MINDSPEED TECHNOLOGIES, INC
Form 10-Q
August 10, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended July 3, 2009

OR

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

Commission file number: 001-31650
MINDSPEED TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**01-0616769**
(State of incorporation)	(I.R.S. Employer Identification No.)
4000 MacArthur Boulevard, East Tower **Newport Beach, California**	**92660-3095**
(Address of principal executive offices)	(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 þ No o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of outstanding shares of the Registrant s Common Stock as of July 31, 2009 was 24,011,251.

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, and 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 belief that we can maximize our return on our research and development spending by focusing our investment in what we believe are key high-growth markets;
- our ability to achieve design wins and convert design wins into revenue;
- the continuation of intense price and product competition, and the resulting declining average selling prices for our products;
- 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, regain and sustain profitability and positive cash flows from operations;
- 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;

Table of Contents

the sufficiency of our existing sources of liquidity and expected sources of cash to repay the remaining $10.5 million in senior convertible debt and 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 2009 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;
our restructuring plans, including timing, expected workforce reductions, the closure of the Dubai facility, 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 and the possibility of future 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 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 effects of a downturn in the semiconductor industry and the general economy at large, including the impact of slower economic activity, an increase in bankruptcy filings, 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, recent international conflicts and terrorist and military activity and the impact of natural disasters and public health emergencies on our revenue and results of operation;
the impact of reductions, delays and cancellation of orders from key customers given our dependence on a relatively small number of end customers and distributors for a significant portion of our revenue and our lack of long term purchase commitments;
the impact of volatility in the stock market on the market price of our common stock;
the impact on our business if we fail to comply with the minimum listing requirements for continued quotation on the Nasdaq Global Market;
the effect of changes in the amount of research coverage of our common stock, changes in earnings estimates or buy/sell recommendations by analysts and changes in investor perception of us and the industry in which we operate;
the effect of shifts in our product mix and the effect of maturing products;
the continued availability and costs of products from our suppliers;
the value of our intellectual property, and our ability to continue recognizing patent-related revenues from the sale or licensing of our intellectual property and our plans to pursue our current intellectual property strategy;

Table of Contents

- market demand for our new and existing products and our ability to increase our revenues;
- our intentions with respect to inventories that were previously written down and the effects on future demand and market conditions on inventory write-downs;
- our beliefs regarding the end-markets for sales of products to original equipment manufacturers and third-party manufacturing service providers in the Asia-Pacific region;
- our intention to continue to expand our international business activities, including expansion of design and operations centers abroad;
- our expectations regarding fluctuations in our growth patterns;
- competition and the principal competitive factors for semiconductor suppliers, including time to market, product quality, reliability and performance, customer support, price and total system cost, new product innovation and compliance with industry standards; 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:

- cash requirements and terms and availability of financing;
- future operating losses;
- worldwide political and economic uncertainties and specific conditions in the markets we address;
- fluctuations in the price of our common stock and our operating results;
- loss of or diminished demand from one or more key customers or distributors;
- our ability to utilize our net operating loss carryforwards and certain other tax attributes;
- 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;

Table of Contents

- 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.

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.

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Table of Contents

MINDSPEED TECHNOLOGIES, INC.
INDEX

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)

	July 3, 2009	October 3, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,871	$ 43,033
Receivables, net of allowance for doubtful accounts of $144 and $342 at July 3, 2009 and October 3, 2008, respectively	8,133	14,398
Inventories	11,524	16,187
Prepaid expenses and other current assets	2,249	3,138
Total current assets	33,777	76,756
Property, plant and equipment, net	11,049	12,600
Intangible assets, net		2,480
Goodwill		2,429
License agreements, net	6,554	3,347
Other assets	2,655	2,992
Total assets	$ 54,035	$ 100,604
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 7,252	$ 11,265
Deferred income on sales to distributors	2,839	4,869
Accrued compensation and benefits	4,843	6,778
Restructuring	988	8
Convertible senior notes short term	10,459	
Other current liabilities	3,332	3,559
Total current liabilities	29,713	26,479
Convertible senior notes long term	15,000	45,648
Other liabilities	559	519
Total liabilities	45,272	72,646
Commitments and contingencies (Note 6)		
Stockholders Equity		
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; 24,011 (July 3, 2009) and 23,852 (October 3, 2008) issued shares	240	239
Additional paid-in capital	271,646	269,487

Accumulated deficit	(248,095)	(227,043)
Accumulated other comprehensive loss	(15,028)	(14,725)
Total stockholders equity	8,763	27,958
Total liabilities and stockholders equity	$ 54,035	$ 100,604

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	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net revenues:				
Products	$ 32,545	$ 38,049	$ 86,809	$ 105,248
Intellectual property			5,000	4,350
Total net revenues	32,545	38,049	91,809	109,598
Cost of goods sold:				
Cost of goods sold, excluding impairments and other charges	12,618	12,510	33,230	34,651
Asset impairments and other charges			3,667	
Total cost of goods sold	12,618	12,510	36,897	34,651
Gross margin	19,927	25,539	54,912	74,947
Operating expenses:				
Research and development	12,097	14,771	38,541	42,193
Selling, general and administrative	9,880	11,196	31,705	34,376
Special charges	9	110	6,896	284
Total operating expenses	21,986	26,077	77,142	76,853
Operating loss	(2,059)	(538)	(22,230)	(1,906)
Interest expense	(462)	(563)	(1,364)	(1,689)
Other income (expense), net	(285)	150	2,931	125
Loss before income taxes	(2,806)	(951)	(20,663)	(3,470)
Provision for income taxes	127	132	389	279
Net loss	$ (2,933)	$ (1,083)	$ (21,052)	$ (3,749)
Net loss per share, basic and diluted	$ (0.12)	$ (0.05)	$ (0.89)	$ (0.16)
	23,619	23,144	23,533	22,981

Weighted-average number of shares used in per share computation

See accompanying notes to consolidated condensed financial statements.

Table of Contents

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

	Nine months ended July 3, 2009	Nine months ended June 27, 2008
Cash Flows From Operating Activities		
Net loss	$ (21,052)	$ (3,749)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities, net of effects of acquisitions:		
Depreciation and amortization	4,582	4,640
Asset impairments	5,498	
Restructuring charges	4,031	284
Stock-based compensation	2,196	4,123
Inventory provisions	1,279	(1,188)
Gain on debt extinguishment	(2,880)	
Other non-cash items, net	247	387
Changes in assets and liabilities, net of effects of acquisitions:		
Receivables	6,277	(3,490)
Inventories	3,384	5,660
Accounts payable	(4,746)	2,680
Deferred income on sales to distributors	(2,030)	(487)
Restructuring	(2,825)	(1,599)
Accrued expenses and other current liabilities	(2,615)	1,931
Other	1,002	2,445
Net cash (used in) / provided by operating activities	(7,652)	11,637
Cash Flows From Investing Activities		
Capital expenditures	(5,932)	(6,426)
Acquisition of assets, net of cash acquired		(1,172)
Net cash used in investing activities	(5,932)	(7,598)
Cash Flows From Financing Activities		
Extinguishment of convertible debt	(17,320)	
Debt issuance costs	(256)	
Exercise of stock options and warrants		111
Net cash (used in) / provided by financing activities	(17,576)	111
Effect of foreign currency exchange rates on cash and cash equivalents	(2)	(48)
Net (decrease) / increase in cash and cash equivalents	(31,162)	4,102

Cash and cash equivalents at beginning of period		43,033		25,796
Cash and cash equivalents at end of period	$	11,871	$	29,898

See accompanying notes to consolidated condensed financial statements.

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 outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant stockholder received one fifth of one share 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 of Mindspeed common stock at a price of $17.04 per share, 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 accounting principles generally accepted 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 8), 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 October 3, 2008. We have evaluated the impact of subsequent events on these interim consolidated financial statements through August 10, 2009.

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 regain and sustain profitability and positive cash flows from operations, the Company may need to further reduce operating expenses and/or maintain increased revenues. During the first nine months of fiscal 2009, the Company initiated a series of cost reduction actions designed to improve its operating cost structure. These expense reductions alone may not allow the Company to return to the profitability it achieved in the fourth quarter of fiscal 2008. The Company s ability to achieve the necessary revenue growth to return to profitability 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 level of which may decrease due to general economic conditions, and uncertainty, over which the Company has no control. The Company may not be successful in achieving the necessary revenue growth or it may be unable to sustain past and future expense reductions in subsequent periods. The Company may not be able to regain or sustain profitability.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from product sales and the sale or licensing of 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, including the repayment of the remaining $10.5 million aggregate principal amount of senior convertible debt due in November 2009. 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), 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 on favorable terms, or at all, particularly in light of recent economic conditions in the capital markets.

Goodwill Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. The Company performs a two-step process on an annual basis, or more frequently if necessary, to determine 1) whether the fair value of the relevant reporting unit exceeds carrying value, and 2) to measure the amount of an impairment loss, if any. See Note 8 for a discussion of the impairment of goodwill recorded by the Company during the nine months ended July 3, 2009.

Intangible Assets, Net Intangible assets, net, consist of backlog and developed technology and are amortized on a straight-line basis over estimated useful lives of three months to five years. See Note 7 for a discussion of the impairment of certain intangible assets recorded by the Company during the nine months ended July 3, 2009.

Impairment of Long-Lived Assets The Company continually monitors events or changes in circumstances that could indicate that the carrying amount of long-lived assets to be held and used, including intangible assets, may not be recoverable. The determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. See Notes 7 and 8 for a discussion of the impairment of certain long-lived assets recorded by the Company during the nine months ended July 3, 2009. Other than the impairments discussed in Notes 7 and 8, no further impairments were identified by the Company.

Fiscal Periods The Company s interim fiscal quarters end on the thirteenth Friday of each quarter. The third quarter of fiscal 2009 and 2008 ended on July 3, 2009 and June 27, 2008, respectively.

Recent Accounting Standards In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value. This standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies the application of SFAS No. 157 in a market that is not active. On October 4, 2008, the Company adopted the provisions of SFAS No. 157 for financial assets and liabilities recognized or disclosed at fair value on a recurring and non-recurring basis and the provisions of FSP No. 157-3. Consistent with the provisions of FSP No. 157-2, the Company elected to defer the adoption of SFAS No. 157 for non-financial assets and liabilities measured at fair value on a non-recurring basis until October 3, 2009. The Company is in the process of evaluating these portions of the standard and therefore has not yet determined the impact that the adoption will have on its consolidated financial statements.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company s choice to use fair value on its earnings. It also requires a company to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new standard does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, Fair Value Measurements, and SFAS No. 107, Disclosures about Fair Value of Financial Instruments. On October 4, 2008 the Company adopted SFAS No. 159 but did not elect the fair value option for any additional financial assets or liabilities that it held at that date.

In June 2007, the FASB ratified Emerging Issues Task Force consensus on EITF Issue No. 07-3, Accounting for Non-refundable Advanced Payments for Goods or Services to be Used in Future Research and Development Activities. EITF Issue No. 07-3 requires that these payments be deferred and capitalized and expensed as goods are delivered or as the related services are performed. On October 4, 2008 the Company adopted EITF 07-3. The adoption did not have a material impact on the Company s financial condition or results of operations.

In April 2009, the FASB issued three related Staff Positions: (i) FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly, or FSP 157-4, (ii) SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, or FSP 115-2 and FSP 124-2, and (iii) SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, or FSP 107 and APB 28-1, which will be effective for interim and annual periods ending after June 15, 2009. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If the Company were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and it may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP 115-2 and FSP 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP 107 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. The adoption of these FSPs did not have a material impact on the Company s unaudited consolidated condensed financial statements.

In April 2009, the FASB issued FSP No. 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, or FSP 141R-1. FSP 141R-1 amends the provisions in Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. The FSP eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, or the Company s first quarter of fiscal 2010. The nature and magnitude of any impact of this FSP 141R-1 on the Company s consolidated financial statements will depend upon the nature, term and size of any acquired contingencies.

In May 2009, the FASB issued SFAS 165, Subsequent Events, which defined the period after the balance sheet date during which a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which a company shall recognize events or transactions occurring after the balance sheet date in its financial statements. This standard also requires a company to disclose the date through which subsequent events have been evaluated for recognition or disclosure in the financial statements. The Company has reflected the recognition and disclosure requirements of this standard in this Quarterly

Report on Form 10-Q.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS No. 168). SFAS No. 168 stipulates that the FASB Accounting Standards Codification is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard will not have a material impact on the Company s consolidated financial position and results of operations.

Income Taxes The provision for income taxes for the nine months ended July 3, 2009 and June 27, 2008 principally consists of income taxes incurred by the Company s foreign subsidiaries. In the first nine months of fiscal 2009, 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.

Concentrations Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents consist of demand deposits and money market funds maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with high credit quality financial institutions and therefore have minimal credit risk. The Company s trade accounts receivable primarily are derived from sales to manufacturers of network infrastructure equipment and electronic component distributors. Management believes that credit risks on trade accounts receivable are moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers financial condition and requires collateral, such as letters of credit and bank guarantees, whenever deemed necessary.

The following direct customers accounted for 10% or more of net revenues in the periods presented:

	Three months ended		Nine months ended	
	July 3, 2009	**June 27, 2008**	**July 3, 2009**	**June 27, 2008**
Customer A	10%	11%	15%	12%
Customer B	18%	10%	14%	7%
Customer C	14%	20%	13%	17%
Customer D	19%	10%	12%	6%

The following direct customers accounted for 10% or more of total accounts receivable at each period end:

	July 3, 2009	**Oct. 3, 2008**
Customer A	15%	9%
Customer B	32%	7%
Customer D	15%	3%
Customer E	12%	11%
Customer F	2%	20%

Supplemental Cash Flow Information Interest paid for the nine months ended July 3, 2009 and June 27, 2008 was $1.2 million and $1.7 million, respectively. Income taxes paid, net of refunds received, for the nine months ended July 3, 2009 and June 27, 2008 were $0.5 million and $56,000, respectively. Non-cash investing activities in the first nine months of fiscal 2009 consisted of the purchase of $0.1 million of property and equipment from suppliers on account as well as the license of $1.4 million of intellectual property on account. Non-cash investing activities in the first nine months fiscal 2008 consisted of the purchase of $0.8 million of property and equipment from suppliers on account. Assets acquired consists 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. (Ample Communications), which occurred in the fourth quarter of fiscal 2007.

Table of Contents

2. Supplemental Financial Statement Data

Inventories

Inventories consist of the following (in thousands):

	July 3, 2009	October 3, 2008
Work-in-process	$ 3,861	$ 8,620
Finished goods	7,663	7,567
Total inventories	$ 11,524	$ 16,187

The Company assesses the recoverability of inventories through an ongoing review of inventory levels in relation to sales backlog and forecasts, product marketing plans and product life cycles. When the inventory on hand exceeds the foreseeable demand, the value of inventory that at the time of the review is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value (generally zero). Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

The assessment of the recoverability of inventories, and the amounts of any write-downs, are based on currently available information and assumptions about future demand (generally over twelve months) and market conditions. Demand for the Company s 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. In the nine months ended July 3, 2009, the Company recorded a $1.1 million write-down of Carrier Ethernet inventory, related to the Ample Communications assets the Company acquired, due to a decrease in demand for these products.

The Company may retain and make available for sale some or all of the inventories which have been written down. In the event that actual demand is higher than originally projected, the Company may be able to sell a portion of these inventories in the future. The Company generally scraps inventories which have been written down and are identified as obsolete.

During the nine months ended July 3, 2009 and June 27, 2008, the Company sold inventories with an original cost of approximately $1.3 million and $1.1 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 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 $2.4 million). See Notes 7 and 8 for a discussion of the impairment of developed technology and goodwill recorded by the Company during the nine months ended July 3, 2009.

Deferred Income on Shipments to Distributors

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

	July 3, 2009	October 3, 2008
Deferred revenue on shipments to distributors	$ 3,149	$ 5,387
Deferred cost of inventory on shipments to distributors	(345)	(576)
Reserves	35	58
Deferred income on sales to distributors	$ 2,839	$ 4,869

Comprehensive Loss

Comprehensive loss is as follows (in thousands):

	Three months ended		Nine months ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net loss	$ (2,933)	$ (1,083)	$ (21,052)	$ (3,749)
Foreign currency translation adjustments	331	22	(303)	708
Comprehensive loss	$ (2,602)	$ (1,061)	$ (21,355)	$ (3,041)

The balance of accumulated other comprehensive loss at July 3, 2009 and October 3, 2008 consists of accumulated foreign currency translation adjustments.

Revenues by Category

Revenues by category are as follows (in thousands):

	Three months ended		Nine months ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Revenues by product line				
Multiservice access DSP products	$ 13,642	$ 13,748	$ 35,212	$ 33,205
High-performance analog products	9,998	10,921	28,679	31,649
WAN communications products	8,905	13,380	22,918	40,394
Total net product revenues	32,545	38,049	86,809	105,248
Intellectual property			5,000	4,350
Total net revenues	$ 32,545	$ 38,049	$ 91,809	$ 109,598

Revenues by Geographic Area

Revenues by geographic area, based upon country of destination, are as follows (in thousands):

	Three months ended		Nine months ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Americas	$ 6,989	$ 8,795	$ 28,042	$ 34,883
Asia-Pacific	23,192	24,891	54,389	60,728
Europe, Middle East and Africa	2,364	4,363	9,378	13,987
Total net revenues	$ 32,545	$ 38,049	$ 91,809	$ 109,598

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.

3. Fair Value Measurements

As discussed in Note 1, Recent Accounting Standards, on October 4, 2008, we adopted SFAS No. 157, Fair Value Measurements, for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that we recognize or disclose at fair value on a recurring basis (at least annually). As of the date of adoption, these included cash equivalents and convertible senior notes. Consistent with the provisions of FSP No. 157-2, we elected to defer the provisions of SFAS No. 157 that relate to non-financial assets and non-financial liabilities that we do not recognize or disclose at fair value on a recurring basis.

SFAS No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. The Company s Level 1 assets include investments in money market funds.

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data. The Company s Level 2 liabilities include convertible senior notes.

Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation. The Company does not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy.

The following table represents financial assets that we measured at fair value on a recurring basis. We have classified these assets and liabilities in accordance with the fair value hierarchy set forth in SFAS No. 157 (in thousands):

July 3, 2009	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value as of July 3, 2009
Assets:			
Cash equivalents	$ 11,871		$ 11,871
Liabilities:			
Senior convertible debt		$ 24,795	$ 24,795

October 3, 2008	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value as of July 3, 2009
Assets:			
Cash equivalents	$ 43,033		$ 43,033
Liabilities:			
Senior convertible debt		$ 41,161	$ 41,161

The following table sets forth the carrying amount and estimated fair values of financial assets and liabilities (in thousands).

	July 3, 2009	October 3, 2008

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash equivalents	$ 11,871	$ 11,871	$ 43,033	$ 43,033
Liabilities:				
Senior convertible debt	$ 25,459	$ 24,795	$ 46,000	$ 41,161

4. Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of 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.

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 July 3, 2009 and June 27, 2008 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	
	July 3, 2009	June 27, 2008
Weighted-average fair value of options granted	$ 1.07	$ 2.15
Weighted-average assumptions:		
Expected option life	2.8 years	3.3 years
Risk-free interest rate	1.4%	2.6%
Expected volatility	87%	65%
Dividend yield		

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	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Cost of goods sold	$ 18	$ 43	$ 67	$ 121
Research and development	211	450	651	1,762
Selling, general and administrative	473	603	1,478	2,240
Total stock-based compensation expense	$ 702	$ 1,096	$ 2,196	$ 4,123

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. As of July 3, 2009, an aggregate of 2.1 million shares of the Company s common stock were available for issuance under these plans. On March 10, 2009, the stockholders of the Company approved plan amendments that included an increase in the authorized number of shares reserved for issuance under the 2003 Long-Term Incentives Plan to approximately 6.7 million shares.

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 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 options are available for future option grants only in connection with an offer to exchange outstanding options for new options.

Table of Contents

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). On April 10, 2009, the Company offered current eligible employees of Mindspeed and its subsidiaries the right to exchange certain unexercised options to purchase shares of the Company s common stock. The offer period on the exchange program ended on May 15, 2009 at which time the Company exchanged 754,000 previously issued stock options for 250,000 new options with an exercise price of $1.70, the market price of the Company s common stock on that date. The Company has chosen to account for this transaction under the bifurcated approach and recorded an insignificant amount of incremental compensation expense in conjunction with this exchange.

The following table summarizes stock option activity under all plans (shares in thousands):

	Number of Shares	Weighted-Average Exercise Price		Weighted-Average Remaining Contractual Term
Outstanding at October 3, 2008	3,528	$	10.50	3.7 years
Granted	1,282	$	1.97	
Exercised		$		
Forfeited or expired	(1,639)	$	11.51	
Outstanding at July 3, 2009	3,171	$	6.53	5.2 years
Exercisable at end of period	1,358	$	11.44	2.7 years

As of July 3, 2009, there was unrecognized compensation expense of $2.0 million related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.4 years. The aggregate intrinsic value as of July 3, 2009 of options outstanding was $0.2 million and options exercisable was zero.

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.

Table of Contents

The following table summarizes restricted stock award activity (shares in thousands):

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at October 3, 2008	682	$ 6.69
Granted	208	$ 1.84
Vested	(418)	$ 5.98
Forfeited	(43)	$ 6.99
Nonvested shares at July 3, 2009	429	$ 4.50

The total fair value of shares vested during the nine months ended July 3, 2009 was $0.5 million. As of July 3, 2009 there was unrecognized compensation expense of $1.0 million related to unvested restricted stock awards, which the Company expects to recognize over a weighted-average period of one year.

5. Revolving Credit Facility and Convertible Senior Notes

Revolving Credit Facility

As of July 3, 2009, the Company was in compliance with all required covenants under our revolving credit facility and had no outstanding borrowings under the revolving credit facility.

3.75% Convertible Senior Notes due 2009

In December 2004, the Company sold $46.0 million aggregate principal amount of 3.75% convertible senior notes due 2009 for net proceeds (after discounts and commissions) of approximately $43.9 million. The notes are senior unsecured obligations of the Company, 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.

During the first quarter of fiscal 2009, the Company repurchased $20.5 million aggregate principal amount of its 3.75% convertible senior notes due in November 2009, for cash of $17.3 million. The repurchases occurred in two separate transactions on October 16 and October 23, 2008. The related debt discount and debt issuance costs totaling $0.3 million were written off. The repurchase resulted in a gain on debt extinguishment of $2.9 million. Following the completion of the repurchase, and the exchange discussed below, $10.5 million in aggregate principal amount of the 3.75% convertible senior notes remain outstanding.

6.50% Convertible Senior Notes due 2013

On July 30, 2008, the Company 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 $15.0 million of the existing notes agreed to exchange their notes for $15.0 million in aggregate principal amount of a new series of 6.50% convertible senior notes due 2013 (the new notes). The exchanges closed on August 1, 2008. The Company paid at the closing an aggregate of approximately $0.1 million in accrued and unpaid interest on the existing notes that were exchanged for the new notes, as well as approximately $0.9 million in transaction fees.

6. 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.

7. Asset Impairments and Other Charges

Included within cost of goods sold for the nine months ended July 3, 2009 are asset impairments and other charges totaling $3.7 million recorded in the second quarter of fiscal 2009. These charges include a $2.3 million write-down of the carrying value of developed technology related to the Company s acquisition of certain assets of Ample Communications in the fourth quarter of fiscal 2007. Management evaluated the recoverability of the assets related to Ample Communications to determine whether their value was impaired, based upon the future cash flows expected to be generated by the associated products over the remainder of their life cycles. Because the estimated undiscounted cash flows were less than the carrying value of the related assets, management determined that such assets were impaired. The Company recorded an impairment charge equal to the full book value of the assets by comparing the estimated fair value of the asset to their carrying value. The fair value was determined by computing the present value of the expected future cash flows using a discount rate of 20%, which management believes is commensurate with the underlying risks associated with the projected cash flows. Management believes the assumptions used in the discounted cash flow model represent a reasonable estimate of the fair value of the assets.

In addition, in the nine months ended July 3, 2009, asset impairments and other charges within cost of goods sold includes a $1.1 million write-down of Ample Communications related inventory due to a decrease in demand for these products recorded during the second quarter of fiscal 2009. The Company assesses the recoverability of its 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, the Company writes down the value of those inventories which, at the time of its review, the Company expects to be unable to sell. The amount of the inventory write-down is the excess of historical cost over estimated realizable value (generally zero). Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

Also, in the second quarter of fiscal 2009, the Company recorded other asset impairments within cost of goods sold totaling $0.3 million associated with manufacturing related property and equipment that the Company determined to abandon or scrap.

8. Special Charges

Special charges consist of the following (in thousands):

	Three months ended		Nine months ended	
	July 3, 2009	**June 27, 2008**	**July 3, 2009**	**June 27, 2008**
Asset impairments	$	$	$ 2,865	$
Restructuring charges	9	110	4,031	284
Total special charges	$ 9	$ 110	$ 6,896	$ 284

Asset Impairments

Asset impairments totaling $2.9 million were recorded during the nine months ended July 3, 2009. Included in this amount are asset impairment charges totaling $0.5 million related to software and property and equipment that the Company determined to abandon or scrap, as well as asset impairment charges totaling $2.4 million to write-down the carrying value of goodwill related to the Company s acquisition of certain assets of Ample Communications in the fourth quarter of fiscal 2007.

The Company tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. Goodwill is tested for impairment using a two-step process. In the first step, the fair value of a reporting unit, determined at the component level, is compared to its carrying value. If the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, the second step of the impairment test is performed in order to determine the implied fair value of a reporting unit s goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference.

Table of Contents

In the second quarter of fiscal 2009, the Company s Ample Communications reporting unit experienced a severe decline in sales and profitability due to a significant decline in demand that the Company believes was a result of the downturn in global economic conditions as well as a bankruptcy filed by the reporting unit s most significant customer. The drop in market demand resulted in significant declines in unit sales. Due to these market and economic conditions, the Company s Ample Communications reporting unit has experienced a significant decline in market value. As a result, the Company concluded that there were sufficient factual circumstances for interim impairment analyses under SFAS No. 142. Accordingly, in the second quarter of fiscal 2009, the Company performed an assessment of goodwill for impairment. Based on the results of the Company s assessment of goodwill for impairment, it was determined that the carrying value of the Ample Communications reporting unit exceeded its estimated fair value. Therefore, the Company performed a second step of the impairment test to estimate the implied fair value of goodwill. The required analysis indicated that there would be no remaining implied value attributable to goodwill in the Ample Communications reporting unit and, accordingly, the Company impaired the entire goodwill balance of $2.4 million.

In the first step of the impairment analysis, the Company performed valuation analyses utilizing both income and market approaches to determine the fair value of its reporting units. Under the income approach, the Company determined the fair value based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the projected cash flows and the rate of return an outside investor would expect to earn. Estimated future cash flows were based on the Company s internal projection models, industry projections and other assumptions deemed reasonable by management. Under the market-based approach, the Company derived the fair value of its Ample Communications reporting unit based on revenue multiples of comparable publicly-traded peer companies. In the second step of the impairment analysis, the Company determined the implied fair value of goodwill for the Ample Communications reporting unit by allocating the fair value of the reporting unit to all of its assets and liabilities in accordance with SFAS No. 141, Business Combinations, as if the reporting unit had been acquired in a business combination and the price paid to acquire it was the fair value.

Restructuring Charges

Mindspeed Second Quarter Fiscal 2009 Restructuring Plan In the second quarter of fiscal 2009, the Company announced the implementation of cost reduction measures with most of the savings expected to be derived from focused reductions in the areas of sales, general and administrative and wide area networking communication spending, including the closure of its Dubai facility. In the first nine months of fiscal 2009, the Company incurred special charges of $1.1 million to this restructuring primarily related to severance costs for affected employees. As of the end of the third quarter of fiscal 2009, this restructuring plan was substantially complete and the Company does not expect to incur significant additional costs related to this restructuring plan in future periods.

Activity and liability balances related to the second quarter fiscal 2009 restructuring plan through July 3, 2009 are as follows (in thousands):

	Workforce Reductions	Facility Other	Total
Charged to costs and expenses	$ 1,047	$ 87	$ 1,134
Cash payments	(839)		(839)
Non-cash charges		(87)	(87)
Restructuring balance, July 3, 2009	$ 208	$	$ 208

The remaining accrued restructuring balance principally represents employee severance benefits. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2010. The Company can provide no assurances that the actual costs and timing of this plan will approximate these estimates.

M*indspeed First Quarter Fiscal 2009 Restructuring Plan* During the first quarter of fiscal 2009, the Company implemented a restructuring plan under which it reduced its workforce by approximately 6%. In connection with this reduction in workforce, in the first nine months of 2009, the Company recorded a charge of $2.4 million for severance benefits payable to the affected employees. In December 2008, the Company vacated approximately 70% of its Massachusetts facility and recorded a charge related to contractual obligations on this space of approximately $0.4 million. As of the end of the third quarter of fiscal 2009, this restructuring plan was substantially complete and the Company does not expect to incur significant additional costs related to this restructuring plan in future periods. Activity and liability balances related to the first quarter fiscal 2009 restructuring plan through July 3, 2009 are as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Charged to costs and expenses	$ 2,405	$ 368	$ 2,773
Cash payments	(1,823)	(143)	(1,966)
Non-cash charges	(3)	(92)	(95)
Restructuring balance, July 3, 2009	$ 579	$ 133	$ 712

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 2011. The Company can provide no assurances that the actual costs and timing of this plan will approximate these estimates.

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

The remaining accrued restructuring balance under these initiatives is $0.1 million at July 3, 2009 and principally represents obligations under a non-cancelable lease and a settlement with a former employee. The Company expects to pay these obligations in the fourth quarter of fiscal 2009. Activity under these initiatives was minimal in the first nine months of fiscal 2009.

9. Related Party Transactions

The Company leases its headquarters and principal design center in Newport Beach, California from Conexant. For the nine months ended July 3, 2009 and June 27, 2008 rent and operating expenses paid to Conexant were $3.9 million and $5.1 million, respectively. At both July 3, 2009 and October 3, 2008, the Company had a liability to Conexant of $0.2 million associated with such lease.

10. Subsequent Events

On August 9, 2009, the Company adopted a stockholder rights agreement (the Rights Agreement) in an effort to help preserve the Company s ability to fully utilize its net operating loss carryforwards by reducing the likelihood of an ownership change as defined by Section 382 of the Internal Revenue Code (Section 382). An ownership change would occur if stockholders, deemed under Section 382 to own 5% or more of the Company s stock by value, increase their collective ownership of the aggregate amount of the Company s stock by more than 50 percentage points over a defined period of time. The Rights Agreement is intended to act as a deterrent to any person or group acquiring, without the approval of the Company s Board of Directors, beneficial ownership of 4.9% or more of the Company s stock. The Rights Agreement will continue in effect until August 9, 2012, unless it is terminated or redeemed earlier by the Board of Directors.

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 October 3, 2008.

Overview

Mindspeed Technologies, Inc. (we or Mindspeed) designs, develops and sells 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 digital signal processor (DSP) 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. Ltd., LM Ericsson Telephone Company, Nokia Siemens Networks 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 44% of our revenues for the first nine months of fiscal 2009 and 55% of our revenues for the first nine months of fiscal 2008. Sales to customers located outside the U.S., primarily in the Asia-Pacific region and Europe, were approximately 75% of our net revenues for the first nine months of fiscal 2009 and 73% of our net revenues for the first nine months of fiscal 2008. We believe a 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 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 $38.5 million on research and development in the first nine months of fiscal 2009 and $42.2 million on research and development in the first nine months of fiscal 2008. 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 intellectual property. We recognized our first revenues from the sale of patents during the fourth quarter of fiscal 2007. We anticipate continuing this intellectual property strategy in future periods.

23

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. 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 hav