

CONEXANT SYSTEMS INC
Form 10-K
December 29, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended September 30, 2011

OR

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

Commission file number: 000-24923

CONEXANT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

25-1799439
(I.R.S. Employer

Identification No.)

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4000 MacArthur Boulevard

Newport Beach, California
(Address of principal executive offices)

92660-3095
(Zip code)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No **Explanatory Note: While the registrant is not subject to the filing requirements of Section 13 or 15(d) of the Exchange Act, it has filed all reports pursuant to Section 13 or 15(d) of the Exchange Act during the preceding 12 months.**

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

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

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 Act). Yes No

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates is zero. There is currently no established public trading market for the registrant's equity securities. As of November 23, 2011, an aggregate of 100,000,000 shares of the registrant's common stock was outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

In accordance with Instruction G(3) to Form 10-K, certain information required by Part III of Form 10-K is incorporated into this Annual Report on Form 10-K by reference to an amendment to this Annual Report on Form 10-K, which will be filed within 120 days after the end of the registrant's fiscal year, which ended on September 30, 2011.

Table of Contents

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1. <i><u>Business</u></i>	4
Item 1A. <i><u>Risk Factors</u></i>	10
Item 1B. <i><u>Unresolved Staff Comments</u></i>	22
Item 2. <i><u>Properties</u></i>	22
Item 3. <i><u>Legal Proceedings</u></i>	23
Item 4. <i><u>Removed and Reserved</u></i>	23
<u>PART II</u>	
Item 5. <i><u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></i>	24
Item 6. <i><u>Selected Financial Data</u></i>	24
Item 7. <i><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></i>	27
Item 7A. <i><u>Quantitative and Qualitative Disclosures About Market Risk</u></i>	39
Item 8. <i><u>Financial Statements and Supplementary Data</u></i>	41
Item 9. <i><u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u></i>	78
Item 9A. <i><u>Controls and Procedures</u></i>	78
Item 9B. <i><u>Other Information</u></i>	79
<u>PART III</u>	
Item 10. <i><u>Directors, Executive Officers and Corporate Governance</u></i>	80
Item 11. <i><u>Executive Compensation</u></i>	80
Item 12. <i><u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></i>	80
Item 13. <i><u>Certain Relationships and Related Transactions, and Director Independence</u></i>	80
Item 14. <i><u>Principal Accountant Fees and Services</u></i>	80
<u>PART IV</u>	
Item 15. <i><u>Exhibits and Financial Statement Schedules</u></i>	80
<u>Signatures</u>	84

Table of Contents

PART I

Explanatory Notes

On April 19, 2011, Conexant Systems, Inc., a Delaware corporation ("Conexant"), completed a merger with Gold Acquisition Corp., a Delaware corporation ("Merger Sub"), and a wholly owned subsidiary of Gold Holdings, Inc., a Delaware corporation, which was subsequently renamed Conexant Holdings, Inc. ("Conexant Holdings"). Pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), dated as of February 20, 2011, by and among the Company, Gold Holdings, Inc. and Merger Sub, Merger Sub was merged with and into the Company with the Company surviving as a wholly owned subsidiary of Conexant Holdings (the "Merger"). In connection with the Merger, shares of our common stock ceased to be traded on the NASDAQ Stock Market after the close of market on April 19, 2011. For the purposes of presentation and disclosure, all references to "Predecessor" relate to Conexant and its consolidated subsidiaries for periods prior to the Merger. All references to "Successor" relate to Conexant and its consolidated subsidiaries merged with Merger Sub for periods subsequent to the Merger. References to "we" , "us" , "our" and the "Company" relate to the Predecessor for the periods prior to the Merger and to the Successor for periods subsequent to the Merger.

Our fiscal year is the 52- or 53-week period ending on the Friday closest to September 30 each year. In a 52-week year, each fiscal quarter consists of 13 weeks. The additional week in a 53-week year is added to the fourth quarter, making such quarter consist of 14 weeks. References made to our fiscal year ended September 30, 2011, or fiscal 2011, refer to the combined results of the Predecessor for the period from October 2, 2010 through April 19, 2011, and the Successor for the period from April 20, 2011 through September 30, 2011. References made to our fiscal year ended October 1, 2010, or fiscal 2010, refer to the results of the Predecessor for the period from October 3, 2009 through October 1, 2010. References made to our fiscal year ended October 2, 2009, or fiscal 2009, refer to the results of the Predecessor for the period from October 4, 2008 through October 2, 2009. Fiscal years 2011, 2010 and 2009 were each fiscal years that consisted of 52-weeks.

All dollar amounts presented in this Annual Report on Form 10-K (the "Annual Report") are in thousands, except per share amounts, unless otherwise noted.

An amendment to this Annual Report to include the information required by Part III of Form 10-K will be filed with the Securities and Exchange Commission (the "SEC") no later than 120 days after the end of fiscal 2011.

Forward-Looking Statements

This Annual Report includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "estimate," "continue," "potential," "plan," "forecasts," and the like, the negatives of such expressions, or the use of future tense. Examples of forward-looking statements include, but are not limited to, our expectations concerning:

the conversion of our design opportunities into revenue;

the markets we serve, our market opportunities and industry trends;

our revenue levels, including the commercial success of our product development efforts;

the effects of the slow recovery from the worldwide economic downturn;

our liquidity, including the impact of our long term debt and our ability to refinance this debt;

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our gross profit and factors that affect gross profit and the breakeven revenue level;

our level of operating expenses;

our research and development efforts, including the commercial success of the products we develop;

our employees;

our expectations that we will be able to use our net operating losses and other tax attributes to offset future taxable income;

our spending for real estate and environmental remediation and;

our partners and suppliers.

Table of Contents

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including, but not limited to, those factors discussed under the caption **Risk Factors** in Part I, Item 1A of this Annual Report, and those factors discussed in our other reports filed with the SEC. Please consider our forward-looking statements in light of those risks as you read this Annual Report.

You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise, except as required by law.

Item 1. *Business* **General**

We design, develop and sell semiconductor system solutions, comprised of semiconductor devices, software and reference designs, for imaging, audio, embedded-modem, and video applications. These solutions include a comprehensive portfolio of imaging solutions for multifunction printers (MFPs), fax platforms, and interactive display frame market segments. Our audio solutions include high-definition (HD) audio integrated circuits, HD audio codecs, and speakers-on-a-chip solutions for personal computers, PC peripheral sound systems, audio subsystems, speakers, notebook docking stations, voice-over-IP speakerphones, USB headsets supporting Microsoft Office Communicator and Skype, and audio-enabled surveillance applications. We also offer a full suite of embedded-modem solutions for set-top boxes, point-of-sale systems, home automation and security systems, and desktop and notebook PCs. Additional products include decoders and media bridges for video surveillance security and monitoring applications, and system solutions for analog video-based multimedia applications.

Our principal corporate office is located at 4000 MacArthur Boulevard, Newport Beach, CA 92660, and our main telephone number at that location is 949-483-4600. Our website address is www.conexant.com.

We were incorporated in Delaware in September 1996 and have been operating in the communications semiconductor business since that time. Following our spin-off from Rockwell International Corporation (now Rockwell Automation, Inc.) in January 1999, we were an independent public company until April 2011, when we entered into the Merger Agreement. In that time we transformed our company from a broad-based communications semiconductor supplier into a fabless communications semiconductor supplier focused on delivering the technology and products for imaging, audio, embedded-modem, and video applications.

Strategy

Our objective is to become a leading supplier of analog and mixed signal semiconductor solutions to leading global original equipment manufacturer (OEM) and original design manufacturer (ODM) customers in audio, video, security, imaging, consumer, communications and computer markets. To achieve our objectives, we are pursuing the following strategies:

Focus our product portfolio on targeted markets and growth opportunities where we can leverage our core expertise in analog and mixed-signal design, digital signal processing (DSP), firmware and software development, and our extensive applications knowledge to strengthen our market positions and expand market share.

Table of Contents

Capitalize on the depth of our global engineering talent and strength of our sales and marketing channels to expand into adjacent markets and provide innovative solutions to capture additional semiconductor content.

Leverage our strong customer base and expand strategic relationships with industry-leading OEMs/ODMs to define new products and maximize design wins.

Business Segments

We operate in one reportable segment, the semiconductor system solutions market. Based on the accounting guidance in accordance with Segment Reporting, public business enterprises must report information about operating segments in their annual consolidated financial statements. We have one operating segment, comprised of one reporting unit, which was identified based upon the availability of discrete financial information and the chief operating decision makers' regular review of the financial information for this operating segment.

Products and Markets

Our expertise in analog and mixed-signal processing, DSP, firmware and software, and applications allows us to deliver semiconductor devices and integrated systems for consumer electronics products. We organize our products to address opportunities in audio, embedded-modem, video and imaging applications as more fully described below. We expect that our future products will focus on leveraging our audio, video and imaging solutions to address technology convergence opportunities within the markets we address, and adjacent high-growth markets. We consider all products to fall into one class of products-semiconductor devices. We position our devices to address the following applications:

Audio Applications. Over the last decade we have created an extensive intellectual property portfolio by developing advanced voice and audio algorithms running on a DSP. Our innovative technical algorithms including acoustic echo cancelling, noise reduction, beamforming, dynamic range compression and equalization improve the consumer audio experience in small speakers that are used in products such as mobile Internet devices, portable media players, and smartphone docking stations. Our solutions include HD audio integrated circuits, HD audio codecs with an integrated Class-D amplifier, which enables higher audio performance at lower power consumption and audio playback devices. With the convergence of entertainment and communications applications, we expect the demand for audio solutions with integrated voice and audio functionality to grow significantly. To address this opportunity, we offer speakers-on-a-chip solutions for applications including PC speakers, audio subsystems, notebook docking stations, VoIP speakerphones, USB headsets supporting Microsoft Office Communicator and Skype, and surveillance applications, as well as for interactive display appliances and tablet PCs. We also provide audio solutions for notebook computers to OEMs and ODMs globally.

Embedded-Modem Applications. We have a long history of technological innovation and leadership in modem technology, including the development of the world's first analog modem chip. Our analog modem solutions have connected hundreds of millions of users worldwide to the Internet through their desktop and notebook PCs. Today, the majority of our analog modem solutions are used in embedded applications, including television set-top boxes for back channel applications, point-of-sale (POS) terminals, home automation and security systems and various industrial applications.

Video Applications. We offer video encoders, decoders and media bridges for video surveillance/security and consumer video applications. Our highly integrated multi-port video decoders can be used in PC-based or standalone embedded digital video recording (DVR) applications. These products enable multi-channel, bi-directional uncompressed digital audio and video transfers to a host computer for preview, processing, or compression via an integrated PCI Express (PCIe) interface. Additional video products include system solutions for analog video-based multimedia applications including PCTV. Our video encoders provide the video processing for wireless cameras targeted at home security and monitoring. These products, with their low power and ease of use, are ideally suited for motion sensors with visual verification, intercoms, baby monitors, and various remote monitoring products. We will continue to evolve enhanced video capabilities and low power consumption, which will broaden our reach into the growing home security and monitoring markets and allow us to cover a broad range of applications from the very low-end monitoring and do-it-yourself security systems to commercial multi-channel DVRs.

Imaging Applications. Our imaging product portfolio includes highly integrated MFPs system-on-chip (SoC) solutions for inkjet, laser and photo printers, and high-performance system solutions for interactive display appliances with Internet connectivity. We also provide SoCs and datapumps for facsimile applications. We believe that our combined imaging intellectual property, MFP systems knowledge, and extensive firmware and software stacks uniquely position us to successfully address the increasing demand for printers that feature higher print speed, copy speed, and quality. Our current architecture also enables us to support the trend to PC independent printing, which we believe will allow us to capture additional market share as cloud computing printing and mobile printing spur future demand. We also expect to benefit from the trend at major OEM printer companies who currently design their own silicon to outsource MFP designs to merchant semiconductor providers.

Table of Contents

Please refer to our Selected Financial Data in Part I Item 6 of this Annual Report for a disclosure of revenues from external customers, net loss (income) and total assets for the last five fiscal years.

Research and Development

We have significant research, development, engineering and product design capabilities. As of September 30, 2011, we had 300 employees engaged in research and development activities at multiple design centers worldwide as compared to 319 employees as of October 1, 2010 and 308 employees as of October 2, 2009.

Our design centers provide design engineering and product application support as well as customer service. The design centers are strategically located around the world to be in close proximity to our OEM and ODM customers and to take advantage of key technical and engineering talent. Our major design centers are located in the United States. Additionally, we have integrated circuit design development activities in India and integrated circuit design, product and test engineering, and software support teams in China.

Our continuing operations incurred research and development expenses of \$25.8 million during the Successor period in fiscal 2011, \$30.9 million for the Predecessor period in fiscal 2011, and \$55.7 million and \$51.4 million, for the Predecessor fiscal years ended October 1, 2010 and 2009, respectively.

Manufacturing

We are a fabless semiconductor company, which means that we do not own or operate wafer fabrication or assembly and test sites. We use several leading-edge wafer fabrication subcontractors, such as Silterra Malaysia Sdn.Bhd., Taiwan Semiconductor Manufacturing Corporation (TSMC), United Microelectronics Corporation (UMC), and TowerJazz to meet our typical planned production requirements. We have qualified additional suppliers to expand our manufacturing capabilities and to provide manufacturing alternatives during periods of tight capacity. We primarily use complementary metal-oxide semiconductor (CMOS) process technologies. Our products are manufactured in a variety of process technologies ranging from 0.8 micron technology, which is our most mature technology, to 90 nanometer technology, which is the most advanced production technology. We currently have product development efforts underway at the 65 nanometer process technology node, and are assessing the 40 nanometer technology node for certain applications.

Our wafer probe testing is conducted by either our wafer fabrication subcontractors or other independent wafer probe test subcontractors. Following completion of the wafer probe tests, the die are assembled into packages and the finished products are tested by subcontractors. Our primary wafer assembly and test subcontractors include STATChipPAC Ltd., Powertech Technology, Inc. (PTI), Advanced Semiconductor Engineering, Inc. (ASE), and Sigurd Microelectronics Corporation. These vendors are located in Taiwan, Korea, Singapore, China, the Philippines and Malaysia. We use several different package types, tester platforms and handler configurations to fulfill our product needs at the key supplier sites.

Capacity is primarily obtained using a process of short- and long-term forecasting for suppliers to assess our demand, and committing supply to meet the forecasts. We maintain a strong presence at supplier sites to ensure our capacity needs are fulfilled adequately.

Quality and Reliability

Our quality and reliability assurance systems ensure that our products meet our customers' and our internal product performance goals. Our quality management system maintains ISO 9001-2008 certification at our Newport Beach, California, facility. Our key suppliers are either already certified to ISO 9001 or have provided us with plans to achieve certification.

Our quality and reliability assurance department performs extensive environmental tests to demonstrate that our products meet our reliability performance goals. We use industry accepted environmental tests and test methods wherever practical during product qualification.

In addition, our engineering and marketing organizations exercise extensive control during the definition, development and release to production of new products. We have a comprehensive set of design control procedures that:

determine the quality, reliability and performance objectives for new products;

provide program/project management, resource identification and facilities;

Table of Contents

ensure verification and validation activities;

provide criteria for acceptability; and

clearly define records that are necessary to provide confidence of conformity of the processes and resulting product to our quality system requirements.

We qualify all key suppliers (wafer foundries and assembly subcontractors) and their manufacturing processes. Our key suppliers must agree to our quality system requirements, pass a quality management system audit, and successfully complete a rigorous reliability test plan. We design these qualification requirements as preventive action with the goal of eliminating the causes and occurrence of potential nonconformities. We believe that these qualification requirements, reliability test plans, and quality system audits are appropriate to minimize the impact of potential problems.

We have developed a Social and Environmental Management System (SEMS) that is used as a framework to develop and manage programs that prevent pollution, minimize our overall environmental impact, reduce health and safety risks, promote integrity and fair labor practice, and continually improve business practices and performance. Conexant's SEMS is certified to ISO 14001:2004 (International Organization for Standardization Environmental Management Systems) and conforms to the requirements of OHSAS 18001:2007 (Occupational Health and Safety Administration Standard Health and Safety Management Systems), and the EICC (Electronic Industry Citizenship Coalition Electronic Industry Code of Conduct).

Customers, Marketing and Sales

We market and sell our semiconductor products and system solutions directly to leading OEMs of electronics products and indirectly through electronic components distributors, channel partners, and resellers.

Sales to distributors and resellers accounted for approximately 41% of our net revenues in the Successor period in fiscal 2011 and the Predecessor period in fiscal 2011, and 30% and 38% of our net revenues in the Predecessor fiscal years ended October 1, 2010 and 2009, respectively. In the Successor period in fiscal 2011 and the Predecessor period in fiscal 2011, there was one distributor, Sertek Incorporated, which accounted for 14% of our net revenues. In the Predecessor fiscal years ended October 1, 2010 and 2009, the same distributor accounted for 13% and 23% of our net revenues, respectively. Sales to our twenty largest customers in the Successor period in fiscal 2011 and the Predecessor period in fiscal 2011 accounted for approximately 83% of our net revenues, and 82% and 87% of our net revenues in Predecessor fiscal years ended October 1, 2010 and 2009, respectively. There is no consistent seasonal pattern to our revenue.

Revenues derived from customers located in the Americas, the Asia-Pacific region and in Europe, the Middle East and Africa, as a percentage of total net revenues, were as follows:

	Successor Period		Predecessor	
	from April 20, 2011 through September 30, 2011	Period from October 2, 2010 through April 19, 2011	Fiscal Year Ended October 1, 2010	Fiscal Year Ended October 2, 2009
United States	2%	6%	6%	3%
Other Americas	1%	1%	2%	1%
China	69%	58%	60%	64%
Taiwan	5%	10%	10%	7%
Other Asia-Pacific	22%	24%	21%	24%
Europe, Middle East and Africa	1%	1%	1%	1%

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Total foreign	98%	94%	94%	97%
	100%	100%	100%	100%

A portion of the products we sell to OEMs and third-party manufacturing service providers in China and the Asia-Pacific region are ultimately shipped to end markets in the Americas and Europe.

Table of Contents

We have a worldwide sales and marketing organization comprised of 102 employees as of September 30, 2011 in various domestic and international locations. To complement our direct sales and customer support efforts, we also sell our products through distributors, resellers, and dealers, as well as enlist the assistance of independent manufacturers' representatives in some regions. In addition, our design and applications engineering staff is actively involved with customers during all phases of design and production and provides customer support through our worldwide sales offices, which are generally in close proximity to customers' facilities.

See Item 1A, Risk Factors, in this Annual Report for a discussion of risks and uncertainties related to our international operations.

Backlog

Our sales are made primarily pursuant to standard purchase orders for delivery of products, with such purchase orders officially acknowledged by us according to our own terms and conditions. Because industry practice allows customers to cancel orders with limited advance notice to us prior to shipment, we believe that backlog as of any particular date may not be indicative of our future revenue levels.

Competition

The semiconductor industry in general, and the markets in which we operate in particular, are intensely competitive. We compete worldwide with a number of U.S. and international suppliers that are both larger and smaller than us in terms of resources and market share. We anticipate that additional competitors will enter our markets and expect intense price and product competition to continue.

We compete primarily with Integrated Device Technology, Inc., LSI Corporation, Marvell Technology Group Ltd., Texas Instruments, Maxim Integrated Products, Realtek Semiconductor Corporation, Silicon Laboratories, Inc., Intersil Corporation, Wolfson Microelectronics plc, and Zoran Corporation.

We believe that we compete in various markets based primarily on the following factors:

time-to-market;

product quality, reliability and performance;

power consumption;

level of circuit elements integrated in a device;

price and total system cost;

compliance with industry standards;

effective software algorithms;

design and engineering capabilities;

strategic relationships with customers;

customer support capabilities;

new product innovation; and

access to manufacturing capacity.

Intellectual Property and Proprietary Rights

We currently own over 800 United States and foreign patents and patent applications covering a variety of products, processes and technologies relating to Conexant's current and historical business. We also cross-license portions of our intellectual property and are licensed or cross-licensed under a number of intellectual property portfolios in the industry that are relevant to our technologies and products. We have filed and received federal and international trademark registrations of our Conexant trademarks. We believe that our intellectual property, including patents, patent applications, licenses and trademarks are of material importance to our business. We believe the duration of our intellectual property rights is adequate relative to the expected lives of our products. Due to the fast pace of innovation and product development, in certain cases our products may become obsolete before the patents, and other intellectual property rights, related to them expire. In addition to protecting our proprietary technologies and processes, we constantly strive to strengthen and enhance our intellectual property portfolio. We use the portfolio to seek licensing opportunities, to negotiate cross-licenses with other intellectual property portfolios, to gain access to intellectual property of others and to avoid, defend against, or settle litigation. While in the aggregate our patents, patent applications, licenses and trademarks are considered important to our operations, they are not considered of such importance that the loss or termination of any one of them would materially affect our business or financial condition.

Table of Contents

Environmental Regulation

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes, and other activities affecting the environment have had, and will continue to have, an impact on our former manufacturing operations. To date, compliance with environmental requirements and resolution of environmental claims have been accomplished without material effect on our liquidity and capital resources, competitive position or financial condition. We believe that any expenditure necessary for the resolution of environmental claims will not have a material adverse effect on our liquidity and capital resources, competitive position or financial condition. We cannot assess the possible effect of compliance with future requirements.

Divestitures

On December 22, 2010, we sold certain real property adjacent to our Newport Beach, California headquarters to Uptown Newport L.P. for \$23.5 million, which consisted of \$21.5 million in cash and a limited partnership interest in the property, which we have valued at \$0.4 million.

In August 2009, we completed the sale of certain assets related to our Broadband Access (BBA) business to Ikanos Communications, Inc. (Ikanos) for aggregate consideration of approximately \$54 million. Assets sold pursuant to the agreement with Ikanos included specified intellectual property, inventory, contracts, and tangible assets. Ikanos assumed certain liabilities, including obligations under transferred contracts and employee-related liabilities. We also granted to Ikanos a license to use certain of our retained technology assets in connection with Ikanos current and future products in certain fields of use, along with a patent license covering certain of our retained patents to make, use, and sell such products (or, in some cases, components of such products).

Employees

As of September 30, 2011, we had 504 employees. None of our employees are covered by collective bargaining agreements. We believe our future success will depend in large part upon our continued ability to attract, motivate, develop and retain highly-skilled and dedicated employees.

Available Information

Our website address is www.conexant.com. While we are not currently subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), to the extent that we file any reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q or current reports on Form 8-K, or any amendments or exhibits to any of those reports, such reports will be available free of charge by visiting the Investors section of www.conexant.com. These reports will be posted to the website as soon as reasonably practicable after they are electronically filed with the SEC. In addition, you may read and copy any materials we file with the SEC by visiting www.sec.gov. Information contained in our website is not deemed to be a part of this Annual Report.

Table of Contents

Item 1A. Risk Factors

Our business, financial condition and results of operations can be impacted by a number of risk factors, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. Any of these risks could materially and adversely affect our business, financial condition and results of operations, which in turn could materially and adversely affect the price of our common stock or other securities. In addition, other factors that we do not anticipate, or that we do not consider significant based on currently available information, may also materially adversely affect our business, financial condition and results of operations.

We have recently experienced significantly lower revenues.

Our revenue declined 31% in fiscal 2011 compared with the prior fiscal year, and our revenue was \$35.9 million in the three months ending September 30, 2011 compared to \$56.3 million in the three months ending October 1, 2010. While we believe our sales, marketing and solution development activities may result in revenue growth, we cannot assure you that we will be able to achieve our revenue and other financial objectives. If we are not able to increase revenues, we may be required to reduce our operating expenses, which could have a negative impact on our ability to achieve our revenue, operating and cash flow objectives.

Our success depends on our ability to timely develop competitive new products to offset declines in our legacy products and increase market share, and reduce costs.

Our operating results depend largely on our ability to introduce new and enhanced semiconductor products on a timely basis to enable us to increase revenue and replace decreasing revenue from our established legacy products, which include wireless networking solutions, computer modems and modems for digital television platforms in Japan. Successful product development and introduction depends on numerous factors, including, among others, our ability to:

anticipate customer and market requirements and changes in technology and industry standards;

accurately define new products;

complete development of new products and bring our products to market on a timely basis;

differentiate our products from offerings of our competitors;

Achieve our product cost objectives;

achieve overall market acceptance of our products; and

coordinate product development efforts between and among our sites, particularly in India and China, to manage the development of products at remote geographic locations.

We may not have sufficient resources to make the substantial investment in research and development in order to develop and bring to market new and enhanced products. We cannot assure you that we will be able to develop and introduce new or enhanced products in a timely and cost-effective manner, that our products will satisfy customer requirements or achieve market acceptance, or that we will be able to anticipate new industry standards and technological changes. The complexity of our products may lead to errors, defects and bugs which could subject us to significant costs or damages and adversely affect market acceptance of our products. We also cannot assure you that we will be able to respond successfully to new product announcements and introductions by competitors.

The average selling prices of our products in our markets have historically decreased over the life of the products rapidly and will likely do so in the future, which could harm our revenue and gross profits.

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Many of our products face significant competition and are subject to rapid declines in average selling prices over the life of the products. We have historically decreased the average selling prices of many of our products in order to meet market demand, and we expect that we will continue to reduce prices in the future. Reductions in our average selling prices to one customer could impact our average selling prices to all customers, which could further reduce revenues. A decline in average selling prices would harm our gross margins unless we are able to decrease our product costs concurrently. Historically, we

Table of Contents

have generally been able to substantially offset reductions in our average selling prices with decreases in our product costs, but there can be no assurance that we will continue to be able to do so. Our financial results will suffer if we are unable to offset any future reductions in our average selling prices by increasing our unit volumes, reducing our costs or developing new or enhanced products on a timely basis with higher selling prices or gross profit.

We may not be able to attract and retain qualified management, technical and other personnel necessary for the design, development, manufacture and sale of our products. Our success could be negatively affected if key personnel leave.

Our future success depends on our ability to attract and to retain the continued service and availability of skilled personnel at all levels of our business. We assess our personnel resources based on our strategic direction and financial capabilities; we have had significant turnover and hired key personnel since the Merger. While we have recruited talented personnel to contribute to our success, there is generally a period of time before such individuals contribute at the levels anticipated. 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. While we have entered into employment agreements with some of our key personnel, we cannot assure you that we will be able to attract and retain qualified management and other personnel necessary for our future success.

We are subject to intense competition which may negatively impact our financial results.

The semiconductor industry in general, and the markets in which we compete in particular, are intensely competitive. We compete worldwide with a number of U.S. and international semiconductor providers that are both larger and smaller than us in terms of resources and market share. This competition results in declining average selling prices for our products, shorter product life cycles, and changes in market share. We also anticipate that additional competitors will enter our markets as a result of expected growth opportunities, technological and public policy changes and relatively low barriers to entry in certain markets of the industry. We believe that the principal competitive factors for semiconductor suppliers in our addressed markets are:

time-to-market;

product quality, reliability and performance;

power consumption;

the system features integrated in a device;

price and total system cost;

compliance with industry standards;

effective software algorithms;

design and engineering capabilities;

strategic relationships with customers;

customer support capabilities;

new product innovation; and

access to manufacturing capacity.

In addition, the financial stability of suppliers is an important consideration in our customers' purchasing decisions. Many of our competitors have certain advantages over us, such as significantly greater sales and marketing, manufacturing, distribution, technical, financial and other resources. In addition, many of our current and potential competitors have a stronger financial position, less indebtedness and greater financial resources than we do. These competitors may be able to devote greater financial resources to the development, promotion and sale of their products than we can. In addition, our relationships with existing and potential customers could be adversely affected if our customers perceive that we lack an appropriate level of financial resources or liquidity.

Table of Contents

Current and potential competitors also have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. These relationships may affect customers' purchasing decisions. Accordingly, it is possible that new competitors or alliances could emerge and rapidly acquire significant market share. We cannot assure you that we will be able to compete successfully against current and potential competitors.

We operate in the highly cyclical semiconductor industry, which is subject to significant demand fluctuations that may negatively impact our business, financial condition, cash flow and results of operations.

The semiconductor industry is highly cyclical and is characterized by constant technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles (for semiconductors and for the end-user products in which they are used) and wide fluctuations in product supply and demand. Recent and continuing domestic and global economic weakness and uncertainty have presented unprecedented and challenging conditions, which have resulted in ongoing concerns about the availability and cost of credit, international financial markets, high sovereign debt, declining real estate values, national deficits, increased energy costs and decreased consumer confidence and spending, amongst other factors. These conditions have contributed to instability in both U.S. and international capital and credit markets and diminished expectations for the U.S. and global economy. In addition, these conditions make it extremely difficult for our customers to accurately forecast and plan future business activities and could cause U.S. and foreign businesses to reduce spending on our products, which could cause our sales to decrease or result in an extension of our sales cycles. Further, given uncertainty in the economic environment, we or our customers may have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations, which could impact our liquidity and raise our cost of capital. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, worldwide or within our industry. If the economies or markets in which we operate continue to be subject to these adverse economic conditions, our business, financial condition, cash flow and results of operations will be adversely affected.

Since we have limited visibility as to the volume of sales of our products by our customers and inventory levels of our products held by our customers, our ability to accurately forecast future demand for and sales of our products is limited.

We sell our chipsets to OEMs, who i