CONEXANT SYSTEMS INC
Form 10-Q
January 29, 2001

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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 DECEMBER 31, 2000*

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.)

4311 JAMBOREE ROAD
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 [ ]

Registrant's number of shares of common stock outstanding as of January 24, 2001 was 243,068,941.

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* For presentation purposes of this Form 10-Q, references made to the December 31, 2000 period relate to the actual fiscal first quarter ended December 29,

2000.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONEXANT SYSTEMS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(unaudited, in thousands, except per share amounts)

	December 31, 2000	September 30, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 292,629	$ 831,100
Receivables, net of allowances of $10,098 and $6,949 at December 31 and September 30, 2000, respectively	369,915	422,650
Inventories	360,091	341,002
Deferred income taxes	95,161	95,260
Other current assets	102,021	84,130
Total current assets	1,219,817	1,774,142
Marketable securities	292,241	95,876
Property, plant and equipment, net	856,688	828,511
Goodwill and intangible assets, net	1,427,715	1,507,326
Other assets	279,887	209,056
Deferred income taxes	27,248	1,286
Total assets	$ 4,103,596	$ 4,416,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 211,091	$ 233,865
Deferred revenue	42,591	37,586
Accrued compensation and benefits	58,649	88,399
Other current liabilities	88,234	95,158
Total current liabilities	400,565	455,008
Convertible subordinated notes	709,849	999,997
Other long-term liabilities	55,225	54,433
Total liabilities	1,165,639	1,509,438
Commitments and contingencies	--	--
Shareholders' equity:		
Preferred and junior preferred stock	--	--
Common stock ($1.00 par value, 1,000,000 shares authorized; 242,907 and 231,164 shares issued at December 31 and September 30, 2000, respectively)	242,907	231,164
Additional paid-in capital	3,025,608	2,775,115
Accumulated deficit	(320,451)	(120,875)
Accumulated other comprehensive income	7,938	47,295
Treasury stock, 30 shares at cost	(1,624)	(1,619)
Unearned compensation	(16,421)	(24,321)
Total shareholders' equity	2,937,957	2,906,759
Total liabilities and shareholders' equity	$ 4,103,596	$ 4,416,197

See accompanying notes to consolidated condensed financial statements.

CONEXANT SYSTEMS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share amounts)

	Three Months Ended December 31,	
	2000	1999
Net revenues	$ 410,361	$ 509,963
Cost of goods sold	296,603	277,446
Gross margin	113,758	232,517
Operating expenses:		
Research and development	118,538	88,477
Selling, general and administrative	80,376	68,168
Amortization of intangible assets	82,304	2,405
Separation costs	7,927	--
Total operating expenses	289,145	159,050
Operating income (loss)	(175,387)	73,467
Debt conversion costs	(42,584)	--
Other income (expense), net	(4,356)	578
Income (loss) before income taxes	(222,327)	74,045
Provision (benefit) for income taxes	(15,467)	22,214
Income (loss) before extraordinary item	(206,860)	51,831
Extraordinary gain on extinguishment of debt, net of income taxes of $4,426	7,284	--
Net income (loss)	$(199,576)	$ 51,831
Income (loss) per share:		
Basic:		
Income (loss) before extraordinary item	$ (0.88)	$ 0.26
Extraordinary item	0.03	--
Net income (loss)	$ (0.85)	$ 0.26

Diluted:		
Income (loss) before extraordinary item	$ (0.88)	$ 0.24
Extraordinary item	0.03	--
Net income (loss)	$ (0.85)	$ 0.24
Number of shares used in per share computation:		
Basic	236,119	196,715
Diluted	236,119	228,974

See accompanying notes to consolidated condensed financial statements.

CONEXANT SYSTEMS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended December 31,	
	2000	1999
Cash flows from operating activities:		
Net income (loss)	$(199,576)	$ 51,831
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	47,691	44,357
Amortization of intangible assets	82,304	2,405
Deferred income taxes	(17,106)	--
Stock compensation	3,548	449
Debt conversion costs	42,584	--
Extraordinary gain--extinguishment of debt	(11,710)	--
Other non-cash charges	6,371	--
Changes in assets and liabilities:		
Receivables	52,735	(47,568)
Inventories	(19,089)	1,765
Accounts payable	(22,461)	(40,642)
Accrued expenses and other current liabilities	(32,123)	30,535
Other	(7,015)	16,692
Net cash provided by (used in) operating activities	(73,847)	59,824

Cash flows from investing activities:

Capital expenditures	(65,665)	(84,656)
Investments in and advances to businesses	(86,090)	(105,498)
Proceeds from sale of marketable securities	208,515	--
Purchase of marketable securities	(461,903)	--
Net cash used in investing activities	(405,143)	(190,154)
Cash flows from financing activities:		
Payment of debt conversion costs	(42,584)	--
Repurchase of convertible subordinated notes	(22,400)	--
Proceeds from exercise of stock options	5,503	9,330
Net cash provided by (used in) financing activities	(59,481)	9,330
Net decrease in cash and cash equivalents	(538,471)	(121,000)
Cash and cash equivalents at beginning of period	831,100	398,516
Cash and cash equivalents at end of period	$ 292,629	$ 277,516

See accompanying notes to consolidated condensed financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Conexant Systems, Inc. ("Conexant" or the "Company") is focused exclusively on providing semiconductor products and system solutions for a wide variety of communications electronics. The Company's products facilitate communications worldwide through wireline voice and data communications networks, cordless and cellular wireless telephony systems, personal imaging devices and equipment, and emerging cable and wireless broadband communications networks. The Company operates in two business segments: the Personal Networking business and the Internet Infrastructure business.

On January 18, 2001, the Company announced that it will postpone the previously-announced initial public offering of common stock of its Internet Infrastructure business. The Company intends to complete the separation of the Internet Infrastructure and Personal Networking businesses as soon as business conditions and the equity capital markets improve. However, there can be no assurance that any initial public offering or separation will be successfully completed.

In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature, as well as the fiscal 2001 separation costs, debt conversion

costs, and extraordinary gain on extinguishment of debt, necessary to present fairly the Company's financial position, results of operations, and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2000.

Fiscal Periods

For presentation purposes, references made to the period ended December 31, 2000 relate to the actual fiscal 2001 first quarter ended December 29, 2000.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current period presentation.

Recent Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in fair value of derivatives either offset the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or are recognized in other comprehensive income until the hedged item is recognized in earnings. Generally, the change in a derivative's fair value related to the ineffective portion of a hedge, if any, is immediately recognized in earnings. The Company adopted SFAS 133 as of October 1, 2000, with no significant effect on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The Company will be required to adopt SAB 101 no later than the fourth quarter of fiscal 2001. Management believes that the adoption of SAB 101 will not have a significant effect on its financial position or results of operations.

CONEXANT SYSTEMS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

2. INVENTORIES

Inventories consist of the following (in thousands):

	December 31,	September 30,

	2000	2000
Raw materials	$ 41,480	$ 38,866
Work-in-process	187,360	209,871
Finished goods	131,251	92,265
	$ 360,091	$ 341,002

3. MARKETABLE SECURITIES

Marketable securities include commercial paper, corporate bonds, and government securities, principally having remaining terms of up to five years, and marketable equity securities. The Company enters into certain equity investments for the promotion of business and strategic objectives. The marketable portion of these strategic investments is classified as marketable securities; non-marketable equity and other investments are included in other assets. All of the Company's marketable securities are classified as available for sale and are recorded on the consolidated condensed balance sheet at fair value, based upon quoted market prices. As of December 31, 2000, unrealized gains of $16.5 million (net of related income taxes of $10.0 million) on these securities are included in other comprehensive income. Available-for-sale securities (short-term and long-term) consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
As of December 31, 2000:				
U.S. government agencies	$ 11,950	$ 16	$ --	$
Foreign governments	14,599	128	--	
Corporate debt securities	247,493	1,630	(59)	
Equity securities	15,374	24,860	--	
	$ 289,416	$ 26,634	$ (59)	$
As of September 30, 2000:				
U.S. government agencies	$ 14,795	$ 1	$ (60)	$
Corporate debt securities	5,961	2	(7)	
Equity securities	15,374	77,207	--	
	$ 36,130	$ 77,210	$ (67)	$

The amortized cost and estimated fair value of debt securities at December 31, 2000, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Due within one year	$ 23,680	$ 23,750
Due after one year through five years ..	240,164	241,717
Due after five years through ten years .	3,479	3,536
Due after ten years	6,719	6,754
	$ 274,042	$ 275,757

CONEXANT SYSTEMS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

4. CONVERTIBLE SUBORDINATED NOTES

During the three months ended December 31, 2000, approximately $255.1 million principal amount of the Company's 4-1/4% Convertible Subordinated Notes due 2006 were converted into approximately 11.0 million shares of common stock at a cost to the Company of $42.6 million. In addition, the Company purchased $35.0 million principal amount of its 4% Convertible Subordinated Notes due 2007 at prevailing market prices, resulting in an extraordinary gain of $7.3 million (net of income taxes of $4.4 million).

5. CONTINGENT LIABILITIES

Claims have been asserted against the Company for utilizing the intellectual property rights of others in certain of the Company's products. The resolution of these matters may entail the negotiation of a license agreement, a settlement, or the resolution of such claims through arbitration or litigation. In connection with the Company's spin-off from Rockwell International Corporation ("Rockwell"), the Company assumed responsibility for all contingent liabilities and then current and future litigation (including environmental and intellectual property proceedings) against Rockwell or its subsidiaries in respect of the operations of the semiconductor systems business of Rockwell.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that a license will be granted. Injunctive relief could have a material adverse effect on the financial condition or results of operations of the Company. Based on its evaluation of matters which are pending or asserted and taking into account the Company's reserves for such matters, management believes the disposition of such matters will not have a material adverse effect on the Company's financial condition or results of operations.

6. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) for the three months ended December 31, 2000 and 1999 is as follows (in thousands):

	Three mont Decembe
	2000
Net income (loss)	$ (199,576)
Other comprehensive income (loss):	
Foreign currency translation adjustments	(8,272)
Change in unrealized gains on available for sale securities	(50,568)
Change in unrealized gains on foreign currency forward contracts	71
Effect of income taxes	19,412
Other comprehensive income (loss)	(39,357)
Comprehensive income (loss)	$ (238,933)

The components of accumulated other comprehensive income are as follows (in thousands):

	December 31, 2000	September 2000
Unrealized gains on marketable securities, net of tax	$ 16,529	$ 47,6
Unrealized gains on foreign currency forward contracts	71	
Foreign currency translation adjustments	(8,662)	(3
Accumulated other comprehensive income	$ 7,938	$ 47,2

CONEXANT SYSTEMS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

7. INCOME (LOSS) PER SHARE

Basic income (loss) per share is based on the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share also includes the effect of stock options and other common stock equivalents outstanding during the period, and assumes the conversion of the Company's convertible subordinated notes for the period of time such notes were outstanding, if such stock options and convertible notes are dilutive. The following table sets forth the computation of basic and diluted income (loss) per share before extraordinary item (in thousands, except per share data):

	Three months ended December 31,	
	2000	1999
Income:		
Income (loss) before extraordinary item available to common shareholders -- basic	$ (206,860)	$ 51,831
Interest expense on convertible subordinated notes, net of tax	--	2,299
Income (loss) before extraordinary item available to common shareholders -- diluted	$ (206,860)	$ 54,130
Shares:		
Weighted-average shares outstanding -- basic	236,119	196,715
Effect of dilutive securities:		
Stock options	--	16,791
Restricted stock	--	315
Convertible subordinated notes	--	15,153
Weighted-average shares outstanding -- diluted	236,119	228,974
Income (loss) per share before extraordinary item:		
Basic	$ (0.88)	$ 0.26
Diluted	$ (0.88)	$ 0.24

The average shares listed below were not included in the computation of diluted earnings per share, as their effect would have been antidilutive for the periods presented (in thousands):

	Three months ended December 31,	
	2000	1999
Stock options (under the treasury stock method)	11,523	--
4-1/4% Convertible Subordinated Notes due 2006	10,224	--
4% Convertible Subordinated Notes due 2007	5,905	--
Restricted stock and other	3,301	--

8. SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest, net of amounts capitalized, was $8.4 million and $6.4

million for the three months ended December 31, 2000 and 1999, respectively. Cash paid for income taxes for the three months ended December 31, 2000 and 1999 was $0.4 million and $15.4 million, respectively.

Significant noncash transactions during the three months ended December 31, 2000 and 1999 include income tax benefits of approximately $4.7 million and $52.7 million, respectively, resulting from employee stock transactions which were credited to additional paid-in capital.

CONEXANT SYSTEMS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(unaudited)

9. SEGMENT INFORMATION

The Company operates in two reportable segments--Personal Networking and Internet Infrastructure. The Company evaluates segment performance based on operating income (loss) excluding amortization of intangible assets and special charges. Special charges excluded from segment operating income (loss) for the three months ended December 31, 2000 include separation costs incurred in connection with the proposed spin-off of the Internet Infrastructure segment and stock compensation costs, representing the amortization of the value of unvested in-the-money stock options assumed by Conexant in connection with certain fiscal 2000 business acquisitions. The table below presents information about reported segments for the three months ended December 31 (in thousands):

	Net Revenues		Operating Incom
	2000	1999	2000
Personal Networking	$ 244,456	$ 391,416	$(106,352)
Internet Infrastructure	165,905	118,547	23,683
Segment totals	$ 410,361	$ 509,963	(82,669)
Amortization of intangible assets			82,304
Separation costs			7,927
Stock compensation			2,487
Operating income (loss)			$(175,387)

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

This information should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto included in this Quarterly Report, and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the year ended September 30, 2000.

OVERVIEW

Conexant is focused exclusively on providing semiconductor products and system solutions for a wide variety of communications electronics. The Company's products facilitate communications worldwide through wireline voice and data communications networks, cordless and cellular wireless telephony systems, personal imaging devices and equipment, and emerging cable and wireless broadband communications networks. The Company operates in two business segments: the Personal Networking business and the Internet Infrastructure business.

The Personal Networking business designs, develops and sells semiconductor products and system solutions in four general communications applications markets -- Personal Computing, Personal Imaging, Digital Infotainment and Wireless Communications. Personal Computing products include telephony-based communications solutions for personal computing terminals and other communication devices such as gaming consoles, web browsers and handheld devices. Personal Imaging products consist of semiconductor and software products that enable image capture, processing and output for fax machines, printers and digital still and video cameras. Digital Infotainment products include semiconductor solutions that perform communication and media processing functions within a variety of information and entertainment platforms. Wireless Communications products are comprised of components, subsystems and system-level semiconductor solutions for wireless voice and data communication applications, including digital cellular handsets and base stations, cordless telephones and global positioning system ("GPS") receivers.

The Internet Infrastructure business designs, develops and sells semiconductor products and system solutions for some of the highest-growth areas in the communications markets including broadband access, multi-service access and wide area network ("WAN") transport. The Company's broad product portfolio allows it to provide network infrastructure original equipment manufacturers ("OEMs") with system level semiconductor solutions including multi-service access and high-speed digital subscriber line ("DSL") products used in a variety of network access platforms such as remote access concentrators, voice gateways, digital loop carriers, DSL access multiplexers and integrated access devices. The Company also provides network infrastructure OEMs with an extensive family of communication solutions that support the aggregation, transmission and switching of data, video and voice from the edge of the network to the optical backbone, including T/E carrier, asynchronous transfer mode ("ATM") and synchronous optical networking ("SONET")/synchronous digital hierarchy ("SDH") products and network processors. These products are used in a variety of network equipment including high-speed routers, ATM switches, optical switches, add-drop multiplexers and digital cross-connect systems.

The Company markets and sells its semiconductor products and system solutions directly to leading OEMs of communication electronics products and third-party electronic manufacturing service providers, and indirectly through electronic components distributors. One customer accounted for 10% of net revenues in the first quarter of fiscal 2001; no other customer accounted for more than 10% of net revenues for the period. The Company's top 20 customers accounted for 62% of fiscal 2001 first quarter net revenues. Revenues derived from customers located in the Americas, Europe, Japan, and the Asia-Pacific region were 39%, 15%, 6% and 40%, respectively, of the Company's net revenues in the first quarter of

fiscal 2001.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand. In addition, the Company's operating results may be negatively affected by substantial quarterly and annual fluctuations and market downturns due to a number of factors, such as changes in demand for end-user equipment, the timing of the receipt, reduction or cancellation of significant customer orders, the gain or loss of significant customers, market acceptance of the Company's products and its customer's products, the

Company's ability to develop, introduce and market new products and technologies on a timely basis, availability and cost of products from the Company's suppliers, new product and technology introductions by competitors, changes in the mix of products produced and sold, intellectual property disputes, the timing and extent of product development costs and general economic conditions. In the past, average selling prices of established products have generally declined over time and the Company expects this trend to continue in the future.

On January 18, 2001, the Company announced that it will postpone the previously-announced initial public offering of common stock of its Internet Infrastructure business. The Company intends to complete the separation of the Internet Infrastructure and Personal Networking businesses as soon as business conditions and the equity capital markets improve. However, there can be no assurance that any initial public offering or separation will be successfully completed.

RESULTS OF OPERATIONS

NET REVENUES

The following table summarizes the Company's net revenues by business segment:

	Three months ended December		
	2000	Change	
		(in thousands)	
Net revenues:			
Personal Networking	$ 244,456	(38)%	$
Internet Infrastructure	165,905	40%	
	$ 410,361	(20)%	$
As a percentage of Conexant's total net revenues:			
Personal Networking	60%		
Internet Infrastructure	40%		

Personal Networking

The following table summarizes the net revenues of the Personal Networking segment by product category:

	Three months ended December	
	2000	Change
	(in thousands)	
Net revenues:		
Personal Computing	$ 75,115	(60)%
Personal Imaging	24,719	(21)%
Digital Infotainment	60,785	(9)%
Wireless Communications	83,837	(19)%
	$ 244,456	(38)%
As a percentage of Conexant's total net revenues:		
Personal Computing	18%	
Personal Imaging	6%	
Digital Infotainment	15%	
Wireless Communications	21%	
	60%	

Personal Computing product revenues reflect a decline in unit shipments of dial-up and embedded modem solutions resulting from the extremely weak PC and related peripheral device sell-through rates during the holiday season and the excess channel inventory build-up by PC OEMs in the face of weakening demand. These factors ultimately led to significant order deferrals and cancellations during the latter part of the quarter. The decline in revenues in the first quarter of fiscal of 2001 was partially offset by a significant increase in the unit shipments of asymmetric DSL ("ADSL") chipset solutions, which commenced volume shipments in the middle of fiscal 2000. Unit shipments of

ADSL chipsets increased more than 50% sequentially during the first quarter of fiscal 2001 over the fourth quarter of fiscal 2000 .

Personal Imaging product revenues reflect a decline in the unit shipments of products for fax modem applications as result of a significant slowdown in customer demand in the United States and Europe, as well as excess channel inventory build-ups by OEMs. Revenues in the first quarter of fiscal of 2001 also included a significant increase in the unit shipments of products for digital still camera applications from the comparable period of fiscal 2000.

Digital Infotainment product revenues declined due to lower demand for media processing products, including video encoders and decoders, as a result of the overall weakness in demand for consumer PCs, and reduced demand for legacy low-speed modems used in satellite set-top box applications. However, net

revenues from the strategic broadband communications portfolio, including cable modems and satellite set-top box tuners and demodulators was up more than 100% from the comparable prior year quarter.

Wireless Communications product revenues declined as a result of overall softer global demand for digital cellular handsets. Net revenues from the code division multiple access ("CDMA") product portfolio declined as a result of the Korean government's decision to impose a ban on Korean service providers subsidizing new digital cellular handsets. The subsidy ban curtailed domestic demand for CDMA digital cellular handset production and attendant semiconductor component supply. The Company also experienced lower sales volume from 900MHz digital cordless telephone chipsets. However, unit shipments of global system for mobile communications ("GSM") power amplifiers, radio frequency subsystems and full system solutions in the first quarter of fiscal 2001 increased significantly from the comparable prior year period.

Internet Infrastructure

Internet Infrastructure segment revenues for the first quarter of fiscal 2001 increased 40% from the similar period of fiscal 2000, principally reflecting increased sales of optical networking, ATM, network processor and T/E carrier products used in network infrastructure equipment for metropolitan and optical backbone networks. The Company also experienced moderate growth in demand for high-speed DSL products, used by network infrastructure OEMs in DSL access multiplexers, integrated access devices and other products for the delivery of symmetric DSL ("SDSL") services. However, demand for the Company's AnyPort(TM) family of multi-service access processors was adversely affected by a slowing capacity expansion among North American Internet service providers ("ISPs"), and by higher-than-normal inventory levels among several OEM, subcontractor, and distributor customers.

The Company's fiscal 2001 first quarter net revenues for both the Personal Networking and Internet Infrastructure businesses were adversely affected by a number of external factors including, but not limited to, weakened demand for consumer PCs and related peripheral devices, higher than normal customer inventory levels, delays in the development and launch of new products by the Company's customers, and slowing investment in communications network capacity expansion by ISPs and competitive local exchange carriers. The Company believes that these and other factors will continue to adversely affect its revenues in the near term.

GROSS MARGIN

	Three months ended December 31,		
	2000	Change	1999
		(in thousands)	
Gross margin	$113,758	(51)%	$232,517
Percent of net revenues	28%		46%

Costs of goods sold consists predominantly of purchased materials, labor and overhead (including depreciation) associated with product manufacturing, royalty and other intellectual property costs, warranties and sustaining engineering expenses pertaining to products sold. Gross margins for the first quarter of fiscal 2001 reflect the impact of lower quarterly revenues on a base of relatively fixed manufacturing support costs. The fiscal 2001 gross margin also

reflects additional inventory reserves of approximately $57.5 million primarily associated with the dial-up modem product portfolio, as a result of the rapidly changing demand environment for PCs. The Company

anticipates that its gross margins in the near term will continue to be adversely affected by lower quarterly revenues, and by higher energy costs resulting from the electrical power shortages currently affecting the state of California.

RESEARCH AND DEVELOPMENT

	Three months ended December 31,		
	2000	Change	1999
	(in thousands)		
Research and development	$118,538	34%	$ 88,477
Percent of net revenues	29%		17%

The increase in research and development ("R&D") expenses for the first quarter of fiscal 2001 compared to the first quarter of fiscal 2000 primarily reflects higher headcount and personnel-related costs as the Company expanded its R&D efforts in the areas of Internet infrastructure, wireless communications and broadband access. As a result of the successful acquisition of ten businesses and its ongoing recruiting programs, the Company increased its engineering team by more than 375 engineers since December 1999. The Company expects fiscal 2001 R&D expenses to continue to increase from fiscal 2000 amounts as it continues to invest in semiconductor system solutions and products for key growth market opportunities.

SELLING, GENERAL AND ADMINISTRATIVE

	Three months ended December 31,		
	2000	Change	1999
	(in thousands)		
Selling, general and administrative	$80,376	18%	$68,168
Percent of net revenues	20%		13%

The increase in selling, general and administrative ("SG&A") expenses for the first quarter of fiscal 2001 compared to the first quarter of fiscal 2000 primarily reflects the addition of the selling, marketing and administrative teams of the businesses acquired in fiscal 2000 and the expansion of the Company's sales and marketing organizations, including an increase in the

worldwide sales force to over 330 personnel to support the anticipated future sales growth. The increase also reflects the continued development of corporate infrastructure, including the Company's information systems, human resource and finance teams, partially in support of the planned separation of the Internet Infrastructure and Personal Networking businesses. The Company expects fiscal 2001 SG&A expenses to continue to increase from fiscal 2000 amounts as it continues to invest in marketing and sales functions in support of anticipated new product launches and the continued expansion of its customer base.

AMORTIZATION OF INTANGIBLE ASSETS

	Three months ended December 31,		
	2000	Change	1999
	(in thousands)		
Amortization of intangible assets	$82,304	nm	$ 2,405

nm = not meaningful

The higher amortization expense in the fiscal 2001 first quarter resulted from the ten business acquisitions completed during fiscal 2000. In connection with these acquisitions, the Company recorded an aggregate of $1.6 billion of identified intangible assets and goodwill. These assets are being amortized over their estimated lives (principally five years). Consequently, the Company expects to record amortization expense related to goodwill and intangible assets in excess of $320 million annually for five years.

SEPARATION COSTS

In the first quarter of fiscal 2001, the Company incurred costs of approximately $7.9 million related to the previously announced separation of the Company into two independent companies to operate its Internet Infrastructure and Personal Networking business segments.

DEBT CONVERSION COSTS

In the first quarter of fiscal 2001, approximately $255.1 million principal amount of the Company's 4-1/4% Convertible Subordinated Notes due 2006 were converted into approximately 11.0 million shares of common stock, at a cost to the Company of $42.6 million.

OTHER INCOME (EXPENSE), NET

	Three months ended December 31,		
	2000	Change	1999

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		(in thousands)	
Other income (expense), net	$(4,356)	nm	$ 578

Other expense, net in the first quarter of fiscal 2001 is comprised primarily of a $5.0 million write-off of certain non-marketable investments, which management determined to be permanently impaired, and interest expense on the Company's convertible subordinated notes, partially offset by interest income on invested cash balances. In the first quarter of fiscal 2000, other income, net principally reflected interest income on invested cash balances, partially offset by interest expense on the Company's convertible subordinated notes.

PROVISION (BENEFIT) FOR INCOME TAXES

For the first quarter of fiscal 2001, the Company recorded an income tax benefit of $15.5 million (7% of pretax loss), which reflects the Company's net loss and the impact of non-deductible debt conversion costs and amortization of intangible assets. In the first quarter of fiscal 2000, the Company recorded a provision for income taxes of $22.2 million (30% of pretax income) which reflected the Company's net income and the favorable impact of state and federal research and experimentation tax credits available to the Company. The Company anticipates that its effective tax rate, exclusive of the non-deductible debt conversion costs and amortization of intangible assets, will be approximately 30% for fiscal year 2001.

EXTRAORDINARY ITEM

During the first quarter of fiscal 2001, the Company purchased $35.0 million principal amount of its 4% Convertible Subordinated Notes due 2007 at prevailing market prices, resulting in a gain of $11.7 million. Such gain has been presented in the accompanying statement of operations as an extraordinary item, net of incomes taxes of $4.4 million.

ADJUSTED EARNINGS

Adjusted income (loss) before extraordinary item and adjusted income (loss) per share before extraordinary item exclude the amortization of intangible assets and special charges. Special charges excluded from the first quarter of fiscal 2001 period include debt conversion costs, separation costs, the write-down of certain investments, and stock compensation costs (representing the amortization of the value of unvested in-the-money stock options assumed by Conexant in connection with certain fiscal 2000 business acquisitions). In addition, adjusted income (loss) before extraordinary item reflects a provision (benefit) for income taxes based upon a 30% effective tax rate. These measures of earnings are not in accordance with, or an alternative for, generally accepted accounting principles and may not be consistent with measures used by other companies. However, the Company believes these measures of earnings provide its investors additional insight on its underlying operating results and the Company uses these measures internally to evaluate its operating performance.

Adjusted income (loss) before extraordinary item and adjusted income (loss) per

share before extraordinary item is calculated as follows (in thousands, except per share data):

	Three months ended December 31,	
	2000	1999
	(in thousands)	
Income (loss) before extraordinary item	$(206,860)	$ 51,831
Amortization of intangible assets	82,304	2,405
Debt conversion costs	42,584	--
Separation costs	7,927	--
Write-down of investments	5,000	--
Stock compensation	2,487	--
Income taxes	9,141	(918)
Adjusted income (loss) before extraordinary item	$ (57,417)	$ 53,318
Adjusted income (loss) per share before extraordinary item:		
Basic	$ (0.24)	$ 0.27
Diluted	$ (0.24)	$ 0.24
Shares used per share computation:		
Basic	236,119	196,715
Diluted	236,119	228,974

LIQUIDITY AND CAPITAL RESOURCES

Cash used by operating activities was $73.8 million for the first quarter of fiscal 2001, compared to cash provided by operating activities of $59.8 million for the similar period in fiscal 2000. Operating cash flows reflect the Company's net loss of $199.6 million offset by noncash charges (depreciation and amortization and other) of $153.7 million, and net working capital increases of $27.9 million. Before the effect of the working capital changes, cash used in operations was $45.9 million for the first quarter of fiscal 2001, compared to cash provided by operations of $99.0 million for the fiscal 2000 period.

The fiscal 2001 working capital increase includes a $52.7 million decrease in net receivables, principally due to lower quarterly sales. The Company's allowance for doubtful accounts increased by $3.1 million during the fiscal 2001 period, resulting from additional reserves taken for certain slow-paying accounts. The working capital change also included a $19.1 million build-up in net inventories, principally reflecting higher inventory levels in anticipation of increasing shipments of new products and, to a lesser extent, the impact of lower demand for CDMA products in the Korean market. The change in inventories also reflects additional inventory provisions of approximately $57.5 million, primarily associated with the Company's V.90 modem portfolio, resulting from slowing demand for PCs. The working capital increase also reflects reductions of accounts payable of $22.5 million and accrued expenses and other current liabilities of $32.1 million resulting from the timing of certain payments, and other working capital changes.

Cash used in investing activities of $405.1 million during the first quarter of fiscal 2001 principally consisted of net purchases of marketable securities

totaling $253.4 million. Capital expenditures totaled $65.7 million during the fiscal 2001 period, primarily for continued investment in production and test facilities and corporate information systems. In addition, the Company made investments in and advances to businesses totaling $86.1 million, including a vendor advance of $75.0 million and $11.1 million of equity investments, principally in early-stage communications technology companies. The vendor advance was made pursuant to an agreement under which the Company receives foundry capacity to meet current production requirements and to support anticipated future growth. Cash used in investing activities during the fiscal 2000 period consisted of routine capital expenditures of $84.7 million and investments in, or advances to, businesses totaling $105.5 million

Cash used in financing activities totaled $59.5 million during the first quarter of fiscal 2001 principally consisted of $65.0 million paid in connection with the conversion and repurchase of a portion of the Company's convertible subordinated notes. During the quarter, approximately $255.1 million principal amount of the Company's 4-1/4% Convertible Subordinated Notes due 2006 were converted into approximately 11.0 million shares of common stock, at a cost to the Company of $42.6 million. Also during the quarter, the Company purchased $35.0 million principal

amount of its 4% Convertible Subordinated Notes due 2007 at prevailing market prices, resulting in an extraordinary gain of $11.7 million. These costs were partially offset by proceeds from the exercise of stock options of $5.5 million. Cash provided by financing activities during the first quarter of fiscal 2000 consisted of proceeds from the exercise of stock options of $9.3 million.

The Company's principal sources of liquidity are its existing cash reserves and available-for-sale marketable securities, cash generated from operations, and available borrowings under its $475.0 million credit facility. As of December 31, 2000, there were no borrowings outstanding under the credit facility and the Company was in compliance with all covenants thereunder. Combined cash and cash equivalents and marketable debt securities at December 31, 2000 totaled $568.4 million compared to $851.8 million at September 30, 2000. Working capital at December 31, 2000 was approximately $819 million compared to $1.3 billion at September 30, 2000. The overall working capital decrease principally reflects the Company's use of cash for the purchase of available-for-sale marketable debt securities and for the payment of a vendor advance (each of which are not included in working capital) and cash paid in connection with reducing the amounts of the Company's long-term debt.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from future operations, will be sufficient to fund operations, research and development efforts, and anticipated capital expenditures and advances for the foreseeable future. However, the Company continues to evaluate acquisition opportunities to extend its technology portfolio and design expertise and to expand its product offerings. The Company's manufacturing operations are capital intensive, and the Company may need to increase its capital spending to obtain sufficient manufacturing capacity to support anticipated future revenue growth. In order to complete any such acquisitions or increased capital expenditures, the Company may seek to obtain additional borrowings or issue additional shares of its common stock. There can be no assurance that such financing will be available on terms favorable to the Company, or at all.

CERTAIN BUSINESS RISKS

The Company's business, financial condition and operating results can be impacted by a number of factors including, but not limited to, those set forth below, any one of which could cause the Company's actual results to vary materially from recent results or from the Company's anticipated future results.

You should carefully consider and evaluate all of the information in this Report, including the risk factors listed below. 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.

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

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving standards, short product life cycles and wide fluctuations in product supply and demand.

The industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles (of both semiconductor companies' and their customers' products) and declines in general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices.

We have experienced these conditions in our business in the past and may experience such downturns in the future. Any future downturns of this nature could have a material adverse effect on our business, financial condition and results of operations. From time to time the semiconductor industry also has experienced periods of increased demand and production capacity constraints. We may experience substantial changes in future operating results due to general semiconductor industry conditions and general economic conditions.

We are subject to intense competition and could lose business to our competitors.

The semiconductor industry in general and the markets in which we compete in particular are intensely competitive. We compete worldwide with a number of United States and international semiconductor manufacturers that are both larger and smaller than us in terms of resources and market share. We currently face significant competition in our markets and expect that intense price and product competition will continue. This competition has resulted and is expected to continue to result in declining average selling prices for our products. We also anticipate that additional competitors will enter our markets as a result of growth opportunities in communications electronics, the trend toward global expansion by foreign and domestic competitors, technological and public policy changes and relatively low barriers to entry in certain markets of the industry. Moreover, as with many companies in the semiconductor industry, customers for certain of our products offer other products that compete with similar products offered by us.

We believe that the principal competitive factors for semiconductor suppliers in our market are:

- time-to-market;

- product performance;
- level of integration;
- price and total system cost;
- compliance with industry standards;
- design and engineering capabilities;
- strategic relationships with customers;
- customer support;
- new product innovation; and
- quality.

The specific bases on which we compete vary by market. We cannot assure you that we will be able to successfully address these factors.

Many of our current and potential competitors have certain advantages over us, including:

- longer operating histories and presence in key markets;
- greater name recognition;
- access to larger customer bases; and
- significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources.

As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the development, promotion and sale of their products than we can.

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 among competitors

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 also cannot assure you that competition will not have a material adverse effect on our business, financial condition and results of operations.

Many of our competitors have combined with each other and consolidated their businesses, including the consolidation of competitors with our customers. This is attributable to a number of factors, including the high-growth nature of the communications electronic industry and the time-to-market pressures on suppliers to decrease the time required for product conception, research and development, sampling and production launch before a product reaches the market. This consolidation trend is expected to continue, since investments, alliances and acquisitions may enable semiconductor suppliers, including us and our

competitors, to augment technical capabilities or to achieve faster time-to-market for their products than would be possible solely through internal development.

Consolidations by industry participants, including in some cases, acquisitions of certain of our customers by our competitors, are creating entities with increased market share, customer base, technology and marketing expertise in markets in which we compete. These developments may significantly and adversely affect our current markets, the markets we are seeking to serve and our ability to compete successfully in those markets.

Our success is dependent upon our ability to timely develop new products and reduce costs.

Our operating results will depend largely on our ability to continue to introduce new and enhanced semiconductor products on a timely basis. 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;
- our ability to accurately define new products;
- our ability to timely complete development of new products and bring our products to market on a timely basis;
- our ability to differentiate our products from offerings of our competitors; and
- market acceptance of our products.

Furthermore, we are required to continually evaluate expenditures for planned product development and to choose among alternative technologies based on our expectations of future market growth. 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. We also cannot assure you that we will be able to respond successfully to new product announcements and introductions by competitors.

In addition, prices of established products may decline, sometimes significantly, over time. We believe that in order to remain competitive we must continue to reduce the cost of producing and delivering existing products at the same time that we develop and introduce new or enhanced products. We cannot assure you that we will be able to continue to reduce the cost of our products to remain competitive.

We must incur substantial research and development expenses.

The semiconductor industry requires substantial investment in research and development. In order to remain competitive, we must continue to make substantial investments in research and development to develop new and enhanced products. We cannot assure you that we will have sufficient resources to develop new and enhanced technologies and competitive products. Our failure to continue to make sufficient investments in research and development programs could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to keep abreast of the rapid technological changes in our markets.

The demand for our products can change quickly and in ways we may not anticipate because our markets generally exhibit the following characteristics:

- rapid technological developments;
- evolving industry standards;
- changes in customer requirements;
- frequent new product introductions and enhancements; and
- short product life cycles with declining prices over the life cycle of the product.

Our products could become obsolete sooner than anticipated because of a faster than anticipated change in one or more of the technologies related to our products or in market demand for products based on a particular technology, particularly due to the introduction of new technology that represents a substantial advance over current technology. Currently accepted industry standards are also subject to change, which may contribute to the obsolescence of our products. If we are unable to keep abreast of these developments, these events could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to attract and retain qualified 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 continue to attract, retain and motivate qualified personnel, including executive officers and other key management and technical personnel. As the source of our technological and product innovations, our key technical personnel represent a significant asset. The competition for such personnel is intense in the semiconductor industry. We cannot assure you that we will be able to continue to attract and retain qualified management and other personnel necessary for the design, development, manufacture and sale of our products.

We may have particular difficulty attracting and retaining key personnel during periods of poor operating performance, given the significant use of equity-based compensation by our competitors and us. The loss of the services of one or more of our key employees, including Dwight W. Decker, our Chairman and Chief Executive Officer, or certain key design and technical personnel, or our inability to attract, retain and motivate qualified personnel could have a material adverse effect on our ability to operate our business and on our financial condition and results of operations.

If OEMs of communications electronics products do not design our products into their equipment, we will have difficulty selling those products. Moreover, a design win from a customer does not guarantee future sales to that customer.

Our products are not sold directly to the end-user but are components of other products. As a result, we rely on OEMs of communications electronics products to select our products from among alternative offerings to be designed into their equipment. Without these "design wins" from OEMs, we would have difficulty selling our products. Once an OEM designs another supplier's semiconductors into its products, it will be more difficult for us to achieve future design wins with that OEM's product platform because changing suppliers involves significant cost, time, effort and risk. Achieving a design win with a customer does not

ensure that we will receive significant revenues from that customer. Even after a design win, the customer is not obligated to purchase our products and can choose at any time to stop using our products, for example, if its own products are not commercially successful or for any other reason. Our inability to achieve design wins or to convert design wins into actual sales could have a material adverse effect on our business, financial condition and results of operations.

Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenues related to those products.

Our customers may need six months or longer to test and evaluate our products and an additional six months or more to begin volume production of equipment that incorporates our products. The lengthy period of time required also increases the possibility that a customer may decide to cancel or change product plans, which could reduce or eliminate sales to that customer. As a result of this lengthy sales cycle, we may incur significant research and development, and selling, general and administrative expenses before we generate the related revenues for these products, and we may never generate the anticipated revenues if our customer cancels or changes its product plans.

Uncertainties involving the ordering and shipment of our products could adversely affect our business.

Our sales are typically made pursuant to individual purchase orders and we generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders until 30 days prior to shipment. In addition, we sell a portion of our products through distributors, some of whom have rights to return unsold products to us. We routinely purchase inventory based on estimates of customer demand for their products, which is difficult to predict. This difficulty may be compounded when we sell to OEMs indirectly through distributors or contract manufacturers, or both, as our forecasts of demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to the failure of anticipated orders to materialize could result in our holding excess or obsolete inventory, which could result in write-downs of inventory that would have a material adverse effect on our operating results.

Our manufacturing process is extremely complex and specialized.

Our manufacturing operations are complex and subject to disruption due to causes beyond our control. The fabrication of integrated circuits is an extremely complex and precise process consisting of hundreds of separate steps. It requires production in a highly controlled, clean environment. Minute impurities, errors in any step of the fabrication process, defects in the masks used to print circuits on a wafer or a number of other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer not to function.

Our operating results are highly dependent upon our ability to produce large volumes of integrated circuits at acceptable manufacturing yields. Our operations may be affected by lengthy or recurring disruptions of operations at any of our production facilities or those of our subcontractors. These disruptions may include labor strikes, work stoppages, fire, earthquake, flooding or other natural disasters. These disruptions could cause significant delays in shipments until we could shift the products from an affected facility

or subcontractor to another facility or subcontractor.

In the event of these types of delays, we cannot assure you that the required alternate capacity, particularly wafer production capacity, would be available on a timely basis or at all. Even if alternate wafer production capacity is available, we may not be able to obtain it on favorable terms, which could result in a loss of customers. Any inability to obtain sufficient manufacturing capacities to meet demand, either at our own facilities or through foundry or similar arrangements with others, could have a material adverse effect on our business, financial condition and results of operations. Certain of our manufacturing facilities are located near major earthquake fault lines, including our California and Mexico facilities. We maintain only minimal earthquake insurance coverage on these facilities.

Due to the highly specialized nature of the gallium arsenide semiconductor manufacturing process, in the event of a disruption at our Newbury Park, California wafer fabrication facility, alternate gallium arsenide production capacity would not be readily available from third-party sources. Although we have a multi-year agreement with a foundry that guarantees us access to additional gallium arsenide wafer production capacity, a disruption of operations at our Newbury Park wafer fabrication facility or the interruption in the supply of epitaxial wafers used in our gallium arsenide process could have a material adverse effect on our business, financial condition and results of operations, particularly with respect to our Wireless Communications products.

Our long-term revenue growth is also dependent on our ability to secure adequate additional manufacturing capacity, including wafer production capacity. We have recently entered into agreements with outside foundries to secure additional wafer manufacturing capacity, including additional gallium arsenide wafer production capacity. In addition, we continue to explore wafer manufacturing alternatives, which may include increased use of outside foundries, entering into new or expanded business relationships with respect to wafer manufacturing or other actions related to our wafer manufacturing facilities. We cannot assure you that we will be successful in securing adequate additional manufacturing capacity. Our inability to do so could result in delays in customer shipments and the possible loss of customers.

We may not be able to achieve manufacturing yields to maintain our profitability.

Minor deviations in the manufacturing process can cause substantial manufacturing yield loss, and in some cases, cause production to be suspended. Manufacturing yields for new products initially tend to be lower as we complete product development and commence volume manufacturing, and will typically increase as we ramp to full production. Our forward product pricing includes this assumption of improving manufacturing yields and, as a result, material variances between projected and actual manufacturing yields have a direct effect on our gross margin and profitability. The difficulty of forecasting manufacturing yields accurately and maintaining cost competitiveness through improving manufacturing yields will continue to be magnified by the ever-increasing process complexity of manufacturing semiconductor products. Our manufacturing operations also face pressures arising from the compression of product life cycles which requires us to bring new products on line faster and for shorter periods while maintaining acceptable manufacturing yields and quality without, in many cases, reaching the longer-term, high-volume manufacturing conducive to higher manufacturing yields and declining costs.

We are dependent upon third parties for the supply of raw materials and

components.

We believe we have adequate sources for the supply of raw materials and components for our manufacturing needs with suppliers located around the world. Although we currently purchase wafers used in the production of our complementary metal oxide semiconductor ("CMOS") products from one major supplier, such wafers are available from several other suppliers. We are currently dependent on two suppliers for epitaxial wafers used in the gallium arsenide semiconductor manufacturing processes at our Newbury Park, California facility and we are in the process of arranging another supplier for epitaxial wafers. The number of qualified alternative suppliers for wafers is limited and the process of qualifying a new wafer supplier could require a substantial lead-time. Although we historically have not experienced any significant difficulties in obtaining an adequate supply of raw materials and components necessary for our manufacturing operations, the loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could have a material adverse effect on our business, financial condition and results of operations.

We must incur significant capital expenditures for manufacturing technology and equipment to remain competitive.

The semiconductor industry is highly capital intensive. Semiconductor manufacturing requires a constant upgrading of process technology to remain competitive, as new and enhanced semiconductor processes are developed which permit smaller, more efficient and more powerful semiconductor devices. We maintain our own manufacturing, assembly and test facilities, which have required and will continue to require significant investments in manufacturing technology and equipment.

We have made substantial capital expenditures and installed significant production capacity to support new technologies and increased production volume. We made capital expenditures during fiscal 2000 of approximately $315 million, compared to approximately $214 million during fiscal 1999. We expect our capital expenditures for fiscal 2001 will exceed $350 million.

There can be no assurance that we will have sufficient capital resources to make necessary investments in manufacturing technology and equipment.

Our success depends on our ability to effect suitable investments, alliances or acquisitions.

Although we invest significant resources in research and development activities, the complexity and rapidity of technological changes make it impractical for us to pursue development of all technological solutions on our own. As part of our goal to provide advanced semiconductor product systems, we have and will continue to review on an ongoing basis investment, alliance and acquisition prospects that would complement our existing product offerings, augment our market coverage or enhance our technological capabilities. However, we cannot assure you that we will be able to identify and consummate suitable investment, alliance or acquisition transactions in the future.

Moreover, if we consummate such transactions, they could result in:

- issuances of equity securities dilutive to our existing shareholders;
- large one-time write-offs;

- the incurrence of substantial debt and assumption of unknown liabilities;
- the potential loss of key employees from the acquired company;
- amortization expenses related to goodwill and other intangible assets; and
- the diversion of management's attention from other business concerns.

Any of these events could have a material adverse effect on our business, financial condition and results of operations and the price of our common stock or other securities.

In fiscal 2000, we recorded charges of $215.7 million for purchased in-process research and development and amortization expenses of $160.2 million for acquisition-related intangible assets, principally related to the ten acquisitions we completed in fiscal 2000. As a result of these acquisitions, we expect to record amortization expense related to goodwill and intangible assets in excess of $320 million annually for five years.

We may have difficulty integrating companies we acquire.

We completed ten acquisitions in fiscal 2000. We evaluate acquisitions on an ongoing basis and we may make additional acquisitions in the future. Integrating acquired organizations and their products and services may be expensive, time-consuming and a strain on our resources. We could face several challenges integrating current and future acquisitions, including:

- the difficulty of integrating acquired technology into our product offerings;
- the impairment of relationships with employees and customers;
- the difficulty of coordinating and integrating overall business strategies and worldwide operations;
- the potential disruption of our ongoing business and distraction of management;
- the inability to maintain brand recognition of acquired businesses;
- the inability to maintain corporate controls, procedures and policies;
- the failure of acquired features, functions, products or services to achieve market acceptance; and
- the potential unknown liabilities associated with acquired businesses.

Our inability to address any of these challenges successfully could have a material adverse effect on our business, financial condition and results of operations.

We face a risk that capital needed for our business will not be available when we need it.

We believe that cash flows from operations, existing cash reserves and available-for-sale marketable securities, and available borrowings under our

$475 million revolving credit facility will be sufficient to satisfy our future research and development, capital expenditure, working capital and other financing requirements. However, we cannot assure you that this will be the case or that we will have access to alternative sources of capital on favorable terms or at all.

In addition, we have and will continue to review, on an ongoing basis, strategic investments and acquisitions, which will help us grow our business. These investments and acquisitions may require additional capital resources. We cannot assure you that the capital required to fund these investments and acquisitions will be available in the future.

Our credit facility may restrict our operating and financial flexibility.

We have a $475 million revolving credit facility which expires in 2003. This credit facility includes covenants that may restrict our operating and financial flexibility in the future. The credit facility includes restrictions on capital expenditures, indebtedness, acquisitions, mergers, asset sales and liens on assets that apply to us and our subsidiaries. We also must meet certain financial tests and maintain certain financial ratios. Although we believe that we will be able to comply with these requirements, compliance with these requirements may restrict our operating and financial flexibility. We cannot assure you that we will in fact be able to satisfy all of the requirements in the credit facility. If we do not satisfy the financial ratios or comply with the other covenants included in the credit facility, the lenders under the credit facility could declare all amounts owed to them due and payable and proceed against their collateral. Such a foreclosure on the collateral could have a material adverse effect on our business, financial condition and results of operations. The credit facility is secured by a pledge of the stock of our significant subsidiaries (as that term is defined in the credit facility), subject to certain exceptions for stock of foreign significant subsidiaries, and by a pledge of certain intercompany indebtedness owed by any significant subsidiary to us or any other subsidiary. If there is a downgrading of the ratings on our long-term, unsecured indebtedness by Standard & Poor's Rating Services Group to B or less and a rating by Moody's Investor Service of B2 or less (in the event of a rating by Moody's), we will be required to secure the credit facility by pledging substantially all of our assets and the assets of our domestic subsidiaries and the stock of all of our subsidiaries, subject to certain exceptions. Our obligations under the credit facility must be guaranteed by any domestic significant subsidiary.

We are subject to the risks of doing business internationally.

For fiscal 2000 and the first quarter of fiscal 2001, approximately 70 percent and 64 percent, respectively, of our net revenues were from customers located outside the United States, primarily in the Asia-Pacific and European countries. In addition, we have facilities and suppliers located outside the United States, including our assembly and test facility in Mexicali, Mexico and third-party foundries located in the Asia-Pacific region. Our international sales and operations are subject to a number of risks inherent in selling and operating abroad. These include, but are not limited to, risks regarding:

- currency exchange rate fluctuations;
- local economic and political conditions;
- disruptions of capital and trading markets;
- restrictive governmental actions (such as restrictions on transfer of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);

- changes in legal or regulatory requirements;
- limitations on the repatriation of funds;
- difficulty in obtaining distribution and support;

- the laws and policies of the United States and other countries affecting trade, foreign investment and loans, and import or export licensing requirements;
- tax laws; and
- limitations on our ability under local laws to protect our intellectual property.

Because most of our international sales, other than sales to Japan (which are denominated principally in Japanese yen), are currently denominated in U.S. dollars, our products could become less competitive in international markets if the value of the U.S. dollar increases relative to foreign currencies. Moreover, we may be competitively disadvantaged relative to our competitors located outside the United States who may benefit from a devaluation of their local currency. We cannot assure you that the factors described above will not have a material adverse effect on our ability to increase or maintain our foreign sales or on our business, financial condition and results of operations.

Our past operating performance has been impacted by adverse economic conditions in the Asia-Pacific region, which have increased the uncertainty with respect to the long-term viability of certain of our customers and suppliers in the region. Sales to customers in Japan and other countries in the Asia-Pacific region, principally Taiwan, South Korea and Hong Kong, represented approximately 57 percent and 46 percent, respectively, of our net revenues in fiscal 2000 and the first quarter of fiscal 2001.

We enter into foreign currency forward exchange contracts, principally for the Japanese yen, to minimize risk of loss from currency exchange rate fluctuations for foreign currency commitments entered into in the ordinary course of business. We have not experienced nor do we anticipate any material adverse effect on our results of operations or financial condition related to these foreign currency forward exchange contracts. We have not entered into foreign currency forward exchange contracts for other purposes and our financial condition and results of operations could be affected (negatively or positively) by currency fluctuations.

Our operating results may be negatively affected by substantial quarterly and annual fluctuations and market downturns.

Our revenues, earnings and other operating results have fluctuated in the past and may fluctuate in the future. These fluctuations are due to a number of factors, many of which are beyond our control. These factors include, among others:

- changes in end-user demand for the products manufactured and sold by our customers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products;
- production capacity levels and fluctuations in manufacturing yields;

- availability and cost of products from our suppliers;
- the gain or loss of significant customers;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- new product and technology introductions by competitors;
- changes in the mix of products produced and sold;
- market acceptance of our products and our customers' products;
- intellectual property disputes;
- seasonal customer demand;

- the timing of receipt, reduction or cancellation of significant orders by customers; and
- the timing and extent of product development costs.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly or annual operating results. If our operating results fail to meet the expectations of analysts or investors, it could materially and adversely affect the price of our common stock and other securities.

The value of our common stock may be adversely affected by market volatility.

The trading price of our common stock fluctuates significantly. Since our common stock began trading publicly, the reported sale price of our common stock on the NASDAQ National Market has been as high as $132 1/2 and as low as $6 27/32 per share. This price may be influenced by many factors, including:

- our performance and prospects;
- the depth and liquidity of the market for our common stock;
- investor perception of Conexant and the industry in which we operate;
- changes in earnings estimates or buy/sell recommendations by analysts;
- general financial and other market conditions; and
- domestic and international economic conditions.

In addition, public stock markets have experienced, and are currently experiencing, extreme price and trading volume volatility, particularly in high technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to or disproportionately impacted by the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock.

We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in

significant expense and loss of our intellectual property rights.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, third parties may assert patent, copyright, trademark and other intellectual property rights to technologies that are important to our business and may demand that we license their technology. Any litigation to determine the validity of claims that our products infringe or may infringe these rights, including claims arising through our contractual indemnification of our customers, regardless of their merit or resolution, could be costly and divert the efforts and attention of our management and technical personnel. We cannot assure you that we would prevail in litigation given the complex technical issues and inherent uncertainties in intellectual property litigation. If litigation results in an adverse ruling we could be required to:

- pay substantial damages;
- cease the manufacture, use or sale of infringing products;
- discontinue the use of infringing technology;
- expend significant resources to develop non-infringing technology; or
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all.

Any of the foregoing results could have a material adverse effect on our business, financial condition and results of operations.

If we are not successful in protecting our intellectual property rights, it may harm our ability to compete.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our proprietary technologies and processes. In addition, we often incorporate the intellectual property of our customers into our designs, and we have obligations with respect to the non-use and non-disclosure of their intellectual property. In the past, we have found it necessary to engage in litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others, including our customers. We expect future litigation on similar grounds, which may require us to expend significant resources and to divert the efforts and attention of our management from our business operations. We cannot assure you that:

- the steps we take to prevent misappropriation or infringement of our intellectual property or the intellectual property of our customers will be successful;
- any existing or future patents will not be challenged, invalidated or circumvented; or
- any of the measures described above would provide meaningful protection.

Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, develop similar technology independently or design around our patents. If any of our patents fails to protect our technology it would make it easier for our competitors to

offer similar products. In addition, effective copyright, trademark and trade secret protection may be unavailable or limited in certain countries.

We may be liable for penalties under environmental laws, rules and regulations, which could adversely impact our business.

We use a variety of chemicals in our manufacturing operations and are subject to a wide range of environmental protection regulations in the United States, Mexico and Canada. While we have not experienced any material adverse effect on our operations as a result of such regulations, we cannot assure you that current or future regulations would not have a material adverse effect on our business, financial condition and results of operations.

In the United States, environmental regulations often require parties to fund remedial action regardless of fault. Consequently, it is often difficult to estimate the future impact of environmental matters, including potential liabilities. We cannot assure you that the amount of expense and capital expenditures that might be required to complete remedial actions and to continue to comply with applicable environmental laws will not have a material adverse effect on our business, financial condition and results of operations.

We have been designated as a potentially responsible party at one Superfund site located at a former silicon wafer manufacturing facility and steel fabrication plant in Parker Ford, Pennsylvania formerly occupied by the semiconductor systems business of Rockwell. The site was also formerly occupied by Recticon Corporation and Allied Steel Products Corporation, each of whom has also been named as a potentially responsible party and each of whom is insolvent. We have accrued approximately $2.1 million at December 31, 2000 for the cost of groundwater remediation, including installation of a public water supply line and groundwater pump and treatment system, as well as routine groundwater sampling. In addition, we are engaged in two other remediations of groundwater contamination at our Newport Beach and Newbury Park, California facilities for which we have accrued approximately $2.5 million for the costs of remediation at December 31, 2000. Pursuant to our agreement with Rockwell, we have assumed liabilities in respect of environmental matters related to current and former operations of Conexant.

Our management team may be subject to a variety of demands for its attention.

Our management currently faces a variety of challenges, including the implementation of our ongoing expansion strategy and the integration of recently-acquired businesses. While we believe that we have sufficient management

resources to execute each of these initiatives, we cannot assure you that we will have these resources or that our initiatives will be successfully implemented. Failure to implement these initiatives successfully could have a material adverse effect on our business, financial condition and results of operations.

Certain provisions in our organizational documents and rights agreement and Delaware law may make it difficult for someone to acquire control of Conexant.

We have established certain anti-takeover measures that may affect our common stock and convertible notes. Our restated certificate of incorporation, our by-laws, our rights agreement with ChaseMellon Shareholder Services, L.L.C., as rights agent, dated as of November 30, 1998, as amended, and the Delaware General Corporation Law contain several provisions that would make more

difficult an acquisition of control of Conexant in a transaction not approved by our board of directors. Our restated certificate of incorporation and by-laws include provisions such as:

- the ability of our board of directors to issue shares of our preferred stock in one or more series without further authorization of our shareowners;
- a fair price provision;
- a prohibition on shareowner action by written consent;
- a requirement that shareowners provide advance notice of any shareowner nominations of directors or any proposal of new business to be considered at any meeting of shareowners;
- a requirement that a supermajority vote be obtained to remove a director for cause or to amend or repeal certain provisions of our restated certificate of incorporation or by-laws;
- elimination of the right of shareowners to call a special meeting of shareowners; and
- the division of our board of directors into three classes to be elected on a staggered basis, one class each year.

We also have a rights agreement which gives our shareowners certain rights that would substantially increase the cost of acquiring us in a transaction not approved by our board of directors.

In addition to the rights agreement and the provisions in our restated certificate of incorporation and by-laws, Section 203 of the Delaware General Corporation Law provides that, subject to certain exceptions, a corporation shall not engage in any business combination with any interested shareowner during the three-year period following the time that such shareowner becomes an interested shareowner. The restrictions of Section 203 of the Delaware General Corporation Law, in certain circumstances, make it more difficult for a person who would be an interested shareowner to effect various business combinations with a corporation during this three-year period. The provisions of Section 203 of the Delaware General Corporation Law provide that the shareowner approval requirement may be avoided if a majority of the directors then in office approved either the business combination or the transaction that resulted in the shareowner becoming an interested shareowner.

We may be responsible for certain federal income tax liabilities that relate to our spin-off from Rockwell.

In connection with our spin-off from Rockwell, the Internal Revenue Service issued a tax ruling to Rockwell stating that the spin-off would qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended. While the tax ruling generally is binding on the Internal Revenue Service, the continuing validity of the tax ruling is subject to certain factual representations and assumptions. We are not aware of any facts or circumstances that would cause such representations and assumptions to be untrue.

The Tax Allocation Agreement dated as of December 31, 1998 between Conexant and Rockwell provides that we will be responsible for any taxes imposed on Rockwell, Conexant or Rockwell shareowners as a result of either:

- the failure of the spin-off from Rockwell to qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(D) of the

Internal Revenue Code or

- the subsequent disqualification of the spin-off from Rockwell as a tax-free transaction to Rockwell under Section 361(c)(2) of the Internal Revenue Code,

if the failure or disqualification is attributable to certain post-spin-off actions by or in respect of Conexant (including our subsidiaries) or our shareowners, such as our acquisition by a third party at a time and in a manner that would cause such failure or disqualification.

The Tax Allocation Agreement also provides, among other things, that neither Rockwell nor Conexant is to take any action inconsistent with, nor fail to take any action required by, the request for the tax ruling or the tax ruling unless:

- required to do so by law;

- the other party has given its prior written consent; or

- in certain circumstances, a supplemental ruling permitting such action is obtained.

Rockwell and Conexant have indemnified each other for any tax liability resulting from each entity's failure to comply with these provisions.

In addition, we effected certain tax-free intragroup spin-offs as a result of Rockwell's spin-off of Meritor Automotive, Inc. (now ArvinMeritor, Inc.) on September 30, 1997. The Tax Allocation Agreement provides that we will be responsible for any taxes imposed on Rockwell, Conexant or Rockwell shareowners in respect of those intragroup spin-offs if such taxes are attributable to certain actions taken after the spin-off from Rockwell by or in respect of Conexant (including our subsidiaries) or our shareowners, such as our acquisition by a third party at a time and in a manner that would cause the taxes to be incurred.

If we were required to pay any of the taxes described above, such payment could have a material adverse effect on our financial position, results of operations and cash flow.

CAUTIONARY STATEMENT

This Quarterly Report contains statements relating to future results of the Company (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to: global economic and market conditions, including the cyclical nature of the semiconductor industry and the markets addressed by the Company's and its customers' products; demand for and market acceptance of new and existing products; successful development of new products; the timing of new product introductions; the successful integration of acquisitions; the availability and extent of utilization of manufacturing capacity and raw materials; pricing pressures and other competitive factors; changes in product mix; fluctuations in manufacturing yields; product obsolescence; the ability to develop and implement new technologies and to obtain protection of the related intellectual property; the successful separation of the Company's Internet Infrastructure and Personal Networking

businesses; labor relations of the Company, its customers and suppliers; the Company's ability to attract and retain qualified personnel; and the uncertainties of litigation, as well as other risks and uncertainties including those set forth herein and those detailed from time to time in the filings of the Company with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's financial instruments include cash and cash equivalents, marketable securities and long-term debt. The Company's main investment objectives are the preservation of investment capital and the maximization of after-tax returns on its investment portfolio. Consequently, the Company invests with only high-credit-quality issuers and limits the amount of credit exposure to any one issuer. The Company does not use derivative instruments for speculative or investment purposes.

The Company's cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2000, the carrying value of the Company's cash and cash equivalents approximates fair value. The Company's marketable debt securities (consisting of corporate and government securities) principally have remaining terms of in excess of one year. Consequently, such securities are subject to interest rate risk. Marketable equity securities consist of an equity investment in a semiconductor company, initially made for the promotion of business and strategic objectives, which is subject to equity price risk.

All of the Company's marketable securities are classified as available for sale and, as of December 31, 2000, unrealized gains of $16.5 million (net of related income taxes of $10.0 million) on these securities are included in accumulated other comprehensive income. A 20% adverse change in equity prices would result in an approximate $8.0 million decrease in the fair value of the Company's marketable equity securities as of December 31, 2000.

The Company's long-term debt consists of convertible subordinated notes with interest at fixed rates. Consequently, the Company does not have significant cash flow exposure on its long-term debt. However, the fair value of the convertible subordinated notes is subject to significant fluctuation due to their convertibility into shares of the Company's common stock. The Company also has available a $475 million credit facility which provides for borrowings at variable rates of interest. Should the Company make borrowings under this credit facility, such borrowing would be subject to interest rate and cash flow risk.

The following table shows the fair values of the Company's investments and long-term debt as of December 31, 2000 (in thousands):

	Carrying Value	Fair Value
Cash and equivalents................................	$292,629	$292,629
Marketable debt securities	274,042	275,757

Marketable equity securities (including unrealized gains of $24.9 million)................	40,234	40,234
Long-term debt.......................................	709,849	413,700

The Company transacts business in various foreign currencies, and is subject to certain foreign exchange risks, principally arising from customer accounts receivable at its Japanese subsidiary which are denominated in yen. At December 31, 2000, such receivables totaled approximately $21.1 million. The Company is also subject to foreign exchange risks relating to certain purchase commitments, principally denominated in euros. The Company has established a foreign currency hedging program utilizing foreign currency forward exchange contracts to hedge certain of its foreign currency transaction exposures (principally to the euro and the Japanese yen). Under this program, the Company seeks to offset foreign currency transaction gains and losses with gains and losses on the forward contracts, so as to mitigate its overall risk of foreign transaction gains and losses. The Company does not enter into forward contracts for speculative or trading purposes.

The table below provides information about the Company's foreign currency forward exchange contracts as of December 31, 2000. The table presents the notional amounts (the U.S. dollar equivalent, based on the contract exchange rates) and the contract foreign currency exchange rates.

	Notional Amount	Contract Rate Per US$1.00	Estimated Fair Value
	(dollars in thousands)		
Buy (Sell):			
Euro..................................	$ 11,340	1.09	$ 246
Japanese yen..........................	$ (3,919)	108.7	$ 103
French franc..........................	$ 340	7.36	$ 14

Based on the Company's overall currency rate exposure at December 31, 2000, a 10 percent change in currency rates would not have a significant effect on the consolidated financial position, results of operations or cash flows of the Company.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 29, 1991, Shumpei Yamazaki filed suit against a Japanese subsidiary of Rockwell in the Tokyo District Court, Twenty-ninth Civil Division for patent

infringement relating to Conexant's facsimile modem chipsets seeking 685 million yen (approximately $5.9 million based on the exchange rate on January 26, 2001) and court costs. In October 1998, the District Court rendered its decision dismissing the suit against Conexant, from which decision Mr. Yamazaki appealed. On April 12, 1999, Mr. Yamazaki presented his position, as well as additional causes of action at the first portion of the appellate hearing. The Tokyo High Court rejected Mr. Yamazaki's additional claims and set the calendar for appellate hearings, the last of which was scheduled for December 19, 2000, with final disposition now expected in the first calendar quarter of 2001. Conexant believes it has meritorious defenses to these claims and is vigorously defending this action.

On May 30, 1997, Klaus Holtz filed suit against Rockwell in the U.S. District Court for the Northern District of California for patent infringement relating to Conexant's modem products utilizing the V.42bis standard for data compression. On September 30, 1998, the Court barred any alleged damages arising before May 30, 1997. On December 17, 1998, the Court issued an order construing the claims of the patent. Conexant filed a motion for Summary Judgment of Non-Infringement on February 22, 1999. A hearing was held thereon on June 14, 1999. On October 25, 1999, the Court found in favor of Conexant and the case was dismissed. On July 10, 2000, the District Court granted Conexant's motion to declare the case an exceptional case under 35 U.S.C. 285, and awarded Conexant $250,000. Holtz filed a notice of appeal to the court of appeals for the Federal Circuit, challenging the District Court's findings on claim construction, non-infringement and laches. Conexant began collection efforts on the approximately $275,000 owed to Conexant by Holtz as a result of the litigation so far. On August 22, 2000, Holtz filed for bankruptcy protection under Chapter 7 of the bankruptcy laws in the State of California. The Federal Circuit appeals were placed under the control of the trustee in bankruptcy, and were stayed pending resolution of the bankruptcy. Conexant has reached an agreement with the bankruptcy trustee, wherein Holtz' appeals against Conexant will be dismissed and Conexant will receive a license under Holtz' patents. This agreement is subject to approval of the Bankruptcy Court.

Various other lawsuits, claims and proceedings have been or may be instituted or asserted against Rockwell or Conexant or their respective subsidiaries, including those pertaining to product liability, intellectual property, environmental, safety and health, and employment matters. In connection with the Company's spin-off from Rockwell, Conexant assumed responsibility for all then current and future litigation (including environmental and intellectual property proceedings) against Rockwell or its subsidiaries in respect of the operations of the semiconductor systems business of Rockwell.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that a license will be granted. Injunctive relief could have a material adverse effect on the financial condition or results of operations of the Company. Based on its evaluation of matters which are pending or asserted and taking into account the Company's reserves for such matters, management believes the disposition of such matters will not have a material adverse effect on the Company's financial condition or results of operations.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Employment Agreement dated December 15, 1998 between the Company and B.S. Iyer, filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998, is incorporated herein by reference.

10.2 Schedule identifying agreements substantially identical to the Employment Agreement constituting Exhibit 10.1 hereto entered into by the Company with M.M. Beguwala, J.S. Blouin, L.C. Brewster, T.L. Ellis, R.Y. Halim, D.E. O'Reilly, A. Rangan, F.M. Rhodes, J.P. Spoto, T.A. Stites and K.V. Strong.

12 Statement re: Computation of Ratios

(b) Reports on Form 8-K

Report on Form 8-K dated October 3, 2000, reporting the completion of the Company's acquisition of NetPlane Systems, Inc.

SIGNATURES

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

CONEXANT SYSTEMS, INC.
(Registrant)

Date: January 29, 2001 By /s/ Balakrishnan S. Iyer

Balakrishnan S. Iyer
Senior Vice President and
Chief Financial Officer
(principal financial officer)

Date: January 29, 2001 By /s/ Steven M. Thomson

Steven M. Thomson
Vice President and Controller
(principal accounting officer)

EXHIBIT INDEX

10.2	Schedule identifying agreements substantially identical to the Employment Agreement constituting Exhibit 10.1 hereto entered into by the Company with M.M. Beguwala, J.S. Blouin, L.C. Brewster, T.L. Ellis, R.Y. Halim, D.E. O'Reilly, A. Rangan, F.M. Rhodes, J.P. Spoto, T.A. Stites and K.V. Strong.
12	Statement re: Computation of Ratios