

CONEXANT SYSTEMS INC

Form 8-K

August 28, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K
CURRENT REPORT**
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of Earliest Event Reported): August 24, 2009
CONEXANT SYSTEMS, INC.
(Exact Name of Registrant as Specified in its Charter)

| | | |
|--|---|--|
| Delaware (State or other jurisdiction of incorporation) | 000-24923 (Commission File Number) | 25-1799439 (I.R.S. Employer Identification No.) |
|--|---|--|

| | |
|---|----------------------------|
| 4000 MacArthur Boulevard Newport Beach, California (Address of principal executive offices) | 92660 (Zip Code) |
|---|----------------------------|

Registrant's telephone number, including area code: **949-483-4600**

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

TABLE OF CONTENTS

Item 2.01 Completion of Acquisition or Disposition of Assets

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Item 9.01 Financial Statements and Exhibits

SIGNATURE

EX-99.1

Table of Contents**Item 2.01 Completion of Acquisition or Disposition of Assets.**

As previously reported, on April 21, 2009, Conexant Systems, Inc. (the Company) entered into an Asset Purchase Agreement with Ikanos Communications, Inc. (Ikanos), pursuant to which Ikanos agreed to acquire certain assets related to the Broadband Access Products (BBA) business (the BBA Transaction). Assets to be sold pursuant to the agreement include, among other things, specified intellectual property, inventory, contracts and tangible assets. Ikanos agreed to assume certain liabilities, including obligations under transferred contracts and certain employee-related liabilities. The BBA Transaction closed on August 24, 2009 for an adjusted cash purchase price of \$53,974,195. A total of \$6.75 million of the cash purchase price received by the Company has been deposited into an escrow account. The escrow account will remain in place for twelve months following the closing of the BBA Transaction to satisfy potential indemnification claims by Ikanos pursuant to the indemnification provisions of the agreement.

A copy of the press release announcing completion of the BBA Transaction is attached hereto as Exhibit 99.1.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On August 26, 2009, Conexant Systems, Inc. (the Company) approved a one-time cash incentive award of \$150,000 (before applicable taxes) to Jean Hu, Chief Financial Officer, Senior Vice President, Business Development, and Treasurer, and \$100,000 (before applicable taxes) to Mark Peterson, Senior Vice President, Chief Legal Officer and Secretary, in recognition of their efforts in connection with the Company's sale of assets to Ikanos Communications, Inc.

On August 28, 2009, the Company entered into an Amendment to Employment Agreement with each of Christian Scherp, Co-President, Sailesh Chittipeddi, Co-President, Jean Hu, Chief Financial Officer, Senior Vice President, Business Development, and Treasurer, and Mark Peterson, Senior Vice President, Chief Legal Officer and Secretary (each, an Executive Officer). Pursuant to each amendment, the Company's Employment Agreement with each of the Executive Officers has been amended to provide that the cash lump-sum payment payable to the Executive Officer if the Company terminates the Executive Officer's employment without cause or if the Executive Officer resigns for good reason will be equal to the sum of (1) any unpaid base salary (and any other unpaid amounts) accrued through the Executive Officer's termination date and (2) one times the Executive Officer's annual base salary. The cash lump-sum that was previously payable to each Executive Officer under his or her Employment Agreement if the Company terminated the Executive Officer's employment without cause or if the Executive Officer resigned for good reason was equal to the sum of (1) any unpaid base salary (and any other unpaid amounts) accrued through the Executive Officer's termination date, and (2) a specified dollar amount (\$125,000 for Mr. Scherp, \$100,000 for Mr. Chittipeddi, \$75,000 for Ms. Hu and \$150,000 for Mr. Peterson).

Item 9.01 Financial Statements and Exhibits.**(b) Pro Forma Financial Information.**

The sale of BBA has been reflected as a discontinued operation in the Company's unaudited condensed consolidated balance sheet as of July 3, 2009 and the unaudited condensed consolidated statement of operations for the nine months ended July 3, 2009 included in our quarterly report on Form 10-Q for the quarter ended July 3, 2009, which was filed with the Securities and Exchange Commission (SEC) on August 12, 2009. Accordingly, a pro forma condensed consolidated balance sheet as of July 3, 2009 and a pro forma condensed consolidated statement of operations for the nine-month period ended July 3, 2009 is not presented herein as no adjustments would be necessary to reflect the transaction, other than the elimination of those discontinued operations.

The following unaudited pro forma condensed consolidated statements of operations of the Company for the three fiscal years ended October 3, 2008, September 28, 2007 and September 29, 2006 and the accompanying notes have been prepared to illustrate the effect of the BBA Transaction.

The unaudited pro forma condensed consolidated statements of operations of the Company for the three fiscal years ended October 3, 2008, September 28, 2007 and September 29, 2006 have been presented as if the BBA Transaction had been completed as of October 1, 2005. The Historical column represents the consolidated financial statements of operations reported in the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2008, which was filed with the SEC on November 26, 2008.

In the opinion of management, the Company's accompanying unaudited pro forma condensed consolidated statements of operations include all material adjustments necessary to reflect, on a pro forma basis, the effect of the BBA Transaction. The adjustments are described in the notes to the unaudited pro forma condensed consolidated financial information and are set forth in the Pro Forma adjustments column. The unaudited pro forma condensed consolidated statements of operations should be read together with the consolidated financial statements filed by the Company in its Annual Report on Form 10-K for the three fiscal years ended October 3, 2008, September 28, 2007 and September 29, 2006.

The Company's unaudited pro forma condensed consolidated financial information has been presented for informational purposes only and should not be relied upon as indicative of the results of operations or financial position of the Company that (i) would have occurred had the Company completed the BBA Transaction as of and for the periods presented, or (ii) will be achieved following the BBA Transaction. Actual results may have differed.

Table of Contents

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

| | Fiscal Year Ended October 3, 2008 | | |
|---|--|---|--|
| | Historical | Pro Forma Adjustment BBA | Pro Forma Continuing Operations |
| Net revenues | \$ 502,660 | \$ 171,156 | \$ 331,504 |
| Cost of goods sold | 233,779 | 96,528 | 137,251 |
| Gross margin | 268,881 | 74,628 | 194,253 |
| Operating expenses: | | | |
| Research and development | 125,162 | 66,723 | 58,439 |
| Selling, general and administrative | 86,146 | 8,241 | 77,905 |
| Amortization of intangible assets | 15,514 | 11,862 | 3,652 |
| Asset impairments | 120,769 | 120,492 | 277 |
| Special charges | 17,631 | (1,051) | 18,682 |
| Total operating expenses | 365,222 | 206,267 | 158,955 |
| Operating (loss) income | (96,341) | (131,639) | 35,298 |
| Interest expense | 31,598 | 3,794 | 27,804 |
| Other expense (income), net | 3,809 | (5,414) | 9,223 |
| Loss from continuing operations before income taxes and gain on equity method investments | (131,748) | (130,019) | (1,729) |
| Provision for income taxes | 4,418 | 3,569 | 849 |
| Loss from continuing operations before gain on equity method investments | (136,166) | (133,588) | (2,578) |
| Gain on equity method investments | 2,804 | | 2,804 |
| (Loss) income from continuing operations | \$ (133,362) | \$ (133,588) | \$ 226 |
| (Loss) income per share from continuing operations basic and diluted | \$ (2.70) | | \$ 0.00 |
| Shares used in basic per-share computations | 49,394 | | 49,394 |
| Shares used in diluted per-share computations | 49,394 | | 49,653 |

See accompanying notes to these unaudited pro forma condensed consolidated statements of operations.

Table of Contents

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

| | Fiscal Year Ended September 28, 2007 | | |
|---|---|---|--|
| | Historical | Pro Forma Adjustment BBA | Pro Forma Continuing Operations |
| Net revenues | \$ 573,576 | \$ 212,873 | \$ 360,703 |
| Cost of goods sold | 295,464 | 133,492 | 161,972 |
| Gross margin | 278,112 | 79,381 | 198,731 |
| Operating expenses: | | | |
| Research and development | 173,520 | 81,635 | 91,885 |
| Selling, general and administrative | 91,429 | 10,536 | 80,893 |
| Amortization of intangible assets | 21,259 | 11,704 | 9,555 |
| Asset impairments | 226,113 | 4,148 | 221,965 |
| Special charges | 30,397 | 18,622 | 11,775 |
| Total operating expenses | 542,718 | 126,645 | 416,073 |
| Operating loss | (264,606) | (47,264) | (217,342) |
| Interest expense | 40,783 | 3,830 | 36,953 |
| Other (income) expense, net | (36,148) | 357 | (36,505) |
| Loss from continuing operations before income taxes and gain on equity method investments | (269,241) | (51,451) | (217,790) |
| Provision for income taxes | 3,131 | 2,333 | 798 |
| Loss from continuing operations before gain on equity method investments | (272,372) | (53,784) | (218,588) |
| Gain on equity method investments | 51,182 | | 51,182 |
| Loss from continuing operations | \$ (221,190) | \$ (53,784) | \$ (167,406) |
| Loss per share from continuing operations basic and diluted | \$ (4.52) | | \$ (3.42) |
| Shares used in basic and diluted per-share computations | 48,940 | | 48,940 |

See accompanying notes to these unaudited pro forma condensed consolidated statements of operations.

Table of Contents

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

| | Fiscal Year Ended September 29, 2006 | | |
|--|---|---|--|
| | Historical | Pro Forma Adjustment BBA | Pro Forma Continuing Operations |
| Net revenues | \$ 753,227 | \$ 267,656 | \$ 485,571 |
| Cost of goods sold | 397,789 | 173,980 | 223,809 |
| Gain on cancellation of supply agreement | (17,500) | | (17,500) |
| Gross margin | 372,938 | 93,676 | 279,262 |
| Operating expenses: | | | |
| Research and development | 189,071 | 87,797 | 101,274 |
| Selling, general and administrative | 119,000 | 29,137 | 89,863 |
| Amortization of intangible assets | 29,865 | 11,415 | 18,450 |
| Asset impairments | 85 | | 85 |
| Special charges | 73,159 | 69,428 | 3,731 |
| Total operating expenses | 411,180 | 197,777 | 213,403 |
| Operating (loss) income | (38,242) | (104,101) | 65,859 |
| Interest expense | 34,377 | 1,810 | 32,567 |
| Other expense, net | 14,472 | 191 | 14,281 |
| Loss (income) from continuing operations before income taxes and loss on equity method investments | (87,091) | (106,102) | 19,011 |
| Provision for income taxes | 1,811 | 922 | 889 |
| Loss (income) from continuing operations before loss on equity method investments | (88,902) | (107,024) | 18,122 |
| Loss on equity method investments | (8,164) | | (8,164) |
| (Loss) income from continuing operations | \$ (97,066) | \$ (107,024) | \$ 9,958 |
| (Loss) income per share from continuing operations basic | \$ (2.03) | | \$ 0.21 |
| (Loss) income per share from continuing operations diluted | \$ (2.03) | | \$ 0.20 |
| Shares used in basic per-share computations | 47,933 | | 47,933 |
| Shares used in diluted per-share computations | 47,933 | | 48,821 |

See accompanying notes to these unaudited pro forma condensed consolidated statements of operations.

Table of Contents

**NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
BASIS OF PRESENTATION**

As previously reported, on April 21, 2009, the Company entered into an Asset Purchase Agreement with Ikanos Communications, Inc. (Ikanos), pursuant to which Ikanos agreed to acquire certain assets related to the Broadband Access Products (BBA) business (the BBA Transaction). Assets to be sold pursuant to the agreement include, among other things, specified intellectual property, inventory, contracts and tangible assets. Ikanos agreed to assume certain liabilities, including obligations under transferred contracts and certain employee-related liabilities. The BBA Transaction closed on August 24, 2009 for an adjusted cash purchase price of \$53,974,195.

PRO FORMA ADJUSTMENTS

The historical Consolidated Statements of Operations for the three fiscal years ended October 3, 2008, September 28, 2007 and September 29, 2006 have been adjusted to eliminate the transactions related to the BBA business. For the fiscal years ended October 3, 2008 and September 28, 2007, interest expense allocated to the BBA business represents the portion of interest and related debt issuance cost amortization on the estimated amount of the Company's floating rate senior secured notes due November 2010 (the Notes), issued in November 2006, for which an offer to repurchase must be made under the terms of the indenture agreement with the holders of the Notes as a result of the sale of the BBA business to Ikanos. The Company estimates the offer amount to be approximately \$41 million. Allocated interest expense on the Notes is based on three-month LIBOR plus 3.75%, revised quarterly in effect for each of the fiscal years. The average annual interest rate for the fiscal years ended October 3, 2008 and September 28, 2007 was 7.45% and 9.20%, respectively. For the fiscal year ended September 29, 2006, interest expense allocated to the BBA business represents the portion of interest and related debt issuance cost amortization on the Company's 4.00% convertible subordinated notes due March 2026, based upon the estimated offer to repurchase of \$41 million.

Table of Contents

(d) Exhibits.

| Exhibit Number | Description |
|---------------------------|--|
| 99.1 | Conexant Systems, Inc. Press Release dated August 24, 2009 |

Table of Contents

SIGNATURE

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

CONEXANT SYSTEMS, INC.
(Registrant)

Date: August 28, 2009

By: /s/ Mark Peterson
Mark Peterson
Senior Vice President, Chief Legal
Officer and Secretary