CONEXANT SYSTEMS INC
Form 10-Q
August 13, 2012

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 June 29, 2012

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	**25-1799439**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

4000 MacArthur Boulevard

Newport Beach, California 92660-3095

(Address of principal executive offices) (Zip code)

(949) 483-4600

(Registrant s telephone number, including area code)

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

Explanatory Note: Pursuant to Rule 405(a)(2) of Regulation S-T, the registrant is relying upon the applicable 30-day grace period for the initial filing of its first Interactive Data File required to contain detail-tagged footnotes or schedules. The registrant intends to file the required detail-tagged footnotes or schedules by the filing of an amendment to this Quarterly Report on Form 10-Q within the 30-day period.

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	x (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 x

As of August 13, 2012, there were 100,000,000 shares of the registrant s common stock outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes statements relating to future plans and developments, financial goals and operating performance that are based on our current beliefs and assumptions. These statements constitute 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, and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that are often difficult to predict, are beyond our control, and which may cause results to differ materially from expectations. 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, expect, estimate, continue, potential, the like, the negatives of such expressions, or the use of future tense. Examples of forward-looking statements include, but are not limited to, statements concerning:

- our liquidity, including the cash flows required to operate our business, expected working capital requirements, our ability to restructure our long term debt, our ability to secure a line of credit, and our ability to raise funds from the sale of assets, business units or equity securities;
- 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 ongoing economic weakness and uncertainty, high unemployment rates and the debt crises in certain countries in the European Union;
- 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;
- changes in our ownership structure, management team or business strategy following our merger;
- our expectations that we will be able to use our net operating losses and other tax attributes to offset future taxable income;
- our ability to reasonably estimate allowances for expected product returns;
- our spending for real estate and environmental remediation; and
- our partners and suppliers.

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 made under the heading Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q, those made under the heading Risk Factors in our Annual Report on Form 10-K, for the fiscal year ended September 30, 2011, which was filed with the SEC on December 29, 2011 (as such are supplemented by the risk factors set forth in this Quarterly Report on Form 10-Q), and those made in our other filings with the Securities and Exchange Commission (the SEC). Please consider our forward-looking statements in light of those risks as you read this Quarterly Report on Form 10-Q. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. We do not intend, and undertake no obligation, to publish revised forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, except as required by law.

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands, except for par value)

	Successor	
	June 29, 2012	**September 30, 2011**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23,309	$ 38,056
Receivables, net of allowance of $113 and $123 at June 29, 2012 and September 30, 2011, respectively	14,833	19,012
Inventories	6,968	12,693
Other current assets	7,162	7,569
Total current assets	52,272	77,330
Property, plant and equipment, net of accumulated depreciation of $3,957 and $1,747 at June 29, 2012 and September 30, 2011, respectively	7,961	10,792
Goodwill	191,533	223,051
Intangible assets	39,756	68,425
Other assets	13,093	16,839
Total assets	$ 304,615	$ 396,437
LIABILITIES AND SHAREHOLDER S EQUITY		
Current liabilities:		
Accounts payable	$ 8,669	$ 8,367
Accrued compensation and benefits	3,616	7,909
Other current liabilities	22,413	33,674
Total current liabilities	34,698	49,950
Long-term debt	189,604	193,121
Other liabilities	53,798	56,555
Total liabilities	278,100	299,626
Commitments and contingencies (Note 6)		
Shareholder s equity:		
Common stock, $0.01 par value: 200,000 shares authorized; 100,000 shares issued and outstanding at June 29, 2012 and September 30, 2011, respectively	1,000	1,000
Additional paid-in capital	202,865	202,865
Accumulated deficit	(176,417)	(107,249)
Accumulated other comprehensive (loss) income	(933)	195
Total shareholder s equity	26,515	96,811
Total liabilities and shareholder s equity	$ 304,615	$ 396,437

See accompanying notes to unaudited consolidated financial statements

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CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Successor		Predecessor	Successor		Predecessor
	Fiscal Quarter Ended June 29, 2012	Period from April 20, 2011 through July 1, 2011	Period from April 2, 2011 through April 19, 2011	Nine Fiscal Months Ended June 29, 2012	Period from April 20, 2011 through July 1, 2011	Period from October 2, 2010 through April 19, 2011
Net revenues	$ 33,583	$ 37,036	$ 3,872	$ 101,590	$ 37,036	$ 93,111
Cost of goods sold	13,030	33,357	2,233	41,570	33,357	39,849
Gross margin	20,553	3,679	1,639	60,020	3,679	53,262
Operating expenses:						
Research and development	11,387	11,556	2,822	36,167	11,556	30,932
Selling, general and administrative	7,471	7,527	1,867	22,787	7,527	24,155
Amortization of intangible assets	1,266	4,826	53	5,319	4,826	621
Gain on sale of intellectual property	(675)			(675)		(1,249)
Asset impairments		22		54,869	22	
Special charges	288	12,558	5,660	1,964	12,558	20,890
Total operating expenses	19,737	36,489	10,402	120,431	36,489	75,349
Operating gain (loss)	816	(32,810)	(8,763)	(60,411)	(32,810)	(22,087)
Interest expense	3,766	3,115	1,054	11,376	3,115	12,278
Other expense, net	328	3,811	3,778	1,162	3,811	8,423
Loss from continuing operations before income taxes and (loss) income on equity method investments	(3,278)	(39,736)	(13,595)	(72,949)	(39,736)	(42,788)
Income tax provision (benefit)	3,667	2,695	(30)	(5,347)	2,695	380
Loss from continuing operations before (loss) income on equity method investments	(6,945)	(42,431)	(13,565)	(67,602)	(42,431)	(43,168)
(Loss) income on equity method investments	(2)	(6)		(358)	(6)	1,495
Loss from continuing operations	(6,947)	(42,437)	(13,565)	(67,960)	(42,437)	(41,673)
Loss from discontinued operations, net of tax	(328)	(1,680)	(72)	(1,208)	(1,680)	(461)
Net loss	$ (7,275)	$ (44,117)	$ (13,637)	$ (69,168)	$ (44,117)	$ (42,134)
Loss per share from continuing operations basic and diluted			$ (0.16)			$ (0.51)
Loss per share from discontinued operations basic and diluted			$ (0.00)			$ (0.01)
Net loss per share basic and diluted			$ (0.16)			$ (0.52)
Shares used in basic and diluted per-share computations			82,223			81,996

See accompanying notes to unaudited consolidated financial statements

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Successor		Predecessor
	Nine Fiscal Months Ended June 29, 2012	Period from April 20, 2011 through July 1, 2011	Period from October 2, 2010 through April 19, 2011
Cash flows from operating activities:			
Net loss	$ (69,168)	$ (44,117)	$ (42,134)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,711	766	1,425
Amortization of intangible assets	5,319	4,826	621
Reversal of provision for bad debts, net	21		
Charges for inventory provisions, net	347	1,270	449
Provision for loss on inventory purchase commitments		949	
Release of inventory step-up upon shipment	901	16,285	
Amortization of debt (premium) discount	(3,517)	(876)	419
Asset impairments	54,869		
Deferred income taxes	(3,201)	2,453	19
Stock-based compensation			4,057
Decrease in fair value of derivative instruments	1,704	3,757	9,469
Loss (gain) on equity method investments	358	7	(1,495)
Loss on escrow funds receivable	57		
Net gain on sale of equity securities		(5)	(1,393)
Gain on sale of intellectual property	(675)		(1,249)
Other items, net	(45)	16	(276)
Changes in assets and liabilities:			
Receivables	4,158	1,310	6,071
Inventories	4,477	3,351	(6,291)
Accounts payable	251	(2,733)	1,576
Accrued expenses and other current liabilities	(6,604)	5,573	(5,269)
Other, net	(7,593)	3,820	2,764
Net cash used in operating activities	(15,630)	(3,348)	(31,237)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(177)	(631)	(729)
Acquisition of Predecessor		(203,865)	
Proceeds from sale of real estate, net of closing costs of $439			21,087
Proceeds from sale of property, plant and equipment		15	52
Proceeds from maturity of marketable securities			20,000
Proceeds from sales of equity securities		23	802
Restricted cash	385	(2)	533
Proceeds from sale of intellectual property	675		1,249
Net cash provided by (used in) investing activities	883	(204,460)	42,994
Cash flows from financing activities:			
Net repayments of short-term debt			(11,278)
Proceeds from issuance of common stock under employee stock plans			95
Repurchase of shares upon exercise of employee stock plans			(689)
Advances (to) from Gold Holdings, Inc		(6,443)	6,443
Equity contributions		203,865	
Net cash provided by (used in) financing activities		197,422	(5,429)

Net (decrease) increase in cash and cash equivalents	(14,747)	(10,386)	6,328
Cash and cash equivalents at beginning of period	38,056	60,794	54,466
Cash and cash equivalents at end of period	$ 23,309	$ 50,408	$ 60,794

See accompanying notes to unaudited consolidated financial statements

CONEXANT SYSTEMS, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

1. Basis of Presentation and Significant Accounting Policies

Conexant Systems, Inc., a Delaware corporation, (Conexant or the Company) designs, develops and sells 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 application market segments. The Company s audio solutions include high-definition (HD) audio integrated circuits, HD audio codecs, 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. The Company also offers 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.

Liquidity

The Company s unaudited consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has historically financed its operations and capital investments through sales of equity securities, long term debt, capital and operating leases, the sale of assets, bank lines of credit and cash flows from operations. During the Successor nine months ended June 29, 2012, the Company consumed $14.7 million of cash. The Company had cash and cash equivalents of $23.3 million at June 29, 2012. Under its operating plan, management expects to finance its operations and meet its debt service and capital expenditure requirements primarily through a combination of cash flows provided by operations, debt restructuring, additional borrowing under a line of credit, and sales of non-core assets.

The Company anticipates that its existing cash resources and execution of its operating plan will fund operations, finance purchases of capital equipment and provide adequate working capital for at least the next twelve months. The Company s liquidity is affected by many factors including, among others: the ability to restructure its long term debt, including semi-annual interest payments of $9.8 million under its current indenture; the ability to secure a line of credit; the ability to sell non-core assets or business units; access to additional debt and equity financing; the level of revenue, gross profit, operating income and cash flow from operations; the conversion of design opportunities into revenue; market acceptance of existing and new products; costs of securing access to and availability of adequate manufacturing capacity; levels of inventories; wafer purchase commitments; customer and supplier credit terms; spending incurred for environmental remediation; cash required to meet its financial obligations for restructured and impaired facilities; the amount and timing of research and development and other operating expenditures; the timing and expense of new product introductions; production volumes; product quality; sales and marketing efforts; the value and liquidity of its asset portfolio; changes in operating assets and liabilities; the ability to remain in compliance with the terms of credit facilities; the ability to raise funds from the sale of assets or business units; and other factors related to the uncertainties of the industry and global economics. In the event the Company is required to pursue debt or equity financings in the future, there is no assurance that such capital will be available on terms acceptable to the Company, or at all. The unaudited consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities that may result from the outcome of this uncertainty. Failure to execute management s operating plan could adversely affect the Company s ability to achieve its intended business objectives.

Merger with Conexant Holdings, Inc.

On April 19, 2011, 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 Conexant s common stock ceased to be traded on The NASDAQ Stock Market after the close of market on April 19, 2011.

At the consummation of the Merger, each share of common stock, par value $0.01 per share, of the Company (the Company Common Stock) issued and outstanding immediately prior to the effective time of the Merger (the Effective Time) was converted into the right to receive $2.40 in cash, without interest and subject to any applicable withholding tax (the Gold Merger Consideration). Stock options to acquire Company Common Stock that were outstanding and unexercised immediately prior to the Effective Time were cancelled and converted into the right to receive, with respect to each such option, an amount of cash equal to the excess, if any, of the Gold Merger Consideration over the exercise price per share under the option for each share subject to such option. Any option with an exercise price greater than or equal to the Gold Merger Consideration was cancelled without consideration. Each restricted stock unit (RSU) that, as of immediately prior to the Effective Time, was outstanding and held by a non-employee director of the Company or a management-level employee of the Company at the rank of senior vice president or above was cancelled and converted into the right to receive an amount of cash equal to the Gold Merger Consideration. All remaining RSUs were cancelled.

The aggregate consideration for all equity securities including cancelled and converted stock options and RSUs of the Company was $203.8 million. An additional $0.1 million consideration was paid concurrent with the Merger to satisfy an existing bank line of credit. The Merger was funded with the proceeds of equity contributions from Golden Gate Capital and affiliated entities in the amount of $203.9 million.

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

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2011, which was filed with the SEC on December 29, 2011. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the periods indicated. All such adjustments are of a normal recurring nature. The year-end balance sheet data was derived from the audited consolidated financial statements.

Fiscal Periods The Company s fiscal year is the 52- or 53-week period ending on the Friday closest to September 30th 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. There are 52 weeks in both fiscal 2012 and fiscal 2011.

For purposes of presentation and disclosure, all references to Predecessor relate to Conexant Systems, Inc. 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 , Conexant and the Company relate to the Predecessor for the periods prior to the Merger to the Successor for periods subsequent to the Merger.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Among the significant estimates affecting the consolidated financial statements are those related to fair-value measurements applied to tangible and intangible assets acquired and liabilities assumed in connection with the Merger, revenue recognition, allowance for doubtful accounts, reserves related to inventories and sales returns, long-lived assets (including goodwill and intangible assets), deferred income taxes, valuation of warrants, the Company s 7.5% investment in Uptown Newport L.P., stock-based compensation, environmental remediation reserve, restructuring charges, and other loss contingencies. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

Revenue Recognition The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the sales price and terms are fixed and determinable, and (iv) the collection of the receivable is reasonably assured. These terms are typically met upon shipment of product to the customer. The majority of the Company s distributors have limited stock rotation rights, which allow them to rotate up to 10% of product in their inventory two times per year. The Company recognizes revenue from these distributors upon shipment of product to the distributor, as the stock rotation rights are limited and the Company believes that it has the ability to reasonably estimate and establish allowances for expected product returns in accordance with accounting guidance for revenue recognition when right of return exists. The Company has also established allowances for price adjustments, rebates and warranty returns. The estimate of future returns and credits is based on historical sales returns, analysis of credit memo data, and other factors determined at the time of revenue recognition. The Company monitors product returns and potential price adjustments on an ongoing basis.

The Company accrues 100% of potential rebates at the time of sale and does not apply a breakage factor. The Company reverses the accrual for unclaimed rebate amounts as specific rebate programs contractually end and when the Company believes unclaimed rebates are no longer subject to payment and will not be paid. Development revenue is recognized when services are performed and was not significant for any periods presented.

Cash and Cash Equivalents The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less from the date of purchase to be cash equivalents. Repatriation of cash in foreign locations to the U.S. may be restricted by the terms of the service agreements between the foreign locations and the U.S. and local statutory rules and regulations. Cash held by the Company as of June 29, 2012 that is insured by the Federal Deposit Insurance Corporation (FDIC) totaled $0.4 million.

Restricted Cash The Company has outstanding letters of credit collateralized by restricted cash aggregating $4.7 million and $5.1 million as of June 29, 2012 and September 30, 2011, respectively, to secure various long-term operating leases and the Company s self-insured worker s compensation plan. The restricted cash associated with these letters of credit is classified as other long-term assets on the consolidated balance sheets.

Inventories On a quarterly basis, the Company assesses the net realizable value of its inventories. When the estimated average selling prices, less cost to sell its inventory, falls below its inventory cost, the Company adjusts its inventory to its current estimated market value. Lower of cost or market adjustments may be required based upon actual average selling prices and changes to the Company s current estimates, which could impact the Company s gross margin percentage. There were no lower of cost or market adjustments in any periods presented.

Investments The Company accounts for non-marketable investments using the equity method of accounting if the investment gives the Company the ability to exercise significant influence over, but not control of, an investee. Significant influence generally exists if the Company has an ownership interest representing between 20% and 50% of the voting stock of the investee. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Company s proportionate share of earnings or losses and distributions. Additional investments by other parties in the investee will result in a reduction in the Company s ownership interest, and the resulting gain or loss will be recorded in the consolidated statements of operations. Where the Company is unable to exercise significant influence over the investee, investments are accounted for under the cost method, except for investments in limited partnerships, for which the Company uses the equity method. Under the cost method, investments are carried at cost and adjusted only for other-than-temporary declines in fair value, distributions of earnings or additional investments. At the Merger date and as of June 29, 2012, the Company s 7.5% investment in Uptown Newport L.P. was valued at $0.4 million.

Accounting for Convertible Debt The Company adopted the accounting guidance for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This guidance requires the issuer to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer s hypothetical nonconvertible debt borrowing rate. The guidance resulted in the Company recognizing higher interest expense in the statement of operations due to amortization of the discount that results from separating the liability and equity components. The accounting guidance applies to the Company s 4.00% convertible subordinated notes (convertible notes) issued in 2006. The Company redeemed the remaining $11.2 million of convertible notes on March 1, 2011.

Derivative Financial Instruments The Company s derivative financial instruments as of June 29, 2012 consisted of the Company s warrant to purchase 6.1 million shares of Mindspeed Technologies, Inc. (Mindspeed) common stock. Gains and losses on the warrant are included in other expense, net.

Supplemental Cash Flow Information Cash paid for interest was $9.8 million in the Successor nine fiscal months ended June 29, 2012. There was no cash paid for interest in the Successor period from April 20, 2011 through July 1, 2011. Cash paid for interest for the Predecessor period from October 2, 2010 through April 19, 2011 was $10.2 million. Cash paid for income taxes was $0.5 million in the Successor nine fiscal months ended June 29, 2012. Cash paid for income taxes for the Successor period from April 20, 2011 through July 1, 2011 was $0.2 million. Cash paid for income taxes for the Predecessor period from October 2, 2010 through April 19, 2011 was $0.4 million.

Accumulated Other Comprehensive (Loss) Income Accumulated other comprehensive (loss) income consists of foreign currency translation adjustments as of June 29, 2012 and July 1, 2011.

Net Loss Per Share Predecessor net loss per share is computed in accordance with the accounting guidance for earnings per share. Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options, restricted stock units and shares of stock issuable upon conversion of the Company s convertible notes. The dilutive effect of stock options and restricted stock units is computed under the treasury stock method, and the dilutive effect of convertible notes is computed using the if-converted method. Potentially dilutive securities are excluded from the computations of diluted net loss per share if their effect would be antidilutive.

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

	Predecessor	
	Period from April 2, 2011 through April 19, 2011	Period from October 2, 2010 through April 19, 2011
Employee stock options	2,044	1,268
4.00 % convertible subordinated notes due March 2026		172
	2,044	1,440

All of the net loss in the Successor period is attributable to the Company s single shareholder, Conexant Holdings. As a result, the calculation of net loss per share is not meaningful.

Impairment of Assets The Company periodically reviews long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If an asset is considered to be impaired, the impairment loss is recognized immediately and is considered to be the amount by which the carrying amount of the asset exceeds its fair value.

During the Successor fiscal quarter ended March 30, 2012, the Company determined that indicators of impairment existed based on two factors: (1) its operating results for the Successor fiscal quarter ended March 30, 2012 and (2) decreases in sales forecasts for future periods. As a result of these indicators of impairment, the Company tested its amortizable intangible assets by comparing the sum of the undiscounted cash flows related to customer relationship, patent and research and development (R&D) intangible assets to their respective carrying values as of March 30, 2012. The sum of undiscounted cash flows related to the customer relationships intangible asset was less than its carrying value. As a result the Company recorded an impairment charge of $15.4 million, which represented the difference between its fair value and its carrying value as of March 30, 2012. The sum of undiscounted cash flows related to the patent and R&D intangible assets was greater than their carrying value as of March 30, 2012. As a result, the Company did not record any impairment charge on the patent and R&D intangible assets as of March 30, 2012.

The Company tested its indefinite-lived intangible assets for impairment by comparing the fair value of the indefinite-lived intangible assets to their carrying amounts. The fair value of the in-process research and development (IPR&D) intangible asset was determined based on a discounted cash flow model using the revised sales forecast for each project that continued to be classified as IPR&D as of March 30, 2012. Based on this, the Company determined that the fair value of the IPR&D intangible asset was less than the carrying amount of the IPR&D intangible asset as of March 30, 2012, resulting in an impairment charge of $6.0 million.

An IPR&D project completed in the Successor fiscal quarter ended March 30, 2012 had a fair value of $1.9 million compared with the historical carrying value of the project in IPR&D of $2.8 million as of March 30, 2012. This resulted in an impairment charge of $0.9 million. The fair value of the trade name and trademarks intangible asset, based on a discounted cash flow model using the revised sales forecast was less than the carrying amount of trade name and trademarks which resulted in an impairment charge of $1.1 million.

During the Successor fiscal quarter ended June 29, 2012, based on current business forecasts, the Company determined there were no indicators of impairment and therefore no interim asset impairment analysis was considered necessary for this period.

Goodwill Goodwill is tested annually during the fourth fiscal quarter and, if necessary, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

During the Successor fiscal quarter ended March 30, 2012, the Company determined that indicators of impairment existed based on its operating results for the Successor fiscal quarter ended March 30, 2012 and decreases in sales forecasts for future periods. As a result of these indicators of impairment, the Company recorded a goodwill impairment charge of $31.5 million in the Successor fiscal quarter ended March 30, 2012 representing the excess of goodwill over the implied fair value of goodwill calculated as of March 30, 2012.

During the Successor fiscal quarter ended June 29, 2012, based on current business forecasts, the Company determined there were no indicators of impairment and therefore no interim goodwill impairment analysis was considered necessary for this period.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board, (FASB) issued new accounting guidance intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of this guidance will not have a material impact on the Company s financial statements.

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on the Company s financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this guidance will not have a material impact on the Company s financial statements.

2. Merger with Conexant Holdings, Inc.

The Merger was accounted for as a business combination using the acquisition method of accounting, whereby the purchase price was allocated to tangible and intangible assets acquired and liabilities assumed, based on their estimated fair market values. Fair-value measurements have been applied based on assumptions that market participants would use in the pricing of the asset or liability. The following table summarizes the fair value assigned to the assets acquired and liabilities assumed as of April 19, 2011, the acquisition date, as adjusted as of June 29, 2012 (in thousands):

Total merger consideration:	
Cash paid to shareholders	$ 197,336
Cash paid to holders of cancelled stock options and RSUs upon change of control	6,427
Bank line of credit assumed and repaid	102
Total merger consideration	203,865
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	60,794
Accounts receivable	25,530
Inventories	40,573
Other current assets	8,582
Property and equipment	11,866
Intangible assets	118,600
Other assets	26,465
Accounts payable	(14,215)
Deferred income tax liabilities, net	(21,655)
Other liabilities current and long term	(80,601)
Long-term debt	(195,125)
Net liabilities assumed	(19,186)
Excess purchase price attributed to goodwill acquired	$ 223,051

The fair value of the acquired intangible assets was determined using the following income valuation approaches. In estimating the fair value of the acquired intangible assets, the Company utilized the valuation methodology determined to be most appropriate for the individual intangible asset being valued as described below. The acquired intangible assets include the following as of the acquisition date (in thousands):

	Valuation Method	Estimated Fair Value	Remaining Useful Life (yrs) (1)
Customer relationships	Multi-Period Excess Earnings (2)	$ 50,300	7.0
In-process research and development	Multi-Period Excess Earnings (2)	46,000	
Trade name and trademarks	Relief-from-Royalty (3)	15,100	
Backlog	Multi-Period Excess Earnings (2)	4,200	0.5
Patents	Relief-from-Royalty (3)	2,900	8.3
Non-compete agreement	Comparative Business Valuation (4)	100	1.0
Total purchased intangible assets		$ 118,600	

(1) Determination of the estimated useful lives of the individual categories of purchased intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with definite lives are recognized over the shorter of the respective lives of the agreement or the period of time the assets are expected to contribute to future cash flows.

(2) The Multi-Period Excess Earnings method is a discounted cash flow method within the income approach that estimates the value of a purchased intangible asset based on the present value of the projected excess net cash flows derived from the operations of the business. The value attributed to customer relationship and backlog intangible assets was based on projected net cash inflows from existing contracts or relationships. The value attributed to IPR&D intangible assets was based on projected net cash inflows from estimates for projects under development.

(3) The Relief-from-Royalty method is a discounted cash flow method within the income approach that calculates the value attributable to owning the trade name, trademarks and patents as opposed to paying a third-party for their use.

(4) The Comparative Business Valuation method is a discounted cash flow method within the income approach whereby the value of the intangible asset is estimated based on the difference in value with and without the non-compete agreement in place.

The significant estimates and assumptions inherent in the estimate of the fair value of the identifiable purchased intangible assets include all assumptions associated with forecasting cash flows and profitability. The primary assumptions used for the determination of the fair value of the purchased intangible assets were generally based upon the present value of anticipated cash flows discounted at risk adjusted rates of approximately 15.0-16.5%, based on the Company s weighted average cost of capital. Estimated years of projected earnings generally follow the range of estimated remaining useful lives for each intangible asset class.

At the time of the Merger, the Company believed its market position and future growth potential for its semiconductor system solutions business were the primary factors that contributed to a total purchase price that resulted in the recognition of goodwill.

In the Successor nine fiscal months ended June 29, 2012, the Company recorded charges of $23.4 million and $31.5 million for impairment of its intangible assets and goodwill, respectively. In the Successor fiscal year ended September 30, 2011, the Company recorded charges of $41.1 million for impairment of its intangible assets.

Pro Forma Financial Information:

The following unaudited pro forma results of operations assume that the Merger had occurred on October 2, 2010 for the fiscal quarter ended July 1, 2011 after giving effect to acquisition accounting adjustments relating to depreciation and amortization of the revalued assets, and other acquisition-related adjustments in connection with the Merger. These unaudited pro forma results exclude transaction costs incurred in connection with the Merger. This unaudited pro forma information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the Merger had actually occurred on those dates, nor of the results that may be obtained in the future.

	Pro Forma Results of Operations	
	Fiscal Quarter Ended July 1, 2011	Nine Fiscal Months Ended July 1, 2011
	(in thousands)	
Net revenues	$ 40,908	$ 130,147
Net loss	$ 38,209	$ 75,228

3. Sale of Assets

On December 22, 2010, the Company sold certain real property adjacent to its Newport Beach, California headquarters to Uptown Newport L.P. for $23.5 million, which at the sale date consisted of $21.5 million in cash and a limited partnership interest in the property valued at $2.0 million. The property primarily consists of approximately 25 acres of land, and includes two leased buildings, improvements and site development costs. The net book value of the property sold was as follows (in thousands):

	Predecessor
Land	$ 1,662
Land and leasehold improvements, net	356
Buildings, net	5,610
Machinery and equipment, net	262
Site development costs	7,583
	$ 15,473

The Company has continuing involvement with the property related to groundwater and soil remediation, and therefore at the time of the sale deferred the gain of $6.9 million on the monetary portion of the proceeds of the transaction, net of transaction costs of $0.4 million. The deferred gain was eliminated in the Merger purchase price allocation. Responsibility for soil remediation was transferred to Uptown Newport L.P. with the Company retaining certain obligations to assist in the soil remediation process for up to five years (or earlier under certain circumstances set forth in the agreement between the parties). Responsibility for groundwater remediation remains with the Company. The Company has accrued $3.7 million of reserves as of June 29, 2012 based on management s best estimate of remaining remediation costs, of which $2.6 million is classified in long-term other liabilities. The reserve for remediation costs is recorded at its undiscounted value because the amount and timing of cash payments are not fixed or reliably determinable.

The Company retained an approximately 7.5% limited partnership interest in the property with a value of $0.4 million at the Merger date and as of June 29, 2012. The limited partnership interest holds its limited partnership interest in Uptown Newport L.P., which will own, operate and develop the real property sold by the Company in December 2010. The Company has the option to sell its partnership interest to the developer at $2.0 million plus a 12% return, if Uptown Newport L.P obtains certain financing. The $0.4 million realizable value was derived in large part based on the Company s estimate of the probability that the Company will be able to liquidate its investment pursuant to the terms of the sale agreement.

4. Fair Value of Certain Financial Assets and Liabilities

Level 1 financial assets and liabilities consist of unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company s cash equivalents consist primarily of funds in money market accounts, which are classified within Level 1 of the fair value hierarchy. Cash equivalents at June 29, 2012 and September 30, 2011 were $1.6 million and $23.0 million, respectively.

Level 2 financial assets and liabilities consist of inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The Company had no financial assets or liabilities classified as Level 2 as of June 29, 2012 or September 30, 2011.

Level 3 financial assets and liabilities consist of inputs that are both significant to the fair value measurement and unobservable, and consist of the Company s warrant to purchase approximately 6.1 million shares of Mindspeed common stock. The warrant was valued using the Black-Scholes-Merton valuation model (see Note 5). The fair value of the Mindspeed warrant was $4,000 and $1.7 million as of June 29, 2012 and September 30, 2011, respectively.

The fair value of other financial instruments, which consists of the Company s 11.25% senior secured notes due 2015, was $192.9 million as of June 29, 2012. The fair value of the 11.25% senior secured notes is based on an indicative bid price provided by the underwriter of the senior secured notes, and was 110.25% and 112.0% of par as of June 29, 2012 and September 30, 2011, respectively.

There was no reclassification of investments between levels during the Successor nine fiscal months ended June 29, 2012. Other than the unrealized gains and losses related to the Company s warrant to purchase 6.1 million shares of Mindspeed common stock and a $1.4 million realized gain on sale of equity investments in the Predecessor period from October 2, 2010 through April 19, 2011, there were no significant realized or unrealized gains as of or during the Successor nine fiscal months ended June 29, 2012, the Successor period from April 20, 2011 through July 1, 2011 or the Predecessor period from October 2, 2010 through April 19, 2011.

5. Supplemental Financial Information

Inventories

Inventories consist of the following (in thousands):

	Successor	
	June 29, 2012	**September 30, 2011**
Work-in-process	$ 4,229	$ 7,973
Finished goods	2,739	4,720
Total inventories	$ 6,968	$ 12,693

Net inventory includes a step-up to fair value recorded in connection with the Merger of $0.3 million and $1.2 million, as of June 29, 2012 and September 30, 2011, respectively. Work-in-process consists of completed wafers, probed die, and product in assembly and product in test which has not been completed as of the balance sheet date.

Goodwill and Purchased Intangible Assets

Intangible assets consist of the following (in thousands):

		Successor									
		June 29, 2012					September 30, 2011				
	Weighted Average Life (yrs)	**Gross Carrying Amount**	**Transfers**	**Accumulated Amortization**	**Impairment**	**Book Value**	**Gross Carrying Amount**	**Transfers**	**Accumulated Amortization**	**Impairment**	**Book Value**
Intangible assets subject to amortization:											
Customer relationships	7.0	$ 31,172	$	$ (9,336)	$ (15,449)	$ 6,387	$ 50,300	$	$ (4,682)	$ (19,128)	$ 26,490
Backlog	0.5	4,200		(4,200)		$	4,200		(4,200)		
Patents	8.3	2,900		(420)		$ 2,480	2,900		(158)		2,742

R&D assets	3.8	892	2,376	(401)		$ 2,867		892	(54)		838
Non-compete agreement	1.0	100		(100)			100		(45)		55
		$ 39,264	$ 2,376	$ (14,457)	$ (15,449)	$ 11,734	$ 57,500	$ 892	$ (9,139)	$ (19,128)	$ 30,125
Intangible assets not subject to amortization:											
In-process research and development		26,850	(2,376)		(6,812)	17,662	46,000	(892)		(18,258)	26,850
Trade name and trademarks		11,450			(1,090)	10,360	15,100			(3,650)	11,450
		$ 38,300	$ (2,376)		$ (7,902)	$ 28,022	$ 61,100	$ (892)		$ (21,908)	$ 38,300

Intangible assets are amortized over their estimated useful lives either on a straight-line or accelerated basis that reflects the pattern in which the economic benefits of the intangible assets are expected to be realized. Useful lives range from approximately six months to eight years, with no residual value. During the Successor fiscal quarter and nine fiscal months ended June 29, 2012 the Company recognized intangible amortization expense of $1.3 million and $5.3 million, respectively. During the Predecessor period from October 2, 2010 through April 19, 2011, the Company recognized intangible amortization expense of $0.6 million. During the Successor period from April 20, 2011 through July 1, 2011, the Company recognized intangible amortization expense of $4.8 million.

Intangible assets are amortized over a weighted-average remaining period of approximately 5.7 years. Annual amortization expense is expected to be as follows as of June 29, 2012 (in thousands):

	Fiscal Year					
	2012	2013	2014	2015	2016	Thereafter
Amortization expense	$ 1,260	$ 2,882	$ 2,449	$ 1,738	$ 1,391	$ 2,014

Acquired IPR&D intangible assets consist of projects in the Company s audio, imaging and video product lines. All of the projects were in the development phase and were incomplete at the Merger date. If the IPR&D projects reach technological feasibility they will be amortized over their remaining estimated useful lives, typically the period over which shipments are forecast to occur, or, if they do not reach technological feasibility their cost will be charged to expense. In the Successor fiscal quarter ended March 30, 2012, one imaging project reached technological feasibility and was transferred to R&D assets. The fair value of the project was determined to be $1.9 million, amortizable over the life of the product, which is estimated to be approximately five years. The remaining IPR&D projects have yet to reach technological feasibility.

During the Successor fiscal quarter ended March 30, 2012, the Company determined that indicators of impairment existed based on two factors: (1) its operating results for the Successor fiscal quarter ended March 30, 2012 and (2) decreases in sales forecasts for future periods. As a result of these indicators of impairment, the Company tested its amortizable intangible assets by comparing the sum of the undiscounted cash flows related to customer relationship, patent and R&D intangible assets to their respective carrying values as of March 30, 2012. The sum of undiscounted cash flows related to the customer relationships intangible asset was less than its carrying value. As a result the Company recorded an impairment charge of $15.4 million, which represented the difference between its fair value and its carrying value as of March 30, 2012. The sum of undiscounted cash flows related to the patent and R&D intangible assets was greater than their carrying value as of March 30, 2012. As a result, the Company did not record any impairment charge on the patent and R&D intangible assets as of March 30, 2012.

The Company tested its indefinite-lived intangible assets for impairment by comparing the fair value of the indefinite-lived intangible assets to their carrying amounts. The fair value of the IPR&D intangible asset was determined based on a discounted cash flow model using the revised sales forecast for each project that continued to be classified as IPR&D as of March 30, 2012. Based on this, the Company determined that the fair value of the IPR&D intangible asset was less than the carrying amount of the IPR&D intangible asset as of March 30, 2012, resulting in an impairment charge of $6.0 million.

An IPR&D project completed in the Successor fiscal quarter ended March 30, 2012 had a fair value of $1.9 million compared with the historical carrying value of the project in IPR&D of $2.8 million as of March 30, 2012. This resulted in an impairment charge of $0.9 million. The fair value of the trade name and trademarks intangible asset, based on a discounted cash flow model using the revised sales forecast was less than the carrying amount of trade name and trademarks which resulted in an impairment charge of $1.1 million.

As a result of these indicators of impairment described above, the Company recorded a goodwill impairment charge of $31.5 million in the Successor fiscal quarter ended March 30, 2012 representing the excess of goodwill over the implied fair value of goodwill calculated as of March 30, 2012.

There were no asset impairments recorded during the Successor fiscal quarter ended June 29, 2012, the Successor period from April 20, 2011 through July 1, 2011, the Predecessor period from April 2, 2011 through April 19, 2011, and the Predecessor period October 2, 2010 through April 19, 2011.

Mindspeed Warrant

The Company has a warrant to purchase approximately 6.1 million shares of Mindspeed common stock (Mindspeed warrant). The warrant expires in June 2013. The Company accounts for the Mindspeed warrant as a derivative instrument, and changes in the fair value of the warrant are included in other expense, net in each period presented. The warrant was valued at June 29, 2012 and September 30, 2011 with the Black-Scholes-Merton valuation model using the following inputs:

	Successor	
	June 29, 2012	September 30, 2011
Exercise price	$ 16.74	$ 16.74
Fair market value of Mindspeed stock	$ 2.46	$ 5.20
Expected life (years)	1.00	1.75

Expected volatility	59%	64%
Risk-free rate	0.21%	0.22%
Dividend yield		

Expected volatility is based on historical volatility of Mindspeed common stock. The risk free interest rate is based on the U.S. Treasury bill yield in effect at the time of grant for periods corresponding with the expected life of the warrant. The expected life is the remaining life of the warrant. The valuation of this derivative instrument is subjective, and the valuation model requires the input of highly subjective assumptions, including the expected stock price volatility. Changes in these assumptions can materially affect the fair value estimate. The Company could, at any point in time, ultimately realize amounts significantly different than the carrying value.

At June 29, 2012 and September 30, 2011, the aggregate fair value of the Mindspeed warrant included on the accompanying consolidated balance sheets was $4,000 and $1.7 million, respectively.

Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	Successor	
	June 29, 2012	**September 30, 2011**
Restructuring and reorganization liabilities	4,630	4,242
Impaired lease liabilities	715	1,090
Accrued technical licenses	2,499	3,948
Income tax liabilities	16	37
Deferred tax liabilities	327	9,277
Accrued customer rebates	5,698	11,306
Accrued interest	5,892	971
Environmental remediation reserve - short-term	1,152	1,001
Other	1,484	1,802
	$ 22,413	$ 33,674

Other Liabilities

Other liabilities consist of the following (in thousands):

	Successor	
	June 29, 2012	**September 30, 2011**
Restructuring and reorganization liabilities	22,370	26,768
Impaired lease liabilities	1,657	1,989
Deferred tax liability	16,635	10,616
Income tax liabilities	5,069	7,174
Accrued technical licenses	578	1,498
Retirement plans	2,443	3,076
Environmental remediation reserve - long-term	2,569	2,756
Other	2,477	2,678
		&n