

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

August 05, 2008

[Table of Contents](#)

**UNITED STATES SECURITIES AND EXCHANGE  
COMMISSION**

Washington, D.C. 20549



# FORM 10-Q

x

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

**For the quarterly period ended June 27, 2008**

**OR**

**OR**

o

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

**Commission file number: 000-50499**

**MINDSPEED TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**01-0616769**  
(I.R.S. Employer  
Identification No.)

**4000 MacArthur Boulevard, East Tower**  
**Newport Beach, California**  
(Address of principal executive offices)

**92660-3095**  
(Zip code)

Registrant's telephone number, including area code:

**(949) 579-3000**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of outstanding shares of the Registrant's Common Stock as of July 25, 2008 was 23,813,151.



Table of Contents

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains statements relating to Mindspeed Technologies, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor created by those sections. All statements included in this Quarterly Report on Form 10-Q, other than those that are purely historical, are forward-looking statements. Words such as expect, believe, anticipate, outlook, could, target, project, intend, plan, seek, estimate, should, continue, as well as variations of such words and similar expressions, also identify forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding:

- the ability of our relationships with network infrastructure original equipment manufacturers to facilitate early adoption of our products, enhance our ability to obtain design wins and encourage adoption of our technology in the industry;
- the growth prospects for the network infrastructure equipment and communications semiconductors markets, including increased demand for network capacity, the upgrade and expansion of legacy networks, and the build-out of networks in developing countries;
- our plans to make substantial investments in research and development and participate in the formulation of industry standards;
- our ability to achieve design wins and convert wins into revenue;
- the continuation of intense price and product competition, and the resulting declining average selling prices for our products;
- the value of our intellectual property and our strategy regarding sales and licensing of non-core intellectual property;
- the impact of changes in customer purchasing activities, inventory levels and inventory management practices;



- the importance of attracting and retaining highly skilled, dedicated personnel;
- the challenges of shifting any operations or labor offshore, including the likelihood of competition in offshore markets for qualified personnel;
- our ability to achieve revenue growth and profitability, or to sustain positive cash flows from operations, and the expected period through which we will continue to incur losses;
- our plans to reduce operating expenses, the amount and timing of any such expense reductions, and its effects on cash flow;
- our anticipation that we will not pay a dividend in the foreseeable future;
- the dependence of our operating results on our ability to develop and introduce new products and enhancements to existing products on a timely basis;
- the continuation of a trend toward industry consolidation and the effect it could have on our operating results;
- our belief that we are benefiting from the increased deployment of internet protocol-based networks both in new network buildouts worldwide and the replacement of circuit-switched networks;
- the sufficiency of our existing sources of liquidity and expected sources of cash to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for the next 12 months;
- the circumstances under which we may need to seek additional financing, our ability to obtain any such financing and any consideration of acquisition opportunities;
- our expectation that our provision for income taxes for fiscal 2008 will principally consist of income taxes related to our foreign operations;

- our expectations with respect to our recognition of income tax benefits in the future;

Table of Contents

- our restructuring plans, including expected workforce reductions and facilities closures, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments to complete the actions, the source of funds for such payments, the impact on our liquidity and the resulting decreases in our research and development and selling, general and administrative expenses, and the amounts of future charges to complete our restructuring plans;
- our beliefs regarding the effect of the disposition of pending or asserted legal matters;
- our acquisition strategy, the means of financing such a strategy, and the impact of any past or future acquisitions, including the impact on revenue, margin and profitability;
- our intentions to market, sell and support acquired Ethernet aggregation products and to develop and further extend the Ethernet MAC product line;
- our plans relating to our use of stock-based compensation, the effectiveness of our incentive compensation programs and the expected amounts of stock-based compensation expense in future periods;
- our belief that the financial stability of suppliers is an important consideration in our customers' purchasing decisions;
- the amount and timing of future payments under contractual obligations; and
- the impact of recent accounting pronouncements and the adoption of new accounting standards.

Our expectations, beliefs, anticipations, objectives, intentions, plans and strategies regarding the future are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results, and actual events that occur, to differ materially from results contemplated by the forward-looking statement. These risks and uncertainties include, but are not limited to:

- future operating losses;

- cash requirements and terms and availability of financing;
- worldwide political and economic uncertainties and specific conditions in the markets we address;
- loss of or diminished demand from one or more key customers or distributors;
- fluctuations in the price of our common stock and our operating results;
- our ability to attract and retain qualified personnel;
- constraints in the supply of wafers and other product components from our third-party manufacturers;
- doing business internationally;
- pricing pressures and other competitive factors;
- successful development and introduction of new products;
- our ability to successfully and cost effectively establish and manage operations in foreign jurisdictions;
- industry consolidation;
- order and shipment uncertainty;
- our ability to obtain design wins and develop revenues from them;

- lengthy sales cycles;
- the expense of and our ability to defend our intellectual property against infringement claims by others;
- product defects and bugs; and
- business acquisitions and investments.

Table of Contents

The forward-looking statements in this report are subject to additional risks and uncertainties, including those set forth in Part II, Item 1A under the heading "Risk Factors" and those detailed from time to time in our other filings with the SEC. These forward-looking statements are made only as of the date hereof and, except as required by law, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Mindspeed® and Mindspeed Technologies® are registered trademarks of Mindspeed Technologies, Inc. Other brands, names and trademarks contained in this report are the property of their respective owners.

Table of Contents

MINDSPEED TECHNOLOGIES, INC.

INDEX

	PAGE
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements (unaudited):</u>
	<u>Consolidated Condensed Balance Sheets June 27, 2008 and September 28, 2007</u> 6
	<u>Consolidated Condensed Statements of Operations Three Months and Nine Months Ended June 27, 2008 and June 29, 2007</u> 7
	<u>Consolidated Condensed Statements of Cash Flows Three Months and Nine Months Ended June 27, 2008 and June 29, 2007</u> 8
	<u>Notes to Consolidated Condensed Financial Statements</u> 9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 17
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 27
<u>Item 4.</u>	<u>Controls and Procedures</u> 28
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1A.</u>	<u>Risk Factors</u> 29
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 40
<u>Item 6.</u>	<u>Exhibits</u> 41
	<u>Signature</u> 43

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MINDSPEED TECHNOLOGIES, INC.****Consolidated Condensed Balance Sheets****(unaudited, in thousands, except per share amounts)**

	June 27, 2008	September 28, 2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 29,898	\$ 25,796
Receivables, net of allowance for doubtful accounts of \$348 and \$353 at June 27, 2008 and September 28, 2007, respectively	17,155	13,584
Inventories	10,551	15,023
Other current assets	2,375	3,763
Total current assets	59,979	58,166
Property, plant and equipment, net	13,314	13,147
Intangible assets, net	2,635	3,200
Goodwill	2,429	2,324
License agreements, net	3,239	1,798
Other assets	2,763	3,444
Total assets	\$ 84,359	\$ 82,079
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 8,521	\$ 7,117
Deferred income on sales to distributors	3,739	4,226
Accrued compensation and benefits	6,950	5,286
Accrued income tax	92	752
Restructuring	163	1,478
Other current liabilities	2,839	3,493
Total current liabilities	22,304	22,352
Convertible senior notes	45,365	45,037
Other liabilities	598	444
Total liabilities	68,267	67,833
Commitments and contingencies (Note 4)		
<b>Stockholders Equity</b>		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value: 100,000 shares authorized; 23,817 and 23,152 shares issued at June 27, 2008 and September 28, 2007, respectively (1)	238	232
Additional paid-in capital (1)	268,106	263,427
Accumulated deficit	(238,027)	(234,480)
Accumulated other comprehensive loss	(14,225)	(14,933)
Total stockholders equity	16,092	14,246
Total liabilities and stockholders equity	\$ 84,359	\$ 82,079



---

(1) Common stock and additional paid in capital amounts have been retroactively adjusted to reflect the effect of the Company's June 30, 2008 one-for-five reverse stock split. See Note 1.

See accompanying notes to consolidated condensed financial statements.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****Consolidated Condensed Statements of Operations****(unaudited, in thousands, except per share amounts)**

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Net revenues	\$ 38,049	\$ 33,207	\$ 109,598	\$ 94,122
Cost of goods sold	12,510	10,522	34,651	32,016
Gross margin	25,539	22,685	74,947	62,106
Operating expenses:				
Research and development	14,771	13,871	42,193	44,181
Selling, general and administrative	11,196	10,835	34,376	32,907
Special charges	110	(104)	284	4,728
Total operating expenses	26,077	24,602	76,853	81,816
Operating loss	(538)	(1,917)	(1,906)	(19,710)
Interest expense	(563)	(560)	(1,689)	(1,678)
Other income, net	150	121	125	388
Loss before income taxes	(951)	(2,356)	(3,470)	(21,000)
Provision for income taxes	132	163	279	455
Net loss	\$ (1,083)	\$ (2,519)	\$ (3,749)	\$ (21,455)
Net loss per share, basic and diluted (1)	\$ (0.05)	\$ (0.11)	\$ (0.16)	\$ (0.97)
Weighted-average number of shares used in per share computation (1)	23,144	22,365	22,981	22,042

(1) Earnings per share amounts have been retroactively adjusted to reflect the effect of the Company's June 30, 2008 one-for-five reverse stock split. See Note 1.

See accompanying notes to consolidated condensed financial statements.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****Consolidated Condensed Statements of Cash Flows****(unaudited, in thousands)**

	<b>Nine months ended</b>	
	<b>June 27, 2008</b>	<b>June 29, 2007</b>
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (3,749)	\$ (21,455)
Adjustments to reconcile net loss to net cash Provided by (used in) operating activities:		
Depreciation and amortization	4,640	3,893
Stock-based compensation	4,123	5,870
Inventory provisions	(1,188)	(384)
Other non-cash items, net	387	444
Changes in assets and liabilities, net of effects of acquisitions:		
Receivables	(3,490)	(568)
Inventories	5,660	3,139
Accounts payable	2,680	(2,459)
Deferred income on sales to distributors	(487)	(1,135)
Accrued expenses and other current liabilities	616	1,662
Other	2,445	1,558
Net cash provided by (used in) operating activities	11,637	(9,435)
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(6,426)	(3,436)
Acquisition of assets, net of cash acquired	(1,172)	
Purchases of available-for-sale marketable securities		(13,832)
Sales of available-for-sale marketable securities		18,000
Maturities of held-to-maturity marketable securities		863
Net cash (used in) provided by investing activities	(7,598)	1,595
<b>Cash Flows From Financing Activities</b>		
Exercise of stock options and warrants	111	3,320
Net cash provided by financing activities	111	3,320
Effect of foreign currency exchange rates on cash	(48)	
Net increase (decrease) in cash and cash equivalents	4,102	(4,520)
Cash and cash equivalents at beginning of period	25,796	29,976
Cash and cash equivalents at end of period	\$ 29,898	\$ 25,456

See accompanying notes to consolidated condensed financial statements.

Table of Contents

**MINDSPEED TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(unaudited)

**1. Basis of Presentation and Significant Accounting Policies**

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, broadband access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 18,066,689 (90,333,445 on a pre June 30, 2008 one-for-five reverse stock split basis) outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant stockholder received one fifth of a share (one share on a pre June 30, 2008 one-for-five reverse stock split basis) of Mindspeed common stock (including an associated preferred share purchase right) for every three shares of Conexant common stock held and cash for any fractional share of Mindspeed common stock. Following the Distribution, Mindspeed began operations as an independent, publicly held company.

Prior to the Distribution, Conexant transferred to Mindspeed the assets and liabilities of the Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to Mindspeed under the Distribution Agreement entered into between Conexant and Mindspeed. Also prior to the Distribution, Conexant contributed to Mindspeed cash in an amount such that at the time of the Distribution Mindspeed's cash balance was \$100 million. Mindspeed issued to Conexant a warrant to purchase six million shares (adjusted to reflect our June 30, 2008 one-for-five reverse stock split) of Mindspeed common stock at a price of \$17.04 per share (adjusted to reflect our June 30, 2008 one-for-five reverse stock split), exercisable for a period beginning one year and ending ten years after the Distribution. In connection with the Distribution, Mindspeed and Conexant also entered into a Credit Agreement (terminated December 2004), an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

*Basis of Presentation* The consolidated condensed financial statements, prepared in accordance with generally accepted accounting principles in the United States of America., include the accounts of Mindspeed and each of its subsidiaries. All accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and the special charges (Note 5), necessary to present fairly the Company's financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States of America. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial 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 28, 2007.

*Reverse Stock Split* In May 2008, the Company's Board of Directors approved a one-for-five reverse stock split following approval by the Company's stockholders on April 7, 2008. The reverse stock split was effected June 30, 2008. All share and per share amounts have been retroactively adjusted to reflect the reverse stock split. There was no net effect on total stockholders equity as a result of the reverse stock split.

*Liquidity* In order to become profitable, or to generate and sustain positive cash flows from operations, the Company must further reduce operating expenses and/or increase revenues. During the first nine months of fiscal 2008, the Company benefited from the completion of a series of cost reduction actions which have improved its operating cost structure. These expense reductions alone may not make the Company profitable or allow it to sustain profitability if it is achieved. The Company's ability to achieve the necessary revenue growth will depend on increased demand for network infrastructure equipment that incorporates its products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises. The Company may not be successful in achieving the necessary revenue growth or may be unable to sustain past and future expense reductions in subsequent periods. The Company may not achieve profitability or sustain such profitability, if achieved.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from product sales and sales or licensing of non-core intellectual property, will be sufficient to fund its operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for at least the next 12 months. The Company is currently evaluating a number of available refinancing alternatives regarding its convertible debt due November 2009, including alternatives to provide cash necessary to repay its convertible debt when the instrument reaches maturity in 2009, assuming that it has not been converted into equity prior to maturity (Note 7). From time to time, the Company may acquire its debt securities through privately negotiated transactions, tender offers, exchange offers (for new debt or other securities),

Table of Contents

**MINDSPEED TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

redemptions or otherwise, upon such terms and at such prices as the Company may determine appropriate. The Company will need to continue a focused program of capital expenditures to meet its research and development and corporate requirements. The Company may also consider acquisition opportunities to extend its technology portfolio and design expertise and to expand its product offerings. In order to fund capital expenditures, increase its working capital or complete any acquisitions, the Company may seek to obtain additional debt or equity financing. The Company may also need to seek to obtain additional debt or equity financing if it experiences downturns or cyclical fluctuations in its business that are more severe or longer than anticipated or if it fails to achieve anticipated revenue and expense levels. However, the Company cannot assure you that such financing will be available to it on favorable terms, or at all.

*Reclassifications* Certain reclassifications have been made to 2007 financial statements to conform to the 2008 presentation.

*Fiscal Periods* Our interim fiscal quarters end on the thirteenth Friday of each quarter. The third quarter of fiscal 2008 and 2007 ended on June 27, 2008 and June 29, 2007, respectively.

*Recent Accounting Standards* On September 29, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes and recommends a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in the Company's tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions. See Note 3 for further information on the adoption of FIN 48.

In December 2007, the FASB issued Financial Accounting Standards (SFAS) No. 141R, Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an Amendment of ARB No. 51. These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. These Statements are effective for fiscal years beginning after December 15, 2008. The Company will be required to adopt SFAS No. 141R and SFAS No. 160 in the first quarter of fiscal 2010. Accordingly, to the extent the Company engages in any business combination transactions, such transactions will be recorded and disclosed following existing accounting principles until October 2, 2009.

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an Amendment of FASB Statement No. 133. This Statement requires enhanced disclosures about an entity's derivative and hedging activities and is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will be required to adopt SFAS 161 in the first quarter of fiscal 2010 and does not expect that the adoption will have a material impact on its financial condition or results of operations.

In May 2008, the FASB issued FASB Staff Position FSP APB 14-1, *Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company will be required to adopt this FSP in the first quarter of fiscal 2010. Early adoption is not permitted. The Company believes this change in methodology will negatively affect its earnings and earnings per share as interest expense will be required to reflect the market rate of interest for nonconvertible debt. The Company is currently evaluating the magnitude of this impact on its financial condition and results of operations.

*Income Taxes* The provision for income taxes for the nine months ended June 27, 2008 and June 29, 2007, respectively, principally consists of income taxes incurred by the Company's foreign subsidiaries.

*Supplemental Cash Flow Information* Interest paid for each of the nine month periods ended June 27, 2008 and June 29, 2007 was \$1.7 million. Income taxes paid, net of refunds received, for the nine months ended June 27, 2008 and June 29, 2007 were \$56,000 and \$752,000, respectively. Non-cash investing activities in the first nine months fiscal 2008 consisted of the purchase of \$754,000 of property and equipment from suppliers on account. Assets acquired consist of amounts paid and received during the first nine months of fiscal 2008 on cash, accounts receivable, accounts payable and accrued liabilities created through the acquisition of certain assets of Ample Communications, Inc., which occurred in the fourth quarter of fiscal 2007.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

**2. Supplemental Financial Statement Data*****Inventories***

Inventories consist of the following (in thousands):

	<b>June 27, 2008</b>	<b>September 28, 2007</b>
Work-in-process	\$ 6,770	\$ 7,497
Finished goods	3,781	7,526
	<b>\$ 10,551</b>	<b>\$ 15,023</b>

During the nine months ended June 27, 2008 and June 29, 2007, the Company sold inventories with an original cost of approximately \$1.1 million and \$3.1 million, respectively, that had been written down to a zero cost basis during fiscal 2001.

***Intangible Assets and Goodwill***

In conjunction with the acquisition of certain assets of Ample Communications, Inc. on September 25, 2007, the Company acquired certain intangible assets. These intangible assets consist of backlog (approximately \$0.1 million), developed technology (approximately \$3.1 million) and goodwill (approximately \$2.3 million). In the first nine months of fiscal 2008, the Company recorded purchase accounting adjustments related to additional transaction costs, additional cash and accounts receivable received as well as a decrease in the value of fixed assets received. Accordingly, the balance of goodwill has changed as follows (in thousands):

	<b>September 28, 2007</b>	<b>Purchase Price Adjustments</b>	<b>June 27, 2008</b>
Goodwill	\$ 2,324	\$ 105	\$ 2,429

***Deferred Income on Shipments to Distributors***



Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

Deferred income on shipments to distributors is as follows (in thousands):

	June 27, 2008	September 28, 2007
Deferred revenue on shipments to distributors	\$ 4,165	\$ 4,953
Deferred cost of inventory on shipments to distributors	(473)	(808)
Reserves	47	81
Deferred income on sales to distributors	\$ 3,739	\$ 4,226

**Comprehensive Loss**

Comprehensive loss is as follows (in thousands):

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Net loss	\$ (1,083)	\$ (2,519)	\$ (3,749)	\$ (21,455)
Foreign currency translation adjustments	22	67	708	487
Comprehensive loss	\$ (1,061)	\$ (2,452)	\$ (3,041)	\$ (20,968)

The balance of accumulated other comprehensive loss at June 27, 2008 and September 28, 2007 consists of accumulated foreign currency translation adjustments.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

***Revenues by Product Line***

Revenues by product line are as follows (in thousands):

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Multiservice access products	\$ 13,748	\$ 9,241	\$ 35,555	\$ 27,545
High-performance analog products	10,921	9,408	31,649	27,360
WAN communications products	13,380	14,558	42,394	39,217
	\$ 38,049	\$ 33,207	\$ 109,598	\$ 94,122

***Revenues by Geographic Area***

Revenues by geographic area, based on product shipment destination, are as follows (in thousands):

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Americas	\$ 8,795	\$ 12,538	\$ 34,883	\$ 33,916
Asia-Pacific	24,891	16,729	60,728	49,329
Europe, Middle East and Africa	4,363	3,940	13,987	10,877
	\$ 38,049	\$ 33,207	\$ 109,598	\$ 94,122

The Company believes a substantial portion of the products sold to original equipment manufacturers (OEMs) and third-party manufacturing service providers in the Asia-Pacific region are ultimately shipped to end-markets in the Americas and Europe.

Direct sales to the following customers accounted for 10% or more of net revenues in the periods presented:

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Customer A	20%	13%	17%	14%
Customer B	11%	16%	12%	17%
Customer C	10%	7%	7%	5%

### 3. Income Taxes

In July 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company adopted the provisions of FIN 48 on September 29, 2007. As a result of the adoption of FIN 48 and recognition of the cumulative effect of adoption of a new accounting principle, the Company recorded a \$202,000 decrease in the liability for unrecognized income tax benefits, with an offsetting decrease in accumulated deficit. As of September 29, 2007 the Company had approximately \$28.9 million of total unrecognized tax benefits. Of this total, \$474,000 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate. The remaining \$28.4 million of unrecognized tax benefits, if recognized, would have no impact on the effective tax rate and be recorded as an increase to the Company's net operating loss carry-forwards with a related increase in the valuation allowance. However, to the extent that any portion of such benefit is recognized at the time a valuation allowance no longer exists, such benefit would favorably affect the effective tax rate. In the first nine months of fiscal 2008, there has been no change in the balance of unrecognized tax benefits. The Company does not expect that the unrecognized tax benefit will change significantly within the next 12 months. The Company recognizes interest and penalties related to unrecognized tax benefits in the tax provision. As of September 29, 2007, the Company had no liability for the payment of interest and penalties. The liability for the payment of interest and penalties did not change as of June 27, 2008.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

The Company's tax years ended October 1, 2004 to September 28, 2007 remain open to examination by certain foreign taxing jurisdictions. The Company has incurred U.S. federal and state net operating losses in all tax periods since inception. The statute of limitations on these tax periods with net operating losses does not begin until these losses are utilized. Accordingly, all federal and all significant states' tax years since inception remain open for examination.

**4. Stock-Based Compensation**

Effective October 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires that the Company account for all stock-based compensation using a fair-value method and recognize the fair value of each award as an expense over the service period. The Company elected to adopt SFAS 123R using modified prospective application.

Stock-based compensation awards generally vest over time and require continued service to the Company and, in some cases, require the achievement of specified performance conditions. The amount of compensation expense recognized is based upon the number of awards that are ultimately expected to vest. The Company estimates forfeiture rates of 10% to 12.5% depending on the characteristics of the award.

As a result of the Company's operating losses and its expectation of future operating results, no income tax benefits have been recognized for any U.S. federal and state operating losses including those related to stock-based compensation expense. The Company does not expect to recognize any income tax benefits relating to future operating losses until it determines that such tax benefits are more likely than not to be realized.

The fair value of stock options awarded during the nine months ended June 27, 2008 and June 29, 2007 was estimated at the date of grant using the Black-Scholes option-pricing model. The following table summarizes the weighted-average assumptions used and the resulting fair value of options granted:

	Nine months ended	
	June 27, 2008	June 29, 2007
Weighted-average fair value of options granted	\$ 2.15	\$ 5.85
Weighted-average assumptions:		
Expected option life	3.3 years	3.3 years
Risk-free interest rate	2.6%	4.7%
Expected volatility	65%	75%
Dividend yield		

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

The expected option term was estimated based upon historical experience and management's expectation of exercise behavior. The expected volatility of the Company's stock price is based upon the historical daily changes in the price of the Company's common stock. The risk-free interest rate is based upon the current yield on U.S. Treasury securities having a term similar to the expected option term. Dividend yield is estimated at zero because the Company does not anticipate paying dividends in the foreseeable future.

Stock-based compensation expense related to employee stock options and restricted stock under SFAS 123R was allocated as follows (in thousands):

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Cost of goods sold	\$ 43	\$ 118	\$ 121	\$ 307
Research and development	450	816	1,762	1,910
Selling, general and administrative	603	1,351	2,240	3,584
Special charges				69
Total stock-based compensation expense	\$ 1,096	\$ 2,285	\$ 4,123	\$ 5,870

Table of Contents

**MINDSPEED TECHNOLOGIES, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

*Stock Compensation Plans*

The Company has two principal stock incentive plans: the 2003 Long-Term Incentives Plan and the Directors Stock Plan. The 2003 Long-Term Incentives Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards to officers and employees of the Company. The Directors Stock Plan provides for the grant of stock options, restricted stock units and other stock-based awards to the Company's non-employee directors. On March 5, 2007 the stockholders of the Company approved plan amendments which, among other things, (1) increased the authorized number of shares reserved for issuance under the 2003 Long-Term Incentives Plan to 3.9 million shares (19.3 million shares on a pre June 30, 2008 one-for-five reverse stock split basis), (2) removed the evergreen provision from the Directors Stock Plan that automatically increased the number of shares available under the Directors Stock Plan each year and (3) fixed the total number of shares authorized for issuance under the Directors Stock Plan at 288,000 shares (1,440,000 shares on a pre June 30, 2008 one-for-five reverse stock split basis). As of June 27, 2008, an aggregate of 358,000 shares (adjusted for the June 30, 2008 one-for-five reverse stock split) of the Company's common stock were available for issuance under these plans.

The Company also has a 2003 Stock Option Plan, under which stock options were issued in connection with the Distribution. In the Distribution, each holder of a Conexant stock option (other than options held by persons in certain foreign locations) received an option to purchase a number of shares of Mindspeed common stock. The number of shares subject to, and the exercise prices of, the outstanding Conexant options and the Mindspeed options were adjusted so that the aggregate intrinsic value of the options was equal to the intrinsic value of the Conexant option immediately prior to the Distribution and the ratio of the exercise price per share to the market value per share of each option was the same immediately before and after the Distribution. As a result of such option adjustments, Mindspeed issued options to purchase an aggregate of approximately 6.0 million shares (29.9 million shares on a pre June 30, 2008 one-for-five reverse stock split basis) of its common stock to holders of Conexant stock options (including Mindspeed employees) under the 2003 Stock Option Plan. There are no shares available for new stock option awards under the 2003 Stock Option Plan. However, any shares subject to the unexercised portion of any terminated, forfeited or cancelled option are available for future option grants only in connection with an offer to exchange outstanding options for new options.

Prior to February 2007, the Company maintained employee stock purchase plans for its domestic and foreign employees. Under SFAS 123R, the plans were non-compensatory and the Company has recorded no compensation expense in connection therewith. The employee stock purchase plans were terminated by the Company's board of directors effective February 28, 2007.

*Stock Option Awards*

Prior to fiscal 2006, stock-based compensation consisted principally of stock options. Eligible employees received grants of stock options at the time of hire; the Company also made broad-based stock option grants covering substantially all employees annually. Stock option awards have exercise prices not less than the market price of the common stock at the grant date and a contractual term of eight or ten years, and are subject to time-based vesting (generally over four years). The following table summarizes stock option activity under all plans (adjusted for the June 30, 2008 one-for-five reverse stock split) (shares in thousands):

Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at September 28, 2007	3,982	\$ 11.65	
Granted	84	\$ 5.85	
Exercised	(18)	\$ 5.95	
Forfeited or expired	(533)	\$ 11.50	
Outstanding at June 27, 2008	3,515	\$ 11.55	3.3 years
Exercisable at end of period	3,001	\$ 11.80	2.7 years

As of June 27, 2008, there was unrecognized compensation expense of \$1.6 million related to unvested stock options, which the Company expects to recognize over a weighted-average period of 2.0 years. The aggregate intrinsic value of options exercised during the nine months ended June 27, 2008 was \$33,000. The aggregate intrinsic value of options outstanding and options exercisable as of June 27, 2008 was \$20,000.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

*Restricted Stock Awards*

The Company's stock incentive plans also provide for awards of shares of restricted stock and other stock-based incentive awards. Restricted stock awards have time-based vesting and/or performance conditions and are generally subject to forfeiture if employment terminates prior to the end of the service period or if the prescribed performance criteria are not met. Restricted stock awards are valued at the grant date based upon the market price of the Company's common stock and the fair value of each award is charged to expense over the service period.

In fiscal 2007 and the first nine months of fiscal 2008, new awards of stock-based compensation have principally consisted of restricted stock awards. The majority of the restricted stock awards are intended to provide performance emphasis and incentive compensation through vesting tied to each employee's performance against individual goals, as well as to improvements in the Company's operating performance. The actual amounts of expense will depend on the number of awards that ultimately vest upon the satisfaction of the related performance and service conditions. The fair value of each award is charged to expense over the service period.

The following table summarizes restricted stock award activity (adjusted for the June 30, 2008 one-for-five reverse stock split), (shares in thousands):

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
Nonvested shares at September 28, 2007	638	\$ 10.85
Granted	731	\$ 4.50
Vested	(499)	\$ 7.70
Forfeited	(118)	\$ 8.95
Nonvested shares at June 27, 2008	752	\$ 7.30

The total fair value of shares vested during the nine months ended June 27, 2008 was \$3.0 million. As of June 27, 2008, there was unrecognized compensation expense of \$2.8 million related to unvested restricted stock awards, which the Company expects to recognize over a weighted-average period of approximately 1.4 years.

**4. Commitments and Contingencies**



Various lawsuits, claims and proceedings have been or may be instituted or asserted against Conexant or Mindspeed, including those pertaining to product liability, intellectual property, environmental, safety and health and employment matters. In connection with the Distribution, Mindspeed assumed responsibility for all contingent liabilities and current and future litigation against Conexant or its subsidiaries to the extent such matters relate to Mindspeed.

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 the Company will be able to license a third party's intellectual property. 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, management of the Company believes the disposition of such matters will not have a material adverse effect on the financial condition or results of operations of the Company.

## 5. Special Charges

Special charges consist of the following (in thousands):

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Restructuring charges	\$ 110	\$ (104)	\$ 284	\$ 4,728

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (continued)**

(unaudited)

*Mindspeed Restructuring Plans* In fiscal 2006 and 2007, the Company implemented a number of cost reduction initiatives to improve its operating cost structure. The cost reduction initiatives included workforce reductions, significant reductions in capital spending, the consolidation of certain facilities and salary reductions for the senior management team.

Activity and liability balances related to the Mindspeed restructuring plans through June 27, 2008 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, September 28, 2007	\$ 232	\$ 1,252	\$ 1,484
Charged to costs and expenses		284	284
Cash payments	(171)	(1,428)	(1,599)
Restructuring balance, June 27, 2008	\$ 61	\$ 108	\$ 169

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2009. The payments will be funded from available cash balances and funds from product sales and are not expected to significantly impact liquidity.

**6. Related Party Transactions**

The Company leases its headquarters and principal design center in Newport Beach, California from Conexant. For the nine months ended June 27, 2008 and June 29, 2007, rent and operating expenses payable to Conexant were \$5.1 million and \$4.0 million, respectively.

**7. Subsequent Events**

In July 2008, the Company completed the sale of certain non-core patents for \$10 million, which will be reported in the Company's fiscal 2008 fourth quarter revenues.

Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

In addition, in August 2008, the Company issued \$15 million aggregate principal amount of its 6.50% Convertible Senior Notes due 2013 in exchange for the surrender and cancellation of \$15 million aggregate principal amount of its outstanding 3.75% Convertible Senior Notes due 2009.

Table of Contents

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

This information should be read in conjunction with our unaudited consolidated condensed financial statements and the notes thereto included in this Quarterly Report and our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for our fiscal year ended September 28, 2007.

**Overview**

We design, develop and sell semiconductor networking solutions for communications applications in enterprise, broadband access, metropolitan and wide-area networks. Our products, ranging from optical network transceiver solutions to voice and Internet protocol (IP) processors, are classified into three focused product families: high-performance analog products, multiservice access products and wide area networking (WAN) communications products. Our products are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including mixed media gateways, high-speed routers, switches, access multiplexers, cross-connect systems, add-drop multiplexers, IP private branch exchanges (PBXs), optical modules and broadcast video systems. Service providers use this equipment for the processing, transmission and switching of high-speed voice, data and video traffic, including advanced services such as voice-over-IP (VoIP), within different segments of the communications network. Our customers include Alcatel-Lucent, Cisco Systems, Inc., Huawei Technologies Co., LM Ericsson Telephone Company, Neophotonics Corporation, Nokia Siemens Networks, Nortel Networks, Inc. and Zhongxing Telecom Equipment Corp. (ZTE).

**Trends and Factors Affecting Our Business**

Our products are components of network infrastructure equipment. As a result, we rely on network infrastructure OEMs to select our products from among alternative offerings to be designed into their equipment. These "design wins" are an integral part of the long sales cycle for our 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. We believe our close relationships with leading network infrastructure OEMs facilitate early adoption of our products during development of their products, enhance our ability to obtain design wins and encourage adoption of our technology by the industry.

We market and sell our semiconductor products directly to network infrastructure OEMs. We also sell our products indirectly through electronic component distributors and third-party electronic manufacturing service providers, who manufacture products incorporating our semiconductor networking solutions for OEMs. Sales to distributors accounted for approximately 54% of our revenues for fiscal 2007 and 55% for the first nine months of fiscal 2008. Sales to customers located outside the United States, primarily in the Asia-Pacific region and Europe, were approximately 69% of our net revenues for fiscal 2007 and 73% for the first nine months of fiscal 2008. We believe a substantial portion of the products we sell to OEMs and third-party manufacturing service providers in the Asia-Pacific region is ultimately shipped to end markets in the Americas and Europe.

We have significant research, development, engineering and product design capabilities. Our success depends to a substantial degree upon our ability to develop and introduce in a timely fashion new products and enhancements to our existing products that meet changing customer

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

requirements and emerging industry standards. We have made, and plan to make, substantial investments in research and development and to participate in the formulation of industry standards. We spent approximately \$57.4 million and \$42.2 million on research and development for fiscal 2007 and the first nine months of fiscal 2008, respectively. We seek to maximize our return on our research and development spending by focusing our research and development investment in what we believe are key high-growth markets, including VoIP and high-performance analog applications. We have developed and maintain a broad intellectual property portfolio, and we intend to periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our patents which are no longer core to our business. We recognized our first revenues from the sale of patents during the fourth quarter of fiscal 2007 and additional revenues in the first and second quarters of fiscal 2008. We anticipate continuing this intellectual property strategy in future periods.

We are dependent upon third parties for the manufacture, assembly and testing of our products. Our ability to bring new products to market, to fulfill orders and to achieve long-term revenue growth is dependent on our ability to obtain sufficient external manufacturing capacity, including wafer fabrication capacity. Periods of upturn in the semiconductor industry may be characterized by rapid increases in demand and a shortage of capacity for wafer fabrication and assembly and test services.

Table of Contents

In such periods, we may experience longer lead times or indeterminate delivery schedules, which may adversely affect our ability to fulfill orders for our products. During periods of capacity shortages for manufacturing, assembly and testing services, our primary foundries and other suppliers may devote their limited capacity to fulfill the requirements of other clients that are larger than we are, or who have superior contractual rights to enforce manufacture of their products, including to the exclusion of producing our products. We may also incur increased manufacturing costs, including costs of finding acceptable alternative foundries or assembly and test service providers.

In order to become profitable, or to generate and sustain positive cash flows from operations, we must further reduce operating expenses and/or increase our revenues. Through the first nine months of fiscal 2008, we have completed a series of cost reduction actions which have improved our operating cost structure.

Our ability to achieve revenue growth will depend on increased demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers. We believe the market for network infrastructure equipment in general, and for communications semiconductors in particular, offers attractive long-term growth prospects due to increasing demand for network capacity, the continued upgrading and expansion of existing networks and the build-out of telecommunication networks in developing countries. However, the semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles and wide fluctuations in product supply and demand. In addition, there has been an increasing trend toward industry consolidation, particularly among major network equipment and telecommunications companies. Consolidation in the industry may lead to pricing pressure and loss of market share. These factors have caused substantial fluctuations in our revenues and our results of operations in the past, and we may experience cyclical fluctuations in our business in the future.

On September 25, 2007, we acquired the product portfolio and intellectual property assets of Ample Communications, Inc., an innovative developer of Ethernet media access controller (MAC) products for carrier Ethernet aggregation applications. We purchased these assets in a private foreclosure sale from Ample's senior creditor.

The products we acquired from Ample ship to major OEM equipment customers for installation in Ethernet metropolitan, access, and enterprise networks, including wireless/cellular backhaul and Ethernet-over-SONET applications. We market, sell and support these Ethernet aggregation products with densities ranging from two to 24 ports and Ethernet transmission speeds from 10 Mbps to 10 Gbps. We also expect to develop and further extend the Ethernet MAC product line.

On February 29, 2008, we received a letter from The NASDAQ Stock Market notifying us that for the 30 consecutive business days preceding the date of the letter the bid price of our common stock had closed below the \$1.00 per share minimum bid price required for continued inclusion on The NASDAQ Global Market pursuant to NASDAQ Marketplace Rule 4450(a)(5). In order to regain compliance with the minimum bid price rule, we effected a one-for-five reverse stock split on June 30, 2008.

On July 23, 2008, we received a letter from NASDAQ informing us that the closing bid price of our common stock met or exceeded \$1.00 per share for a minimum of 10 consecutive business days. Accordingly, we have regained compliance with Marketplace Rule 4450(a)(5).

**Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting our consolidated financial statements are those relating to inventories, revenue recognition, allowances for doubtful accounts, stock-based compensation, income taxes and impairment of long-lived assets. We regularly evaluate our estimates and assumptions based upon historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent actual results differ from those estimates, our future results of operations may be affected.

*Inventories* We write down our inventory for estimated obsolete or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than our estimates, additional inventory write-downs may be required. In the event we experience unanticipated demand and are able to sell a portion of the inventories we have previously written down, our gross margins will be favorably affected.

Table of Contents

*Stock-Based Compensation* We account for stock-based compensation in accordance with SFAS No. 123R, Share-Based Payment. SFAS 123R requires that we account for all stock-based compensation transactions using a fair-value method and recognize the fair value of each award as an expense over the service period. The fair value of restricted stock awards is based upon the market price of our common stock at the grant date. We estimate the fair value of stock option awards, as of the grant date, using the Black-Scholes option-pricing model. The use of the Black-Scholes model requires that we make a number of estimates, including the expected option term, the expected volatility in the price of our common stock, the risk-free rate of interest and the dividend yield on our common stock. If our expected option term and stock-price volatility assumptions were different, the resulting determination of the fair value of stock option awards could be materially different. In addition, judgment is also required in estimating the number of share-based awards that we expect will ultimately vest upon the fulfillment of service conditions (such as time-based vesting) or the achievement of specific performance conditions. If the actual number of awards that ultimately vest differs significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

*Revenue Recognition* We recognize revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) our price to the customer is fixed or determinable; and (iv) collection of the sales price is reasonably assured. We generate revenues from direct product sales, sales to distributors, development agreements and the sale and license of intellectual property.

We recognize revenues on products shipped directly to customers at the time the products are shipped and title and risk of loss transfer to the customer, in accordance with the terms specified in the arrangement, and the four above mentioned revenue recognition criteria are met.

We recognize revenues on sales to distributors based on the rights granted to these distributors in our distribution agreements. We have certain distributors who have been granted return rights and receive credits for changes in selling prices to end customers, the magnitude of which is not known at the time products are shipped to the distributor. The return rights granted to these distributors consist of limited stock rotation rights, which allow them to rotate up to 10% of the products in their inventory twice a year, as well as certain product return rights if the applicable distribution agreement is terminated. These distributors also receive price concessions because they resell our products to end customers at various negotiated price points which vary by end customer, product, quantity, geography and competitive pricing environments. When a distributor's resale is priced at a discount from the distributors invoice price, we credit back to the distributor a portion of the distributor's original purchase price after the resale transaction is complete. Thus, a portion of the Deferred income on sales to distributors balance will be credited back to the distributor in the future. Under these agreements, we defer recognition of revenue until the products are resold by the distributor, at which time our final net sales price is fixed and the distributor's right to return the products expires. At the time of shipment to these distributors, (i) we record a trade receivable at the invoiced selling price because there is a legally enforceable obligation from the distributor to pay us currently for product delivered, (ii) we relieve inventory for the carrying value of products shipped because legal title has passed to the distributor, and (iii) we record deferred revenue and deferred cost of inventory under the Deferred income on sales to distributors caption in the liability section of our consolidated balance sheets. We evaluate the deferred cost of inventory component of this account for possible impairment by considering potential obsolescence of products that might be returned to us and by considering the potential of resale prices of these products being below our cost. By reviewing deferred inventory costs in the manners discussed above, we ensure that any portion of deferred inventory costs that are not recoverable from future contractual revenue are charged to cost of sales as an expense. Deferred income on sales to distributors effectively represents the gross margin on sales to distributors, however, the amount of gross margin we recognize in future



periods may be less than the originally recorded deferred income as a result of negotiated price concessions. In recent years, such concessions have exceeded 30% of list price on average. For detail of this account balance, see Note 2 - Supplemental Financial Statement Data to our consolidated financial statements.

We recognize revenues from other distributors at the time of shipment and when title and risk of loss transfer to the distributor, in accordance with the terms specified in the arrangement, and when the four above mentioned revenue recognition criteria are met. These distributors may also be given business terms to return a portion of inventory, however they do not receive credits for changes in selling prices to end customers. At the time of shipment, product prices are fixed and determinable and the amount of future returns can be reasonably estimated and accrued.

Revenue from the sale and license of intellectual property is recognized when the above mentioned four revenue recognition criteria are met. Development revenue is recognized when services are performed and customer acceptance has been received and was not significant for any of the periods presented.

Table of Contents

*Deferred Income Taxes* We have provided a full valuation allowance against our U.S federal and state deferred tax assets. If sufficient evidence of our ability to generate future U.S federal and/or state taxable income becomes apparent, we may be required to reduce our valuation allowance, resulting in income tax benefits in our statement of operations. We evaluate the realizability of our deferred tax assets and assess the need for a valuation allowance quarterly.

*Impairment of Long-Lived Assets* We regularly monitor and review long-lived assets, including fixed assets, goodwill and intangible assets, for impairment including whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of the undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. Our estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to our business model or changes in our operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

**Recent Accounting Pronouncements**

On September 29, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* and recommends a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in our tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions. See Note 3 to the financial statements for further information on our adoption of FIN 48.

In December 2007, the FASB issued Financial Accounting Standards (SFAS) No. 141R, *Business Combinations*, and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an Amendment of ARB No. 51* (SFAS No. 160). These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. These Statements are effective for fiscal years beginning after December 15, 2008. We will be required to adopt SFAS No. 141R and SFAS No. 160 in the first quarter of fiscal 2010. Accordingly, to the extent we engage in any business combination transactions, such transaction will be recorded and disclosed following existing accounting principles until October 2, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an Amendment of FASB Statement No. 133. This Statement requires enhanced disclosures about an entity's derivative and hedging activities and is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We will be required to adopt SFAS 161 in the first quarter of fiscal 2010 and do not expect that the adoption will have a material impact on our financial condition or results of operations.

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

In May 2008, the FASB issued FASB Staff Position FSP APB 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement). This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We will be required to adopt this FSP in the first quarter of fiscal 2010. Early adoption is not permitted. We believe this change in methodology will negatively affect our earnings and earnings per share as interest expense will be required to reflect the market rate of interest for nonconvertible debt. We are currently evaluating the magnitude of this impact on our financial condition and results of operations.

Table of Contents**Results of Operations****Net Revenues**

The following table summarizes our net revenues:

(\$ in millions)	Three months ended			Nine months ended		
	June 27, 2008	Change	June 29, 2007	June 27, 2008	Change	June 29, 2007
Multiservice access products	\$ 13.7	49%	\$ 9.2	\$ 35.6	29%	\$ 27.5
High-performance analog products	10.9	16%	9.4	31.6	16%	27.4
WAN communications products	13.4	(8)%	14.6	42.4	8%	39.2
Net revenues	\$ 38.0	15%	\$ 33.2	\$ 109.6	16%	\$ 94.1

For the fiscal 2008 third quarter, the 15% increase in our revenues compared to the third quarter of fiscal 2007 reflects higher sales of our multiservice access products and our high-performance analog products, partially offset by lower sales of our WAN communications products. Revenues from our multiservice access processors increased by \$4.5 million, or 49%, principally reflecting increased sales volumes across our newer VoIP products as telecommunication service providers deploy IP-based access and enterprise networks partially offset by decreased shipments in our legacy products. In addition, we experienced an increase in shipments in our multiservice access enterprise products. Revenues from our high-performance analog products increased by \$1.5 million, or 16%, primarily as a result of increased shipments of our switching and signal conditioning products. Sales of our WAN communications products decreased by \$1.2 million, or 8%, when compared to the third quarter of fiscal 2007, resulting from lower shipments of DSL transceivers, SONET applications and T/E carrier transmission products. This decrease was partially offset by revenues from the sale of Ethernet products added to the WAN portfolio as a result of the acquisition of certain assets of Ample Communications in the fourth quarter of fiscal 2007 and increased shipments of our high-level data link controller (HDLC) devices.

For the first nine months of fiscal 2008, the 16% increase in our revenues compared to the similar fiscal 2007 period reflects higher sales volumes across each of our product families including approximately \$4.35 million in revenues from leveraging our intellectual property portfolio by selling non-core patents. Net revenues from our multiservice access products increased \$8.1 million, or 29%, reflecting a combination of increased sales volumes across our newer VoIP product families, as well as revenues recorded on the sale of intellectual property, and increased shipments in our multiservice access enterprise products. These increases were partially offset by a decrease in sales in our legacy products. We believe we are benefiting from the increasing deployment of IP-based networks both in new network buildouts worldwide and the replacement of circuit-switched networks. Net revenues from our high-performance analog products increased \$4.2 million, or 16%, reflecting a benefit from increased demand for our switching and signal conditioning products. Net revenues from our WAN communications products increased \$3.2 million, or 8% reflecting a combination of sales of Ethernet products added to the WAN portfolio as a result of the acquisition of certain assets of Ample Communications in the fourth quarter of fiscal 2007, revenue recorded on the sale of intellectual property and increased shipments of our high-level data link controller (HDLC) devices. These benefits were partially offset by a decrease in demand for our products in access and metropolitan area network applications such as T/E carrier transmission products and DSL transceivers.

**Gross Margin**

(\$ in millions)	Three months ended				Nine months ended			
	June 27, 2008	Change	June 29, 2007	June 27, 2008	Change	June 29, 2007		
Gross margin	\$ 25.5	13%	\$ 22.7	\$ 74.9	21%	\$ 62.1		
Percent of net revenues	67%		68%	68%		66%		

Gross margin represents revenues less cost of goods sold. As a fabless semiconductor company, we use third parties (including Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC), Jazz Semiconductor, Inc. and Amkor Technology, Inc.) for wafer fabrication and assembly and test services. Our cost of goods sold consists predominantly of: purchased finished wafers; assembly and test services; royalty and other intellectual property costs; labor and overhead costs associated with product procurement; the cost of mask sets purchased; and sustaining engineering expenses pertaining to products sold.

Our gross margin for the fiscal 2008 third quarter increased \$2.8 million over the comparable fiscal 2007 period, principally reflecting an increase in product sales. The provision for excess and obsolete inventories was a net credit of \$0.1 million for the fiscal 2008 third quarter, compared to a net credit of \$0.2 million for the comparable fiscal 2007 period. We experienced a decrease in sales in the third quarter of fiscal 2008 of inventory previously written down to a zero cost basis in fiscal 2001 to \$0.2 million from \$1.1 million in the third quarter of fiscal 2007.

Table of Contents

Our gross margin for the first nine months of fiscal 2008 increased \$12.8 million over the comparable fiscal 2007 period, principally reflecting an increase in product sales and the sale of intellectual property with a zero cost basis. The improvement of our gross margin for the first nine months of fiscal 2008 includes \$4.35 million from the sale of certain patents that are no longer core to our business. In addition, the provision for excess and obsolete inventories was a \$1.2 million net credit for the first nine months of fiscal 2008, compared to \$0.4 million net credit for the comparable fiscal 2007 period. Our gross margin improvement was partially offset by a decrease in sales in the first nine months of fiscal 2008 of inventory previously written down to a zero cost basis in fiscal 2001 to \$1.1 million from \$3.1 million in the first nine months of fiscal 2007.

We assess the recoverability of our inventories at least quarterly through a review of inventory levels in relation to foreseeable demand (generally over 12 months). Foreseeable demand is based upon all available information, including sales backlog and forecasts, product marketing plans and product life cycles. When the inventory on hand exceeds the foreseeable demand, we write down the value of those inventories which, at the time of our review, we expect to be unable to sell. The amount of the inventory write-down is the excess of historical cost over estimated realizable value. Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

Our products are used by OEMs that have designed our products into network infrastructure equipment. For many of our products, we gain these design wins through a lengthy sales cycle, which often includes providing technical support to the OEM customer. In the event of the loss of business from existing OEM customers, we may be unable to secure new customers for our existing products without first achieving new design wins. When the quantities of inventory on hand exceed foreseeable demand from existing OEM customers into whose products our products have been designed, we generally will be unable to sell our excess inventories to others, and the estimated realizable value of such inventories to us is generally zero.

We base our assessment of the recoverability of our inventories, and the amounts of any write-downs, on currently available information and assumptions about future demand and market conditions. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those projected by management. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

**Research and Development**

(\$ in millions)	Three months ended			Nine months ended		
	June 27, 2008	Change	June 29, 2007	June 27, 2008	Change	June 29, 2007
Research and development	\$ 14.8	6%	\$ 13.9	\$ 42.2	(4)%	\$ 44.2
Percent of net revenues	39%		42%	38%		47%

Our research and development (R&D) expenses consist principally of direct personnel costs, photomasks, electronic design automation tools and pre-production evaluation and test costs. The \$0.9 million increase in R&D expenses for the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 is mainly driven by \$0.7 million in employee separation costs which consist of severance benefits payable to certain former employees as a result of organizational changes. In addition, we experienced an increase in expenses related to electronic design automation tools. These increases were partially offset by a \$0.3 million decrease in depreciation expense, principally resulting from certain assets reaching the end of their depreciable lives.

The \$2.0 million decrease in R&D expenses for the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 reflects a \$0.7 million decrease in compensation and personnel-related costs and a \$0.6 million decrease in the cost of our facilities resulting from our expense reduction actions. The decrease in R&D expenses also reflects a \$0.9 million decrease in depreciation expense, principally resulting from certain assets reaching the end of their depreciable lives.

Table of Contents**Selling, General and Administrative**

(\$ in millions)	Three months ended			Nine months ended		
	June 27, 2008	Change	June 29, 2007	June 27, 2008	Change	June 29, 2007
Selling, general and administrative	\$ 11.2	3%	\$ 10.8	\$ 34.4	4%	\$ 32.9
Percent of net revenues	29%		33%	31%		35%

Our selling, general and administrative (SG&A) expenses include sales and marketing costs, including the cost of personnel, independent sales representative commissions and product marketing, applications engineering and other marketing costs. Our SG&A expenses also include costs of corporate functions including accounting, finance, legal, human resources, information systems and communications. The \$0.4 million increase in our SG&A expenses for the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 reflects a \$0.5 million increase in legal and consulting fees incurred in conjunction with business development activities.

The \$1.5 million increase in our SG&A expenses for the first nine months of fiscal 2008 compared to the comparable fiscal 2007 period reflects an increase of approximately \$0.7 million in labor and benefits due to an increase in the cost of benefits offered to our employees, as well as \$0.3 million in severance benefits payable to a former officer of the company. Additionally, we experienced a \$0.7 million increase in professional fees. The increase in professional fees is primarily due to expenses incurred in connection with the printing and distribution of our proxy statement and the addition of submitting a proposal for stockholder approval to amend our certificate of incorporation to effect a reverse stock split and reduce our authorized shares of common stock.

**Special Charges**

Special charges consist of the following (in thousands):

	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Restructuring charges	\$ 110	\$ (104)	\$ 284	\$ 4,728

*Mindspeed Restructuring Plans* In fiscal 2006 and 2007, we implemented a number of cost reduction initiatives to improve our operating cost structure. The cost reduction initiatives included workforce reductions, significant reductions in capital spending, the consolidation of certain facilities and salary reductions for the senior management team.

Activity and liability balances related to the Mindspeed restructuring plans through June 27, 2008 are as follows (in thousands):



	Workforce Reductions		Facility and Other		Total
Restructuring balance, September 28, 2007	\$	232	\$	1,252	\$ 1,484
Charged to costs and expenses				284	284
Cash payments		(171)		(1,428)	(1,599)
Restructuring balance, June 27, 2008	\$	61	\$	108	\$ 169

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. We expect to pay these obligations over their respective terms, which expire at various dates through fiscal 2009. The payments will be funded from available cash balances and funds from product sales and are not expected to significantly impact liquidity.

### Interest Expense

(\$ in millions)	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Interest expense	\$ 0.6	\$ 0.6	\$ 1.7	\$ 1.7

Interest expense represents interest on the \$46 million aggregate principal amount of convertible senior notes we issued in December 2004.

Table of Contents**Other Income, Net**

(\$ in millions)	Three months ended		Nine months ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Other income, net	\$ 0.2	\$ 0.1	\$ 0.1	\$ 0.4

Other income, net principally consists of interest income, foreign exchange gains and losses and other non-operating gains and losses. The increase in other income for the third quarter of fiscal 2008 compared to the third quarter of fiscal 2007 principally reflects lower foreign exchange losses incurred in the third quarter of fiscal 2008 than in the third quarter of fiscal 2007. This was partially offset by a decrease in interest income for the third quarter of 2008 compared to the third quarter of 2007 resulting from lower invested cash balances and lower interest rates. The decrease in other income for the first nine months of fiscal 2008 compared to the first nine months of fiscal 2007 principally reflects lower interest income in the nine months of 2008 than in the same period in the prior year resulting from lower invested cash balances and lower interest rates.

**Provision for Income Taxes**

Our provision for income taxes for the first nine months of fiscal 2008 and 2007 principally consisted of income taxes incurred by our foreign subsidiaries. As a result of our recent operating losses and our expectation of future operating results, we determined that it is more likely than not that the U.S. federal and state income tax benefits (principally net operating losses we can carry forward to future years) which arose during the first nine months of fiscal 2008 and 2007 will not be realized. Accordingly, we have not recognized any income tax benefits relating to our U.S. federal and state operating losses for those periods and we do not expect to recognize any income tax benefits relating to future operating losses until we believe that such tax benefits are more likely than not to be realized. We expect that our provision for income taxes for fiscal 2008 will principally consist of income taxes related to our foreign operations.

**Liquidity and Capital Resources**

Cash provided by operating activities was \$11.6 million for the first nine months of fiscal 2008 compared to cash used in operating activities of \$9.4 million for the first nine months of fiscal 2007. Operating cash flows for the first nine months of fiscal 2008 reflect our net loss of \$3.7 million, offset by non-cash charges (depreciation and amortization, stock-based compensation expense, inventory provisions and other) of \$8.0 million, and net working capital decreases of approximately \$7.4 million.

The net working capital decreases for the first nine months of fiscal 2008 consisted principally of a \$5.7 million decrease in net inventories resulting from our efforts to reduce inventory on hand and a \$2.7 million increase in payables mainly due to the timing of payments. In addition, other assets and other current assets decreased by \$2.2 million mainly due to decreases in prepaid insurance and prepaid software licenses.

These working capital decreases were partially offset by a \$3.5 million increase in accounts receivable.

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

Cash used in operating activities was \$9.4 million for the first nine months of fiscal 2007. Operating cash flows for the first nine months of fiscal 2007 reflect our net loss of \$21.5 million, partially offset by non-cash charges (depreciation, stock-based compensation expense and other) of \$9.8 million, and net working capital decreases of approximately \$2.2 million.

The net working capital decreases for the first nine months of fiscal 2007 consisted principally of a \$3.1 million decrease in inventory primarily due to continued focus on decreasing inventory on hand. The working capital decreases also include a \$1.9 million increase in accrued expenses and other current liabilities mainly consisting of an increase in accrued compensation expense due to the timing of payment. These amounts were partially offset by a \$2.5 million decrease in accounts payable principally related to the timing of vendor payments.

Cash used in investing activities of \$7.6 million for the first nine months of fiscal 2008 principally consisted of \$6.4 million of capital expenditures and payments associated with our acquisition of certain assets of Ample Communications of \$1.2 million. For the first nine months of fiscal 2007, cash provided by investing activities of \$1.6 million principally consisted of sales of marketable securities (net of purchases) of \$5.0 million and capital expenditures of \$3.4 million.

Cash provided by financing activities of \$0.1 million and \$3.3 million for the first nine months of fiscal 2008 and 2007, respectively, consisted of proceeds from the exercise of stock options.

Table of Contents

*Senior Notes Offerings*

*3.75% Convertible Senior Notes due 2009*

In December 2004, we sold an aggregate principal amount of \$46.0 million in convertible senior notes due 2009 for net proceeds (after discounts and commissions) of approximately \$43.9 million. The notes are senior unsecured obligations, ranking equal in right of payment with all future unsecured indebtedness. The notes bear interest at a rate of 3.75%, payable semiannually in arrears each May 18 and November 18. The notes are due November 18, 2009. We used approximately \$3.3 million of the proceeds to purchase U.S. government securities that were pledged to the trustee for the payment of the first four scheduled interest payments on the notes when due.

The notes are convertible, at the option of the holder, at any time prior to maturity into shares of our common stock. Upon conversion, we may, at our option, elect to deliver cash in lieu of shares of our common stock or a combination of cash and shares of common stock. Effective May 13, 2005, the conversion price of the notes was adjusted to \$11.55 per share (\$2.31 per share on a pre June 30, 2008 one-for-five reverse stock split basis) of common stock, which is equal to a conversion rate of approximately 86.58 shares (432.9004 shares on a pre June 30, 2008 one-for-five reverse stock split basis) of common stock per \$1,000 principal amount of notes. Prior to this adjustment, the conversion price applicable to the notes was \$14.05 per share (\$2.81 per share on a pre June 30, 2008 one-for-five reverse stock split basis) of common stock, which was equal to approximately 71.17 shares (355.8719 shares on a pre June 30, 2008 one-for-five reverse stock split basis) of common stock per \$1,000 principal amount of notes. The adjustment was made pursuant to the terms of the indenture governing the notes. The conversion price is subject to further adjustment under the terms of the indenture to reflect stock dividends, stock splits, issuances of rights to purchase shares of common stock and certain other events.

If we undergo certain fundamental changes (as defined in the indenture), holders of notes may require us to repurchase some or all of their notes at 100% of the principal amount plus accrued and unpaid interest. If, upon notice of certain events constituting a fundamental change, holders of the notes elect to convert the notes, we may be required to make additional cash payment per \$1,000 principal amount of notes in connection with the conversion. The amount of the additional cash payment, if any, will be determined by reference to a table set forth in the indenture governing the notes and our average stock price (as determined in accordance with the indenture) for the 20 trading days following the conversion date. If an applicable fundamental change were to occur between November 18, 2007 and November 18, 2008, the amount of the additional cash payment would be equal to such average stock price times a multiplier of up to 12.24 (61.19 on a pre June 30, 2008 one-for-five reverse stock split basis). Our obligation to make the additional cash payment will not apply to fundamental changes that occur on or after November 18, 2009, and the applicable multiplier will decrease on a daily basis through that date. Notwithstanding the foregoing, no additional cash payment will be required if the applicable average stock price is less than \$11.50 per share (\$2.30 per share on a pre June 30, 2008 one-for-five reverse stock split basis) (subject to adjustment as set forth in the indenture). In the event of a non-stock change of control constituting a public acquirer change of control (as defined in the indenture), we may, in lieu of making an additional cash payment upon conversion as required by the indenture, elect to adjust the conversion price and the related conversion obligation such that the noteholders will be entitled to convert their notes into a number of shares of public acquirer common stock.

For financial accounting purposes, our contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is an embedded derivative. As of June 27, 2008, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

*6.50% Convertible Senior Notes due 2013*

On July 30, 2008, we entered into separate exchange agreements with certain holders of our existing 3.75% Convertible Senior Notes due 2009, pursuant to which holders of an aggregate of \$15 million of the existing notes agreed to exchange their notes for \$15 million in aggregate principal amount of a new series of 6.50% Convertible Senior Notes due 2013. The exchanges closed on August 1, 2008. We paid at the closing an aggregate of approximately \$116,000 in accrued and unpaid interest on the existing notes that were exchanged for the new notes, as well as a \$750,000 fee to our financial advisor.

We issued the new notes pursuant to an indenture, dated as of August 1, 2008, between us and Wells Fargo Bank, N.A., as trustee. Following the completion of the exchange, \$31 million in aggregate principal amount of the existing notes remain outstanding.

The new notes are unsecured senior indebtedness and bear interest at a rate of 6.50% per annum. Interest is payable on February 1 and August 1 of each year, commencing on February 1, 2009. The new notes mature on August 1, 2013. At maturity, we will be required to repay the outstanding principal of the new notes.

Table of Contents

The new notes are convertible at the option of the holders, at any time on or prior to maturity, into shares of our common stock at a conversion rate initially equal to approximately \$4.74 per share of common stock, which is subject to adjustment in certain circumstances. Upon conversion of the new notes, we generally have the right to deliver to the holders thereof, at our option, (i) cash, (ii) shares of our common stock, or (iii) a combination thereof. The initial conversion price of the new notes will be adjusted to reflect stock dividends, stock splits, issuances of rights to purchase shares of our common stock, and upon other events. If we undergo certain fundamental changes prior to maturity of the new notes, the holders thereof will have the right, at their option, to require us to repurchase for cash some or all of their new notes at a repurchase price equal to 100% of the principal amount of the new notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date, or convert the new notes into shares of our common stock and, under certain circumstances, receive additional shares of our common stock in the amount provided in the indenture.

If there is an event of default on the new notes, the principal of and premium, if any, on all the new notes and the interest accrued thereon may be declared immediately due and payable, subject to certain conditions set forth in the indenture. An event of default under the indenture will occur if we: (i) are delinquent in making certain payments due under the new notes; (ii) fail to deliver shares of common stock or cash upon conversion of the new notes; (iii) fail to deliver certain required notices under the new notes; (iv) fail, following notice, to cure a breach of a covenant under the new notes or the indenture; (v) incur certain events of default with respect to other indebtedness; or (vi) is subject to certain bankruptcy proceedings or orders. If we fail to deliver certain SEC reports to the trustee in a timely manner as required by the indenture, (x) the interest rate applicable to the new notes during the delinquency will be increased by 0.25% or 0.50%, as applicable (depending on the duration of the delinquency), and (y) if the required reports are not delivered to the trustee within 180 days after their due date under the indenture, a holder of the new notes will generally have the right, subject to certain limitations, to require us to repurchase all or any portion of the new notes then held by such holder.

*Conexant Warrant*

On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 18,066,689 (90,333,445 on a pre June 30, 2008 one-for-five reverse stock split basis) outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant stockholder received one fifth of one share (one share on a pre June 30, 2008 one-for-five reverse stock split basis) of Mindspeed common stock (including an associated preferred share purchase right) for every three shares of Conexant common stock held and cash for any fractional share of Mindspeed common stock. Following the Distribution, Mindspeed began operations as an independent, publicly held company.

In the Distribution, we issued to Conexant a warrant to purchase six million shares (adjusted to reflect our June 30, 2008 one-for-five reverse stock split) of our common stock at a price of \$17.04 per share (adjusted to reflect our June 30, 2008 one-for-five reverse stock split), exercisable for a period of ten years after the Distribution. The warrant may be transferred or sold in whole or part at any time. The warrant contains antidilution provisions that provide for adjustment of the exercise price, and the number of shares issuable under the warrant, upon the occurrence of certain events. If we issue, or are deemed to have issued, shares of our common stock, or securities convertible into our common stock, at prices below the current market price of our common stock (as defined in the warrants) at the time of the issuance of such securities, the warrant's exercise price will be reduced and the number of shares issuable under the warrant will be increased. The amount of such adjustment if any, will be determined pursuant to a formula specified in the warrant and will depend on the number of shares issued, the offering price and the current market price of our common stock at the time of the issuance of such securities. Adjustments to the warrant pursuant to these antidilution provisions may result in significant dilution to the interests of our existing stockholders and may adversely affect the market price of our common stock. The antidilution provisions may also limit our ability to obtain additional financing on terms favorable to us.

Moreover, we may not realize any cash proceeds from the exercise of the warrant held by Conexant. A holder of the warrant may opt for a cashless exercise of all or part of the warrant. In a cashless exercise, the holder of the warrant would make no cash payment to us and would

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

receive a number of shares of our common stock having an aggregate value equal to the excess of the then-current market price of the shares of our common stock issuable upon exercise of the warrant over the exercise price of the warrant. Such an issuance of common stock would be immediately dilutive to the interests of other stockholders.

### *Liquidity*

Our principal sources of liquidity are our existing cash balances and cash generated from product sales. During the first nine months of fiscal 2008, we also received approximately \$4.35 million in cash from sales of our non-core intellectual property. As of June 27, 2008, our cash and cash equivalents totaled \$29.9 million. Our working capital at June 27, 2008 was \$37.7 million. In July 2008, we received \$10.0 million from the sale of non-core patents which will be included in revenues in the fourth quarter of fiscal 2008.

Table of Contents

In order to become profitable, or to sustain positive cash flows from operations, we must further reduce operating expenses and/or increase revenues. Through the first nine months of fiscal 2008, we have completed a series of cost reduction actions which have improved our operating cost structure. These expense reductions alone may not make us profitable or allow us to sustain profitability if it is achieved. Our ability to achieve the necessary revenue growth will depend on increased demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises. We may not be successful in achieving the necessary revenue growth or we may be unable to sustain past and future expense reductions in subsequent periods. We may not achieve profitability or sustain such profitability, if achieved.

We believe that our existing sources of liquidity, along with cash expected to be generated from product sales and sales or licensing of non-core intellectual property, will be sufficient to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for at least the next 12 months. We are currently evaluating a number of available refinancing alternatives regarding our convertible debt, including alternatives to provide cash necessary to repay our convertible debt due November 2009, when the instrument reaches maturity in 2009, assuming that it has not been converted into equity prior to maturity. From time to time, we may acquire our debt securities through open market purchases, privately negotiated transactions, tender offers, exchange offers (for new debt or other securities), redemptions or otherwise, upon such terms and at such prices as we may determine. We will need to continue a focused program of capital expenditures to meet our research and development and corporate requirements. We may also consider acquisition opportunities to extend our technology portfolio and design expertise and to expand our product offerings. In order to fund capital expenditures, increase its working capital or complete any acquisitions, we may seek to obtain additional debt or equity financing. We may also need to seek to obtain additional debt or equity financing if we experience downturns or cyclical fluctuations in our business that are more severe or longer than anticipated or if we fail to achieve anticipated revenue and expense levels. However, we cannot assure you that such financing will be available to us on favorable terms, or at all.

**Off-Balance Sheet Arrangements**

We have made guarantees and indemnities, under which we may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. In connection with the Distribution, we generally assumed responsibility for all contingent liabilities and then-current and future litigation against Conexant or its subsidiaries related to the Mindspeed business. We may also be responsible for certain federal income tax liabilities under the tax allocation agreement between us and Conexant, which provides that we will be responsible for certain taxes imposed on us, Conexant or Conexant stockholders. In connection with certain facility leases, we have indemnified our lessors for certain claims arising from the facility or the lease. We indemnify our directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Delaware. The duration of the guarantees and indemnities varies, and in many cases is indefinite. The majority of our guarantees and indemnities do not provide for any limitation of the maximum potential future payments we could be obligated to make. We have not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets.

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





## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

Our cash and cash equivalents consist of demand deposits, highly-liquid money market funds and commercial paper. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Consequently, we invest in securities that meet high credit quality standards and we limit the amount of our credit exposure to any one issuer. We do not use derivative instruments for speculative or investment purposes.

### *Interest Rate Risk*

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities or variable interest rate characteristics of these instruments. As of June 27, 2008, the carrying value of our cash and cash equivalents approximates fair value.

Our long-term debt consists of convertible senior notes which bear interest at a fixed rate of 3.75%. Consequently, our results of operations and cash flows are not subject to any significant interest rate risk relating to our long-term debt.

Table of Contents

*Foreign Currency Exchange Rate Risk*

We transact business in various foreign currencies and we face foreign currency exchange rate risk on assets and liabilities that are denominated in foreign currencies. The majority of our foreign exchange risks are not hedged; however, from time to time, we may utilize foreign currency forward exchange contracts to hedge a portion of our exposure to foreign currency exchange rate risk. These hedging transactions are intended to offset the gains and losses we experience on foreign currency transactions with gains and losses on the forward contracts, so as to mitigate our overall risk of foreign exchange gains and losses. We do not enter into forward contracts for speculative or trading purposes. At June 27, 2008, we held no foreign currency forward exchange contracts. Based on our overall currency rate exposure at June 27, 2008, a 10% change in currency rates would not have a material effect on our consolidated financial position, results of operations or cash flows.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 27, 2008. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of June 27, 2008, these disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the fiscal quarter ended June 27, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

We have revised the risk factors that relate to our business, as set forth below. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 28, 2007. We encourage investors to review these risk factors, as well as those contained under **Forward-Looking Statements** preceding Part I of this Report.

Our business, financial condition and operating results can be affected by a number of factors, including those listed below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. Any of these risks could also materially and adversely affect our business, financial condition or the price of our common stock or other securities.

***We are incurring operating losses and we may continue to incur losses in future periods.***

We incurred a net loss of \$3.7 million in the first nine months of fiscal 2008 and incurred net losses of \$21.9 million in fiscal 2007 and \$24.5 million in fiscal 2006. We may continue to incur losses and negative cash flows in future periods.

In order to become profitable, or to sustain positive cash flows from operations, we must further reduce operating expenses and/or increase our revenues. Through the first nine months of fiscal 2008, we have completed a series of cost reduction actions which have improved our operating cost structure. These expense reductions alone may not make us profitable or allow us to sustain profitability if it is achieved. Our ability to achieve the necessary revenue growth will depend on increased demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises. We may not be successful in achieving the necessary revenue growth or the expected expense reductions. Moreover, we may be unable to sustain past or expected future expense reductions in subsequent periods. We may not achieve profitability or sustain such profitability, if achieved.

***We have substantial cash requirements to fund our operations, research and development efforts and capital expenditures. Our capital resources are limited and capital needed for our business may not be available when we need it.***

For the first nine months of fiscal 2008, we generated \$11.6 million in cash from operating activities compared to net cash used of \$9.4 million in the first nine months of fiscal 2007. Our net cash used in operating activities was \$10.0 million in fiscal 2007 and \$15.9 million for fiscal 2006. Our principal sources of liquidity are our existing cash balances and cash generated from product sales and sales of intellectual property. As of June 27, 2008, our cash and cash equivalents totaled \$29.9 million. We believe that our existing sources of liquidity will be sufficient to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for at least the next 12 months. However, this may not be the case, and if we continue to incur operating losses and negative cash flows in the future, we may need to reduce further our operating costs or obtain alternate sources of financing, or both. We are currently evaluating, and may evaluate in the future, transactions that may involve the issuance or incurrence of indebtedness, including credit facilities, however we may not have access to additional sources of capital on favorable terms or at all. If we raise additional funds through the issuance of equity, equity-based

or debt securities, such securities may have rights, preferences or privileges senior to those of our common stock and our stockholders may experience dilution of their ownership interests.

*Our operating results may be adversely impacted by worldwide political and economic uncertainties and specific conditions in the markets we address, including the cyclical nature of and volatility in the semiconductor industry. As a result, the market price of our common stock may decline.*

We operate primarily in the semiconductor industry, which is cyclical and subject to rapid change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns. These downturns are characterized by decreases in product demand, excess customer inventories and accelerated erosion of prices. These factors could cause substantial fluctuations in our revenue and in our results of operations. Any downturns in the semiconductor industry may be severe and prolonged, and any failure of the industry or wired and wireless communications markets to fully recover from downturns could seriously impact our revenue and harm our business, financial condition and results of operations. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products. Accordingly, our operating results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause large fluctuations in our stock price.

Table of Contents

Additionally, in the recent past, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, the effect on the market in China due to the Olympic games, recent international conflicts and terrorist and military activity, and the impact of natural disasters and public health emergencies. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to slow spending on our products and services, which would delay and lengthen sales cycles. We cannot predict the timing, strength or duration of any worldwide economic slowdown or subsequent economic recovery, or in the semiconductor industry or the wired and wireless communications markets. If the economy or markets in which we operate do not continue at their present levels, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could have a synergistic negative impact on the results of our operations.

***The loss of one or more key customers or distributors, or the diminished demand for our products from a key customer could significantly reduce our revenues and profits.***

A relatively small number of end customers and distributors have accounted for a significant portion of our revenues in any particular period. We have no long-term volume purchase commitments from our key customers. One or more of our key customers or distributors may discontinue operations as a result of consolidation, liquidation or otherwise. Reductions, delays and cancellation of orders from our key customers or the loss of one or more key customers could significantly reduce our revenues and profits. We cannot assure you that our current customers will continue to place orders with us, that orders by existing customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

***The price of our common stock may fluctuate significantly.***

The price of our common stock is volatile and may fluctuate significantly. There can be no assurance as to the prices at which our common stock will trade or that an active trading market in our common stock will be sustained in the future. The market price at which our common stock trades may be influenced by many factors, including:

- our operating and financial performance and prospects, including our ability to achieve or sustain profitability, if achieved, within the forecasted time period;
- the depth and liquidity of the market for our common stock;
- investor perception of us and the industry in which we operate;
- the level of research coverage of our common stock;

- 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 may in the future experience, extreme price and trading volume volatility, particularly in the 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. If our common stock trades below \$1.00 for 30 consecutive trading days, or if we otherwise do not meet the requirements for continued quotation on the Nasdaq Global Market, our common stock could be delisted which would adversely affect the ability of investors to sell shares of our common stock and could otherwise adversely affect our business. During fiscal 2008, our common stock traded below \$1.00 for 30 consecutive trading days. In order to regain compliance with the minimum bid price rule, we effected a one-for-five reverse stock split on June 30, 2008.

Table of Contents

*Our operating results are subject to substantial quarterly and annual fluctuations.*

Our revenues and 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;
  
- the gain or loss of significant customers;
  
- market acceptance of our products and our customers' products;
  
- our ability to develop, introduce, market and support new products and technologies on a timely basis;
  
- the timing of receipt, reduction or cancellation of significant orders by customers;
  
- fluctuations in the levels of component inventories held by our customers and changes in our customers' inventory management practices;
  
- shifts in our product mix and the effect of maturing products;
  
- availability and cost of products from our suppliers;
  
- the timing and extent of product development costs;



- new product and technology introductions by us or our competitors;
- fluctuations in manufacturing yields;
- significant warranty claims, including those not covered by our suppliers; and
- intellectual property disputes.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly or annual operating results.

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

Our future success depends on our ability to attract, retain and motivate qualified personnel, including executive officers and other key management, technical and support personnel. As the source of our technological and product innovations, our key technical personnel represent a significant asset. The competition for such personnel can be intense in the semiconductor industry. We may not be able to attract and retain qualified management and other personnel necessary for the design, development, sale and support of our products.

In periods of poor operating performance, we have experienced, and may experience in the future, particular difficulty attracting and retaining key personnel. If we are not successful in assuring our employees of our financial stability and our prospects for success, our employees may seek other employment, which may materially and adversely affect our business. Moreover, our recent expense reduction and restructuring initiatives, including a series of worldwide workforce reductions, have significantly reduced the number of our technical employees. We intend to continue to expand our international business activities including expansion of design and operational centers abroad and may have difficulty attracting and maintaining international employees. The loss of the services of one or more of our key employees, including Raouf Y. Halim, our 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.

Table of Contents

Many of our engineers are foreign nationals working in the United States under visas. The visas held by many of our employees permit qualified foreign nationals working in specialty occupations, such as certain categories of engineers, to reside in the United States during their employment. The number of new visas approved each year may be limited and may restrict our ability to hire additional qualified technical employees. In addition, immigration policies are subject to change, and these policies have generally become more stringent since the events of September 11, 2001. Any additional significant changes in immigration laws, rules or regulations may further restrict our ability to retain or hire technical personnel.

*We are entirely dependent upon third parties for the manufacture of our products and are vulnerable to their capacity constraints during times of increasing demand for semiconductor products.*

We are entirely dependent upon outside wafer fabrication facilities, known as foundries, for wafer fabrication services. Our principal suppliers of wafer fabrication services are TSMC and Jazz. We are also dependent upon third parties, including Amkor, for the assembly and testing of all of our products. Under our fabless business model, our long-term revenue growth is dependent on our ability to obtain sufficient external manufacturing capacity, including wafer production capacity. Periods of upturns in the semiconductor industry may be characterized by rapid increases in demand and a shortage of capacity for wafer fabrication and assembly and test services.

The risks associated with our reliance on third parties for manufacturing services include:

- the lack of assured supply, potential shortages and higher prices;
- increased lead times;
- limited control over delivery schedules, manufacturing yields, production costs and product quality; and
- the unavailability of, or delays in obtaining, products or access to key process technologies.

Our standard lead time, or the time required to manufacture our products (including wafer fabrication, assembly and testing) is typically 12 to 16 weeks. During periods of manufacturing capacity shortages, the foundries and other suppliers on whom we rely may devote their limited capacity to fulfill the production requirements of other clients that are larger or better financed than we are, or who have superior contractual rights to enforce manufacture of their products, including to the exclusion of producing our products.

Additionally, if we are required to seek alternative foundries or assembly and test service providers, we would be subject to longer lead times, indeterminate delivery schedules and increased manufacturing costs, including costs to find and qualify acceptable suppliers. For example, if we choose to use a new foundry, the qualification process may take as long as six months over the standard lead time before we can begin shipping

products from the new foundry.

Wafer fabrication processes are subject to obsolescence, and foundries may discontinue a wafer fabrication process used for certain of our products. In such event, we generally offer our customers a last-time buy program to satisfy their anticipated requirements for our products. The unanticipated discontinuation of a wafer fabrication process on which we rely may adversely affect our revenues and our customer relationships.

The foundries and other suppliers on whom we rely may experience financial difficulties or suffer disruptions in their operations due to causes beyond our control, including labor strikes, work stoppages, electrical power outages, fire, earthquake, flooding or other natural disasters. Certain of our suppliers' manufacturing facilities are located near major earthquake fault lines in the Asia-Pacific region and in California. In the event of a disruption of the operations of one or more of our suppliers, we may not have an alternate source immediately available. Such an event could cause significant delays in shipments until we are able to shift the products from an affected facility or supplier to another facility or supplier. The manufacturing processes we rely on are specialized and are available from a limited number of suppliers. Alternate sources of manufacturing capacity, particularly wafer production capacity, may not be available to us on a timely basis. Even if alternate manufacturing capacity is available, we may not be able to obtain it on favorable terms, or at all. Difficulties or delays in securing an adequate supply of our products on favorable terms, or at all, could impair our ability to meet our customers' requirements and have a material adverse effect on our operating results.

In addition, the highly complex and technologically demanding nature of semiconductor manufacturing has caused foundries to experience, from time to time, lower than anticipated manufacturing yields, particularly in connection with the introduction of new products and the installation and start-up of new process technologies. Lower than anticipated manufacturing yields may affect our ability to fulfill our customers' demands for our products on a timely basis. Moreover, lower than anticipated manufacturing yields may adversely affect our cost of goods sold and our results of operations.

Table of Contents

*We are subject to the risks of doing business internationally.*

A significant part of our strategy involves our continued pursuit of growth opportunities in a number of international markets. We market, sell, design and service our products internationally. Sales to customers located outside the United States, primarily in the Asia-Pacific region and Europe, were approximately 69% of our net revenues for fiscal 2007 and 73% for the first nine months of fiscal 2008. In addition, we have design centers, customer support centers, and rely on suppliers, located outside the United States, including foundries and assembly and test service providers located in the Asia-Pacific region. Our international sales and operations are subject to a number of risks inherent in selling and operating abroad which could adversely affect our ability to increase or maintain our foreign sales. These include, but are not limited to, risks regarding:

- currency exchange rate fluctuations;
- local economic and political conditions;
- disruptions of capital and trading markets;
- accounts receivable collection and longer payment cycles;
- difficulties in staffing and managing foreign operations;
- potential hostilities and changes in diplomatic and trade relationships;
- restrictive governmental actions (such as restrictions on the transfer or repatriation of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);
- changes in legal or regulatory requirements;
- 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;
- environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety;
- tax laws;
- limitations on our ability under local laws to protect our intellectual property;
- cultural differences in the conduct of business; and
- natural disasters, acts of terrorism and war.

Because most of our international sales 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. As we continue to shift a portion of our operations offshore, more of our expenses are incurred in currencies other than those in which we bill for the related services. An increase in the value of certain currencies, such as the Euro, Ukrainian hryvnia and Indian rupee, against the U.S. dollar could increase costs of our offshore operations by increasing labor and other costs that are denominated in local currencies.

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

From time to time we may enter into foreign currency forward exchange contracts to mitigate the risk of loss from currency exchange rate fluctuations for foreign currency commitments entered into in the ordinary course of business. We have not entered into foreign currency forward exchange contracts for other purposes. Our financial condition and results of operations could be adversely affected by currency fluctuations.

Table of Contents

*We are subject to intense competition.*

The communications semiconductor industry in general, and the markets in which we compete in particular, are intensely competitive. We compete worldwide with a number of U.S. and international semiconductor manufacturers that are both larger and smaller than we are 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.

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

- stronger financial position and liquidity;
  
- longer presence in key markets;
  
- greater name recognition;
  
- more secure supply chain;
  
- access to larger customer bases; and
  
- significantly greater 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. Moreover, we have incurred substantial operating losses and we may continue to incur losses in future periods. We believe that financial stability of suppliers is an important consideration in our customers' purchasing decisions. If our OEM customers perceive that we lack adequate financial stability, they may choose semiconductor suppliers that they believe have a stronger financial position or liquidity.

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 may not be able to compete successfully against current and potential competitors.

*Our success depends on our ability to develop competitive new products in a timely manner and keep abreast of the rapid technological changes in our market.*

Our operating results will depend largely on our ability to continue to introduce new and enhanced semiconductor products on a timely basis as well as our ability to keep abreast of rapid technological changes in our markets. Our products could become obsolete sooner than we expect because of faster than anticipated, or unanticipated, changes in one or more of the technologies related to our products. The introduction of new technology representing a substantial advance over current technology could adversely affect demand for our existing products. Currently accepted industry standards are also subject to change, which may also contribute to the obsolescence of our products. If we are unable to develop and introduce new or enhanced products in a timely manner, our business may be adversely affected.

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 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
  
- overall market acceptance of our products.

Table of Contents

We may not have sufficient resources to make the substantial investment in research and development in order to develop and bring to market new and enhanced products, particularly if we are required to take further cost reduction actions. Furthermore, we are required to evaluate expenditures for planned product development continually and to choose among alternative technologies based on our expectations of future market growth. We may be unable to develop and introduce new or enhanced products in a timely manner, our products may not satisfy customer requirements or achieve market acceptance, or we may be unable to anticipate new industry standards and technological changes. We also may not be able to respond successfully to new product announcements and introductions by competitors.

Research and development projects may experience unanticipated delays related to our internal design efforts. New product development also requires the production of photomask sets and the production and testing of sample devices. In the event we experience delays in obtaining these services from the wafer fabrication and assembly and test vendors on whom we rely, our product introductions may be delayed and our revenues and results of operations may be adversely affected.

***The increasing significance of our foreign operations exposes us to risks that are beyond our control and could affect our ability to operate successfully.***

In order to enhance the cost-effectiveness of our operations, we have increasingly sought to shift portions of our research and development and customer support operations to jurisdictions with lower cost structures than that available in the United States. The transition of even a portion of our business operations to new facilities in a foreign country involves a number of logistical and technical challenges that could result in product development delays and operational interruptions, which could reduce our revenues and adversely affect our business. We may encounter complications associated with the set-up, migration and operation of business systems and equipment in a new facility. This could result in delays in our research and development efforts and otherwise disrupt our operations. If such delays or disruptions occur, they could damage our reputation and otherwise adversely affect our business and results of operations.

To the extent that we shift any operations or labor offshore to jurisdictions with lower cost structures, we may experience challenges in effectively managing those operations as a result of several factors, including time zone differences and regulatory, legal, cultural and logistical issues. Additionally, the relocation of labor resources may have a negative impact on our existing employees, which could negatively impact our operations. If we are unable to effectively manage our offshore research and development staff and any other offshore operations, our business and results of operations could be adversely affected.

We cannot be certain that any shifts in our operations to offshore jurisdictions will ultimately produce the expected cost savings. We cannot predict the extent of government support, availability of qualified workers, future labor rates or monetary and economic conditions in any offshore locations where we may operate. Although some of these factors may influence our decision to establish or increase our offshore operations, there are inherent risks beyond our control, including:

- political uncertainties;
- wage inflation;



- exposure to foreign currency fluctuations;
- tariffs and other trade barriers; and
- foreign regulatory restrictions and unexpected changes in regulatory environments.

We will likely be faced with competition in these offshore markets for qualified personnel, including skilled design and technical personnel, and we expect this competition to increase as companies expand their operations offshore. If the supply of such qualified personnel becomes limited due to increased competition or otherwise, it could increase our costs and employee turnover rates. One or more of these factors or other factors relating to foreign operations could result in increased operating expenses and make it more difficult for us to manage our costs and operations, which could cause our operating results to decline and result in reduced revenues.

Table of Contents

***Industry consolidation may harm our operating results.***

There has been an increasing trend toward industry consolidation in our markets in recent years, particularly among major network equipment and telecommunications companies. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. While we cannot predict how consolidation in our industry will affect our customers or competitors, rapid consolidation will lead to fewer customers, with the effect that loss of a major customer could have a material impact on results not anticipated in a customer marketplace composed of more numerous participants. Increased consolidation and competition for fewer customers may result in pricing pressures or a loss in market share, each of which could materially impact our business.

***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 substantial portion of our products through distributors, some of whom have a right to return unsold products to us. Sales to distributors accounted for approximately 54% of our revenues for fiscal 2007 and 55% for the first nine months of fiscal 2008.

Because of the significant lead times for wafer fabrication and assembly and test services, we routinely purchase inventory based on estimates of end-market demand for our customers' products. End-market demand may be subject to dramatic changes and is difficult to predict. End-market demand is highly influenced by the timing and extent of carrier capital expenditures. The difficulty in predicting demand 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. Conversely, if we fail to anticipate inventory needs we may be unable to fulfill demand for our products, resulting in a loss of potential revenue.

***If network infrastructure OEMs do not design our products into their equipment, we will be unable to sell 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 network infrastructure OEMs to select our products from among alternative offerings to be designed into their equipment. We may be unable to achieve these design wins. Without design wins from OEMs, we would be unable to sell our products. Once an OEM designs another supplier's semiconductors into one of its product platforms, it is 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 and we may be unable to convert design wins into actual sales. 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 if, for example, its own products are not commercially successful.

***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 generally 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. These lengthy periods also increase 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 any revenues from new products. We may never generate the anticipated revenues if our customers cancel or change their product plans.

Table of Contents

***We may be subject to claims, or we may be required to defend and indemnify customers against claims, of infringement of third-party intellectual property rights or demands that we, or our customers, license third-party technology, which could result in significant expense.***

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, third parties have asserted and may in the future assert patent, copyright, trademark and other intellectual property rights against technologies that are important to our business. The resolution or compromise of any litigation or other legal process to enforce such alleged third party rights, including claims arising through our contractual indemnification of our customers, or claims challenging the validity of our patents, regardless of its merit or resolution, could be costly and divert the efforts and attention of our management and technical personnel.

We may not prevail in any such litigation or other legal process or we may compromise or settle such claims because of the complex technical issues and inherent uncertainties in intellectual property disputes and the significant expense in defending such claims. If litigation or other legal process results in adverse rulings, we may be required to:

- pay substantial damages for past, present and future use of the infringing technology;
- cease the manufacture, use or sale of infringing products;
- discontinue the use of infringing technology;
- expend significant resources to develop non-infringing technology;
- pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology;
- license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all; or
- relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.

In connection with the distribution, we generally assumed responsibility for all contingent liabilities and litigation against Conexant or its subsidiaries related to our business.

*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 employee and third-party nondisclosure and confidentiality agreements and other methods, to protect our proprietary technologies and processes. We may be required to engage in litigation to enforce or protect our intellectual property rights, which may require us to expend significant resources and to divert the efforts and attention of our management from our business operations. In particular:

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

Despite the preventive measures and precautions that we take, a third party could copy or otherwise obtain and use our technology without authorization, develop similar technology independently or design around our patents. We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products, services or technology without our authorization. Also, former employees may seek employment with our business partners, customers or competitors, and the confidential nature of our proprietary information may not be maintained in the course of such future employment. Further, in some countries outside the United States, patent protection is not available or not reliably enforced. Some countries that do allow registration of patents do not provide meaningful redress for patent violations. As a result, protecting intellectual property in those countries is difficult and competitors may sell products in those countries that have functions and features that infringe on our intellectual property.

Table of Contents

***The complexity of our products may lead to errors, defects and bugs, which could subject us to significant costs or damages and adversely affect market acceptance of our products.***

Although we, our customers and our suppliers rigorously test our products, our products are complex and may contain errors, defects or bugs when first introduced or as new versions are released. We have in the past experienced, and may in the future experience, errors, defects and bugs. If any of our products contain production defects or reliability, safety, quality or compatibility problems that are significant to our customers, our reputation may be damaged and customers may be reluctant to buy our products, which could adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales of affected products to our customers, which could adversely affect our results of operations.

If defects or bugs are discovered after commencement of commercial production of a new product, we may be required to make significant expenditures of capital and other resources to resolve the problems. This could result in significant additional development costs and the diversion of technical and other resources from our other development efforts. We could also incur significant costs to repair or replace defective products and we could be subject to claims for damages by our customers or others against us. We could also be exposed to product liability claims or indemnification claims by our customers. These costs or damages could have a material adverse effect on our financial condition and results of operations.

***We may make business acquisitions or investments, which involve significant risk.***

We may from time to time make acquisitions, enter into alliances or make investments in other businesses to complement our existing product offerings, augment our market coverage or enhance our technological capabilities. However, any such transactions could result in:

- issuances of equity securities dilutive to our existing stockholders;
- substantial cash payments;
- the incurrence of substantial debt and assumption of unknown liabilities;
- large one-time write-offs;
- amortization expenses related to intangible assets;

- the diversion of management's attention from other business concerns; and
- the potential loss of key employees, customers and suppliers of the acquired business.

Integrating acquired organizations and their products and services may be expensive, time-consuming and a strain on our resources and our relationships with employees, customers and suppliers, and ultimately may not be successful. The benefits or synergies we may expect from the acquisition of complementary or supplementary businesses may not be realized to the extent or in the time frame we initially anticipate.

Additionally, in periods subsequent to an acquisition, we must evaluate goodwill and acquisition-related intangible assets for impairment. If such assets are found to be impaired, they will be written down to estimated fair value, with a charge against earnings.

***Our results of operations could vary as a result of the methods, estimates and judgments we use in applying our accounting policies.***

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Policies and Estimates in Part I, Item 2 of this Form 10-Q). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and changes in rule making by the regulatory bodies. Factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

Table of Contents

***Substantial sales of the shares of our common stock issuable upon conversion of our convertible senior notes or exercise of the warrant issued to Conexant could adversely affect our stock price or our ability to raise additional financing in the public capital markets.***

Conexant holds a warrant to acquire six million shares (adjusted to reflect our June 30, 2008 one-for-five reverse stock split) of our common stock at a price of \$17.04 per share (adjusted to reflect our June 30, 2008 one-for-five reverse stock split), exercisable through June 27, 2013, representing approximately 16% of our outstanding common stock on a fully diluted basis. The warrant may be transferred or sold in whole or part at any time. If Conexant sells the warrant or if Conexant or a transferee of the warrant exercises the warrant and sells a substantial number of shares of our common stock in the future, or if investors perceive that these sales may occur, the market price of our common stock could decline or market demand for our common stock could be sharply reduced. As of June 27, 2008, we have \$46.0 million aggregate principal amount of convertible senior notes outstanding. These notes are convertible at any time, at the option of the holder, into approximately 86,580 shares (adjusted to reflect our June 30, 2008 one-for-five reverse stock split) of common stock per \$1,000 principal amount of notes or an aggregate of approximately 3,983,000 shares (adjusted to reflect our June 30, 2008 one-for-five reverse stock split) of our common stock. The conversion of the notes and subsequent sale of a substantial number of shares of our common stock could also adversely affect demand for, and the market price of, our common stock. Each of these transactions could adversely affect our ability to raise additional financing by issuing equity or equity-based securities in the public capital markets.

***Antidilution and other provisions in the warrant issued to Conexant may also adversely affect our stock price or our ability to raise additional financing.***

The warrant issued to Conexant contains antidilution provisions that provide for adjustment of the warrant's exercise price, and the number of shares issuable under the warrant, upon the occurrence of certain events. If we issue, or are deemed to have issued, shares of our common stock, or securities convertible into our common stock, at prices below the current market price of our common stock (as defined in the warrant) at the time of the issuance of such securities, the warrant's exercise price will be reduced and the number of shares issuable under the warrant will be increased. The amount of such adjustment if any, will be determined pursuant to a formula specified in the warrant and will depend on the number of shares issued, the offering price and the current market price of our common stock at the time of the issuance of such securities. Adjustments to the warrant pursuant to these antidilution provisions may result in significant dilution to the interests of our existing stockholders and may adversely affect the market price of our common stock. The antidilution provisions may also limit our ability to obtain additional financing on terms favorable to us.

Moreover, we may not realize any cash proceeds from the exercise of the warrant held by Conexant. A holder of the warrant may opt for a cashless exercise of all or part of the warrant. In a cashless exercise, the holder of the warrant would make no cash payment to us, and would receive a number of shares of our common stock having an aggregate value equal to the excess of the then-current market price of the shares of our common stock issuable upon exercise of the warrant over the exercise price of the warrant. Such an issuance of common stock would be immediately dilutive to the interests of other stockholders.

***Some of our directors and executive officers may have potential conflicts of interest because of their positions with Conexant or their ownership of Conexant common stock.***



## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

Some of our directors are Conexant directors, and our non-executive chairman of the board is chairman of the board of Conexant. Several of our directors and executive officers own Conexant common stock and hold options to purchase Conexant common stock. Service on our board of directors and as a director or officer of Conexant, or ownership of Conexant common stock by our directors and executive officers, could create, or appear to create, potential conflicts of interest when directors and officers are faced with decisions that could have different implications for us and Conexant. For example, potential conflicts could arise in connection with decisions involving the warrant to purchase our common stock issued to Conexant, or other agreements entered into between us and Conexant in connection with the distribution.

Our restated certificate of incorporation includes provisions relating to the allocation of business opportunities that may be suitable for both us and Conexant based on the relationship to the companies of the individual to whom the opportunity is presented and the method by which it was presented and also includes provisions limiting challenges to the enforceability of contracts between us and Conexant.

We may have difficulty resolving any potential conflicts of interest with Conexant, and even if we do, the resolution may be less favorable than if we were dealing with an entirely unrelated third party.

Table of Contents

***Provisions in our organizational documents and rights plan and Delaware law will make it more difficult for someone to acquire control of us.***

Our restated certificate of incorporation, our amended and restated bylaws, our amended rights agreement and the Delaware General Corporation Law contain several provisions that would make more difficult an acquisition of control of us in a transaction not approved by our board of directors. Our restated certificate of incorporation and amended and restated bylaws include provisions such as:

- the division of our board of directors into three classes to be elected on a staggered basis, one class each year;
- the ability of our board of directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;
- a prohibition on stockholder action by written consent;
- a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders;
- 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 amended and restated bylaws;
- elimination of the right of stockholders to call a special meeting of stockholders; and
- a fair price provision.

Our rights agreement gives our stockholders 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 amended and restated bylaws, Section 203 of the Delaware General Corporation Law generally provides that a corporation shall not engage in any business combination with any interested

## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

stockholder during the three-year period following the time that such stockholder becomes an interested stockholder, unless a majority of the directors then in office approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder or specified stockholder approval requirements are met.

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

Our annual meeting of stockholders was held on April 7, 2008 in Costa Mesa, California. At the meeting, the following matters were voted on by our stockholders and approved by the following votes:

	Number of shares	
	Voted For	Withheld
Election of three Class II directors for a three-year term expiring in 2011:		
Michael T. Hayashi	85,742,789	11,226,312
Ming Louie	92,413,463	4,555,638
Thomas A. Madden	85,740,691	11,228,410

	Number of shares			Broker Non-Votes
	Voted For	Voted Against	Abstentions	
Proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm	95,352,232	1,068,185	548,684	
Proposal for approval of an amendment to Certificate of Incorporation to effect a reverse stock split by a ratio of between 1-for-3 and 1-for-8 shares, at the discretion of the Board of Directors, and to reduce authorized shares of common stock by the same ratio	91,801,400	4,543,513	624,188	

Messrs. Raouf Y. Halim, Donald H. Gips, Jerre L. Stead and Dwight W. Decker continue to serve as directors.

Table of Contents

**ITEM 6. EXHIBITS**



## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

- 3.1 Restated Certificate of Incorporation of the Registrant, filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-106146), is incorporated herein by reference.
- 3.2 Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated July 1, 2008, is incorporated herein by reference.
- 3.3 Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2005, is incorporated herein by reference.
- 4.1 Specimen certificate for the Registrant's Common Stock, par value \$.01 per share.
- 4.2 Rights Agreement dated as of June 26, 2003, by and between the Registrant and Mellon Investor Services LLC, as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.
- 4.3 First Amendment to Rights Agreement, dated as of December 6, 2004, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.
- 4.4 Second Amendment to Rights Agreement, dated as of June 16, 2008, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated June 16, 2008, is incorporated herein by reference.
- 4.5 Common Stock Purchase Warrant dated June 27, 2003, filed as Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 4.6 Registration Rights Agreement dated as of June 27, 2003, by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 4.7 Credit Agreement Warrant dated June 27, 2003, issued by the Registrant to Conexant Systems, Inc., filed as Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109525), is incorporated herein by reference.
- 4.8 Registration Rights Agreement dated as of June 27, 2003 by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109525), is incorporated herein by reference.
- 4.9 Indenture, dated as of December 8, 2004, between the Registrant and Wells Fargo Bank, N.A., filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.
- 4.10 Form of 3.75% Convertible Senior Notes due 2009, attached as Exhibit A to the Indenture (Exhibit 4.8 hereto), is incorporated herein by reference.
- 4.11 Registration Rights Agreement, dated as of December 8, 2004, by and between the Registrant and Lehman Brothers Inc., filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.
- \*10.1 Form of Employment Agreement, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 15, 2008, is incorporated herein by reference.
- 10.2 Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the form of Employment Agreement filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 15, 2008.

Table of Contents

- 10.3 Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the form of Indemnification Agreement filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
- \*10.4 Letter Agreement, dated as of April 15, 2008, by and between the Registrant and Simon Biddiscombe, filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 28, 2008, is incorporated herein by reference.
- \*10.5 Non-Qualified Stock Option Award and Award Agreement, dated July 25, 2008, by and between the Registrant and Bret W. Johnsen.
- \*10.6 Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, as Amended and Restated, as of July 1, 2008.
- \*10.7 Mindspeed Technologies, Inc. 2003 Stock Option Plan, as Amended and Restated, as of July 1, 2008.
- \*10.8 Mindspeed Technologies, Inc. Directors Stock Plan, as Amended and Restated, as of July 1, 2008.
- \*10.9 Form of Restricted Stock Unit Award under the Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated April 11, 2008, is incorporated herein by reference.
- \*10.10 Restricted Stock Unit Terms and Conditions under the Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 11, 2008, is incorporated herein by reference.
- \*10.11 Summary of Cash Bonus Arrangement
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

\* Management contract or compensatory plan or arrangement.

Table of Contents

**SIGNATURE**

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

MINDSPEED TECHNOLOGIES, INC.  
(Registrant)

Date: August 5, 2008

By

/s/ BRET W. JOHNSEN

Bret W. Johnsen  
Senior Vice President, Chief Financial  
Officer and Treasurer  
(principal financial and accounting officer)



**Table of Contents**

**EXHIBIT INDEX**



## Edgar Filing: MINDSPEED TECHNOLOGIES, INC - Form 10-Q

- 4.1 Specimen certificate for the Registrant's Common Stock, par value \$.01 per share.
- 10.2 Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the form of Employment Agreement filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 15, 2008.
- 10.3 Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the form of Indemnification Agreement filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.
- 10.5 Non-Qualified Stock Option Award and Award Agreement, dated July 25, 2008, by and between the Registrant and Bret W. Johnsen.
- 10.6 Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, as Amended and Restated, as of July 1, 2008.
- 10.7 Mindspeed Technologies, Inc. 2003 Stock Option Plan, as Amended and Restated, as of July 1, 2008.
- 10.8 Mindspeed Technologies, Inc. Directors Stock Plan, as Amended and Restated, as of July 1, 2008.
- 10.11 Summary of Cash Bonus Arrangement
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.