingly consolidated industry. Increased competition and consolidation in our industry may require that we reduce the prices of our products or result in a loss of market share, which could materially adversely affect our business, financial condition and results of operations. Additionally, because we are now, and may in the future be, dependent on certain strategic relationships with third parties in our industry, any additional consolidation involving these parties could reduce the demand for our products and otherwise harm our business prospects.

If we deliver products with defects, our credibility will be harmed, and the sales and market acceptance of our products will decrease.

Our products are complex and have contained errors, defects and bugs when introduced and revised. In the future we may experience further errors, defects and bugs. In the past, we have experienced, and may in the future experience, defects and bugs in our products. If we deliver products with errors, defects or bugs or products that have reliability, quality or compatibility problems, our credibility and the market acceptance and sales of our products could be harmed, which could adversely affect our ability to retain existing customers or attract new customers. Further, if our products contain errors, defects and bugs, then we may be required to expend significant capital and resources to alleviate such problems and may have our sales to customers interrupted or delayed. If any of these problems are not found until we have commenced commercial production, we may be required to incur additional development costs and product repair or replacement costs. Defects could also lead to potential liability as a result of product liability lawsuits against us or against our customers. We have agreed to indemnify some of our customers in some circumstances against liability from defects in our products. A successful product liability claim could seriously harm our business, financial condition and results of operations, and may divert our technical and other resources from other development efforts.

We may experience difficulties in transitioning to smaller geometry process technologies or in achieving higher levels of design integration and that may result in reduced manufacturing yields, delays in product deliveries and increased expenses.

In order to remain competitive, we expect to continue to transition our products to increasingly smaller line width geometries. This transition will require us to modify the manufacturing processes for our products and redesign some products. We periodically evaluate the benefits, on a product-by-product basis, of migrating to smaller geometry process technologies to reduce our costs, and we have designed some of our products to be manufactured in .35 micron, .25 micron, .18 micron and .13 micron geometry processes. In the past, we have experienced some difficulties in shifting to smaller geometry process technologies or new manufacturing processes, which resulted in reduced manufacturing yields, delays in product deliveries and increased expenses. We may face similar difficulties, delays and expenses as we continue to transition our products to smaller geometry processes. We are dependent on our relationships with our foundries to transition to smaller geometry processes successfully. We cannot assure you that our foundries will be able to effectively manage the transition or that we will be able to maintain our foundry relationships. If our foundries or we experience significant delays in this transition or fail to efficiently implement this transition, our business, financial condition and results of operations could be materially and adversely affected. As smaller geometry processes become more prevalent, we expect to continue to integrate greater levels of functionality, as well as customer and third party intellectual property, into our products. However, we may not be able to achieve higher levels of design integration or deliver new integrated products on a timely basis, or at all.

Our future success will depend in part on our ability to protect our proprietary rights and the technologies used in our principal products, and if we do not enforce and protect our intellectual property, our business will be harmed.

We rely on a combination of patent, copyright and trademark laws, trade secrets, confidentiality agreements and other contractual provisions to protect our proprietary rights. However, these measures afford only limited protection. Our failure to adequately protect our proprietary rights may adversely affect us. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary.

The laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States, and many U.S. companies have encountered substantial infringement problems in these countries. There is a risk that our efforts to protect proprietary rights may not be adequate. For example, our competitors may independently develop similar technology, duplicate our products or design around our patents or our other intellectual property rights. If we fail to adequately protect our intellectual property or if the laws of a foreign jurisdiction do not effectively permit such protection, it would be easier for our competitors to sell competing products.

We may acquire other businesses that could harm our operating results, dilute our stockholders' ownership, increase our debt or cause us to incur significant expense.

As part of our business strategy, we may pursue acquisitions of or investments in complementary businesses and assets. If we make any acquisitions, we may not be able to integrate them successfully into our existing business, and we could assume unknown or contingent liabilities. Any future acquisitions by us also could result in significant write-offs or the incurrence of debt and contingent liabilities, any of which could harm our operating results. Integration of an acquired company also may require management resources that otherwise would be available for ongoing development of our existing business. We may not identify or complete these transactions in a timely manner, on a cost-effective basis, or at all, and we may not realize the anticipated benefits of any acquisition, investment, technology license, strategic alliance or joint venture.

To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would dilute the ownership of our stockholders. However, if the price of our common stock is low or volatile, we may not be able to acquire other companies for stock. Alternatively, it may be necessary for us to raise additional funds for acquisitions or through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all.

Risks Related to Our Common Stock

We may not maintain Nasdaq listing requirements, which would adversely affect the price and liquidity of our common stock.

To maintain the listing of our common stock on The Nasdaq Global Market, we are required to meet certain listing requirements, including a minimum bid price of $1.00 per share. Our stock has traded below the $1.00 minimum bid price for 30 consecutive business days, and we received a deficiency notice from Nasdaq on February 21, 2008 stating that we will have a grace period of 180 days, or until August 19, 2008, to cure the deficiency by meeting the $1.00 per share trading price for 10 consecutive trading days. There can be no assurance that we will achieve compliance with the minimum bid price requirement. If we fail to meet the minimum bid price for 10 consecutive days during the grace period, our common stock may be delisted. Even if we are able to comply with the minimum bid requirement, there is no assurance that in the future we will continue to satisfy Nasdaq listing requirements, with the result that our common stock may be delisted from The Nasdaq Global Market. Should our common stock be delisted from The Nasdaq Global Market, and the delisting determination was based solely on non-compliance with the $1.00 minimum bid price rule, we may consider applying to transfer our common stock to The Nasdaq Capital Market if we satisfy all criteria for initial inclusion on such market other than the minimum bid price rule. In the event of such a transfer, the Nasdaq Marketplace Rules provide that we would be provided an additional 180 calendar days to comply with the minimum bid price rule while on The Nasdaq Capital Market. If our stock is delisted from the Nasdaq Global Market and Nasdaq Capital Market, it would likely be more difficult to trade in or obtain accurate quotations as to the market price of our common stock. Delisting of our common stock could materially adversely affect the market price and market liquidity of our common stock and our ability to raise necessary capital.

In light of our current stock price, the value of stock options and other equity incentives may cease to provide sufficient incentive to our employees, and we may need to make additional equity grants to retain and motivate them.

Like many technology companies, we use stock options, restricted stock units and other equity-based awards to recruit and retain executives, engineers and other senior level employees. Due to the significant decline in our stock price, the vast majority of the outstanding options held by our employees have an exercise price significantly above the current market price of our common stock. If our stock price does not increase above the exercise prices of our stock options, we may need to issue new options or other equity incentives or increase other forms of compensation to motivate and retain our executives and other employees. We may undertake or seek stockholder approval to undertake other equity-based programs to retain our employees, which may be viewed as dilutive to our stockholders and could increase our compensation costs. Additionally, we cannot assure you that any incentive initiatives that we might undertake, including any additional equity grants, will be successful in motivating and retaining our executives and other employees.

Our stock price may continue to be volatile.

The market price of our common stock has been volatile. From January 1, 2002 to May 1, 2008 our common stock traded at prices as low as $0.60 and as high as $14.58 per share. Trading prices during the year ended December 31, 2007 ranged from $1.01 to $2.28 per share. The price of our common stock will likely continue to fluctuate significantly in response to the following factors, some of which are beyond our control:

- variations in our quarterly operating results;
- changes in financial estimates of our revenues and operating results by securities analysts;
- changes in market valuations of integrated circuit companies;
- announcements by us, our competitors or others in related market segments of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- loss or decrease in sales to a major customer or failure to complete significant transactions;
- loss or reduction in manufacturing capacity from one or more of our key suppliers;
- additions or departures of key personnel;
- future sales of our common stock;
- inconsistent or low levels of trading volume of our common stock;
- commencement of or involvement in litigation;
- adverse results in legal proceedings;
- announcements by us or our competitors of key design wins and product introductions;
- a decrease in the average selling price of our products;
- ability to achieve cost reductions; and
- fluctuations in the timing and amount of customer requests for product shipments.

Class action litigation due to stock price volatility or other factors could cause us to incur substantial costs and divert our management's attention and resources.

In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. Companies such as ours in the semiconductor industry and other technology industries are particularly vulnerable to this kind of litigation due to the high volatility of their stock prices. We may in the future be the target of securities litigation. Any securities litigation could result in substantial costs and could divert the attention and resources of our management.

If securities or industry analysts do not publish research or reports about our business or if they issue an adverse opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us issue an adverse opinion regarding our stock, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Compliance with the requirements imposed by Section 404 of the Sarbanes-Oxley Act could harm our operating results, our ability to operate our business and our investors' view of us.

If we fail to maintain the adequacy of our internal controls, as standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. There is a risk that neither we, nor our independent registered public accounting firm, will be able to conclude that our internal controls over financial reporting are effective as required by Section 404 of Sarbanes-Oxley. In addition, during the course of our testing we may identify significant deficiencies that we may not be able to remediate in time to meet the deadline imposed by Sarbanes-Oxley for compliance with the requirements of Section 404. Effective internal controls, particularly those related to revenue recognition, valuation of inventory and warranty provisions, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, our ability to obtain additional financing could be impaired, our stock could be subject to delisting from NASDAQ, and the trading price of our stock could drop significantly.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

3.1(1)	Certificate of Incorporation of the Registrant
3.2(2)	Certificate of Correction of Certificate of Incorporation of the Registrant
10.59(3)	Asset Purchase Agreement dated as of January 15, 2008 between Ikanos Communications, Inc. and the Registrant
4.2(1)	Bylaws of the Registrant
31.1	Certification of the Chief Executive Officer Pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer Pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer of Centillium Communications, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer of Centillium Communications, Inc., Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the Exhibits of the same number filed with the Registrant's Registration Statement on Form S-1 (No. 333-30772), declared effective by the Commission on May 23, 2000.

(2) Incorporated by reference to the Exhibit of the same number filed with the Registrant's Report on Form 10-Q filed with the Commission on November 8, 2006.

(3) Incorporated by reference to the Exhibit of the same number filed with the Registrant's Report on Form 8-K filed with the Commission on January 18, 2008.

SIGNATURES

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.

CENTILLIUM COMMUNICATIONS, INC.
(Registrant)
Dated: May 12, 2008

By: /s/ LINDA C. REDDICK

Linda C. Reddick
Chief Financial Officer
(Principal Financial and Accounting Officer)

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