

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

August 08, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 29, 2012

OR

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

Commission file number: 001-31650

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

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 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 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (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 27, 2012 was 41,490,059.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements (including certain projections and business trends) relating to Mindspeed Technologies, Inc. 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, assume 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:

our expectations regarding the achievement of the potential earnout payments and the collectability of accounts receivable acquired in connection with our acquisition of picoChip Inc. and its wholly owned subsidiaries;

our belief that the disposition of certain legal proceedings will not have a material adverse effect on our financial condition or results of operations;

our plans to maintain our position in the 3G small cell base station market as the small cell base station market transitions to dual-mode 3G/4G and 4G-only products;

the ability of our relationships with leading 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 existing networks and the build-out of networks in developing countries;

our belief that our diverse portfolio of semiconductor solutions has positioned us to capitalize on some of the most significant trends in telecommunications spending;

our belief that we are well-situated in China and that fiber deployments are being rolled out by the country's major telecommunications carriers;

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 growth markets;

the increasing trend toward industry consolidation and the effect it could have on our operating results;

the sufficiency of our cash balances, along with cash expected from product sales and our revolving credit facility, to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements, including interest payments on debt obligations, for the next 12 months;

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

our restructuring plans, including timing, expected workforce reductions, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments, the impact on our business, the amounts of future charges to complete our restructuring plans, including any future plans to reduce operating expenses and/or increase revenue;

our intention to continue to expand our international business activities, including expansion of design and operations centers abroad, and the challenges associated with such expansion;

Table of Contents

our expectations regarding the cyclical nature of the semiconductor industry; 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:

worldwide political and economic uncertainties and specific conditions in the markets we address;

fluctuations in our operating results and future operating losses;

our acquisition of picoChip Inc. and its wholly owned subsidiaries;

cash requirements and terms and availability of financing;

constraints in the supply of wafers and other product components from our third-party manufacturers;

successful development and introduction of new products;

pricing pressures and other competitive factors;

loss of or diminished demand from one or more key customers or distributors;

doing business internationally and our ability to successfully and cost effectively establish and manage operations in foreign jurisdictions;

the expense of and our ability to defend our intellectual property against infringement claims by others;

lengthy sales cycles;

our ability to attract and retain qualified personnel;

order and shipment uncertainty;

our ability to obtain design wins and develop revenue from them;

product defects and bugs;

business acquisitions and investments; and

our ability to utilize our net operating loss carryforwards and certain other tax attributes.

The forward-looking statements in this report are subject to additional risks and uncertainties, including those set forth in Part II, Item 1A 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
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Consolidated Condensed Balance Sheets June 29, 2012 and September 30, 2011</u>	5
<u>Consolidated Condensed Statements of Operations Three Months and Nine Months Ended June 29, 2012 and July 1, 2011</u>	6
<u>Consolidated Condensed Statements of Cash Flows Nine Months Ended June 29, 2012 and July 1, 2011</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	47
<u>Item 4. Controls and Procedures</u>	47
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	48
<u>Item 1A. Risk Factors</u>	48
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	62
<u>Item 3. Defaults upon Senior Securities</u>	62
<u>Item 4. Mine Safety Disclosures</u>	62
<u>Item 5. Other Information</u>	62
<u>Item 6. Exhibits</u>	63
<u>Signature</u>	66

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MINDSPEED TECHNOLOGIES, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS****(unaudited, in thousands, except par value)**

	June 29, 2012	September 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 55,138	\$ 45,227
Receivables, net of allowance for doubtful accounts of \$494 at June 29, 2012 and \$376 at September 30, 2011	14,875	13,393
Inventories	9,721	14,216
Prepaid expenses and other current assets	10,810	3,067
Total current assets	90,544	75,903
Property, plant and equipment, net	16,000	15,369
Intangible assets, net	34,036	17,357
Goodwill	57,167	
Other assets	3,213	1,982
Total assets	\$ 200,960	\$ 110,611
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 8,017	\$ 5,532
Accrued compensation and benefits	7,113	7,292
Accrued income taxes	724	690
Deferred income on sales to distributors	4,787	5,346
Deferred revenue	2,727	653
Restructuring	269	944
Line of credit - current	5,490	
Short-term debt	375	
Contingent consideration	2,761	
Other current liabilities	9,396	5,100
Total current liabilities	41,659	25,557
Line of credit - long-term	8,000	
Long-term debt	59,727	14,216
Other liabilities	6,567	1,426
Total liabilities	115,953	41,199
Commitments and contingencies (Note 7)		
Stockholders Equity		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding	415	345

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

Common stock, \$0.01 par value, 100,000 shares authorized; 41,492 (June 29, 2012) and 34,515 (September 30, 2011) issued and outstanding shares		
Additional paid-in capital	369,200	326,863
Accumulated deficit	(284,447)	(257,756)
Accumulated other comprehensive loss	(161)	(40)
Total stockholders' equity	85,007	69,412
Total liabilities and stockholders' equity	\$ 200,960	\$ 110,611

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 29, 2012	July 1 2011	June 29, 2012	July 1 2011
Net revenue:				
Products	\$ 35,451	\$ 42,216	\$ 104,151	\$ 118,812
Intellectual property			591	2,500
Total net revenue	35,451	42,216	104,742	121,312
Cost of goods sold	18,186	15,967	47,244	44,531
Gross margin	17,265	26,249	57,498	76,781
Operating expenses:				
Research and development	18,105	15,077	50,853	43,525
Selling, general and administrative	11,610	11,034	34,020	31,324
Acquisition-related costs	680		3,748	
Restructuring charges	78		1,350	(18)
Total operating expenses	30,473	26,111	89,971	74,831
Operating (loss)/income	(13,208)	138	(32,473)	1,950
Interest expense	(849)	(398)	(1,808)	(1,195)
Other income, net	7,368	928	7,979	1,187
(Loss)/income before income taxes	(6,689)	668	(26,302)	1,942
Provision for income taxes	165	204	387	538
Net (loss)/income	\$ (6,854)	\$ 464	\$ (26,689)	\$ 1,404
Net (loss)/income per share:				
Basic	\$ (0.18)	\$ 0.01	\$ (0.74)	\$ 0.04
Diluted	\$ (0.18)	\$ 0.01	\$ (0.74)	\$ 0.04
Weighted-average number of shares used in per share computation:				
Basic	38,784	32,400	35,992	32,147
Diluted	38,784	33,390	35,992	33,144

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	
	June 29, 2012	July 1 2011
Cash Flows From Operating Activities		
Net (loss)/income	\$ (26,689)	\$ 1,404
Adjustments required to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	4,793	3,969
Amortization of intangible assets	2,403	1,716
Asset impairment	3,399	
Revaluation of contingent consideration	(7,277)	
Restructuring charges/(recoveries)	1,350	(18)
Stock-based compensation	8,653	4,023
Inventory provision	1,434	575
Amortization of debt discount and issuance costs	457	325
Other non-cash items, net	(36)	242
Changes in assets and liabilities, net of acquisitions:		
Receivables	(203)	9,141
Inventories	5,000	(10,782)
Other assets, net	(3,942)	2,169
Accounts payable	(1,840)	495
Deferred income on sales to distributors	(559)	980
Accrued restructuring charges	(2,026)	(569)
Accrued compensation and benefits	(4,098)	(4,128)
Accrued expenses and other current liabilities	(2,001)	730
Other liabilities, net	5,503	134
Net cash (used in)/provided by operating activities	(15,679)	10,406
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(3,132)	(5,849)
Payments under license agreements	(9,560)	(6,819)
Net cash paid for business acquisition	(20,096)	(100)
Net cash used in investing activities	(32,788)	(12,768)
Cash Flows From Financing Activities		
Payments made on capital lease obligations	(417)	(402)
Borrowings under term loan	15,000	
Borrowings under line of credit	14,807	
Borrowings under convertible debt	30,560	
Payments made on line of credit	(1,317)	
Deferred financing costs	(932)	
Repurchase of restricted stock for income tax withholding	(1,295)	(362)
Proceeds from equity compensation programs	2,046	2,666
Net cash provided by financing activities	58,452	1,902
Effect of foreign currency exchange rates on cash	(74)	2

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

Net increase/(decrease) in cash and cash equivalents	9,911	(458)
Cash and cash equivalents at beginning of period	45,227	43,685
Cash and cash equivalents at end of period	\$ 55,138	\$ 43,227

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 solutions for communications applications in the wireline and wireless network infrastructure equipment, which includes broadband access networks (fixed and mobile), enterprise networks and metropolitan and WAN (fixed and mobile) networks.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All intercompany 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 restructuring charges (Note 9), necessary to present fairly the Company's financial position, results of operations and cash flows in accordance with GAAP. 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 30, 2011.

Fiscal Periods The Company's interim fiscal quarters end on the thirteenth Friday of each quarter. The third quarter of fiscal 2012 and 2011 ended on June 29, 2012 and July 1, 2011, respectively.

Reclassifications Amounts previously reported in the three and nine months ended July 1, 2011 have been corrected to reclassify \$954,000 and \$1.3 million, respectively, of refundable tax credits from the provision for income taxes to other income, net.

Recent Accounting Standards There have been no accounting pronouncements since the filing of the Company's Annual Report on Form 10-K, filed on November 18, 2011, that the Company expects will have a material impact on its unaudited consolidated condensed financial statements.

Significant Accounting Policies There were no significant changes to the Company's significant accounting policies disclosed in its Annual Report on Form 10-K, filed on November 18, 2011, for the fiscal year ended September 30, 2011, other than the addition of the following policies due to the acquisition of picoChip Inc. and its wholly owned subsidiaries (picoChip) on February 6, 2012.

Business Combinations - The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. The Company determines the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. The Company adjusts the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as it obtains more information as to facts and circumstances existing at the acquisition date impacting asset valuations and liabilities assumed. Goodwill acquired in business combinations is assigned to the reporting unit expected to benefit from the combination as of the acquisition date. Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred.

Goodwill and Other Long-Lived Assets - Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the acquired net tangible and intangible assets. Other long-lived assets include the acquired intangible assets of developed technology, trademarks and trade names, customer relationships and in-process research and development, or IPR&D. The Company currently amortizes its acquired intangible assets with definite lives over periods ranging from one to twelve years using a method that reflects the

Table of Contents

pattern in which the economic benefits of the intangible asset are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. The Company capitalizes IPR&D projects acquired as part of a business combination. On completion of each project, IPR&D assets will be reclassified to developed technology and amortized over their estimated useful lives.

Impairment of Goodwill and Other Long-Lived Assets - The Company will evaluate goodwill on an annual basis as of the end of the tenth month of each fiscal year or more frequently if it believes indicators of impairment exist.

The Company will first assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount. If the Company concludes that it is more likely than not that the fair value of its reporting unit is less than its carrying amount, the Company will conduct a two step goodwill impairment test. The first step of the impairment test involves comparing the fair value of its reporting unit with its carrying value. The Company determines the fair value of its reporting unit using the income valuation approach, as well as other generally accepted valuation methodologies. If the carrying amount of its reporting unit exceeds its reporting unit's fair value, the Company performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of its reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, will be recognized as an impairment loss.

During development, IPR&D is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value to its carrying amount. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Once an IPR&D project is complete, it becomes a definite long-lived intangible asset and is evaluated for impairment in accordance with the Company's policy for the impairment of long-lived assets.

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

Inventories consisted of the following:

	June 29, 2012	September 30, 2011
	(in thousands)	
Work-in-process	\$ 3,720	\$ 6,200
Finished goods	6,001	8,016
Total inventories	\$ 9,721	\$ 14,216

Intangible Assets, Net

Intangible assets, net, consisted of licensed and acquired intangibles.

Licensed intangibles consisted mainly of licenses of intellectual property. As of June 29, 2012, licensed intangibles were \$20.2 million, net of accumulated amortization of \$6.8 million.

Table of Contents

Amortization of licensed intangible assets included in costs of goods sold was as follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
	(in thousands)			
Amortization expense of licensed intangibles	\$ 595	\$ 581	\$ 1,835	\$ 1,716

Acquired intangibles consisted of the following:

	June 29, 2012			Weighted-Average Useful Life (in years)
	Gross	Accumulated Amortization (in thousands)	Net	
Trade names and trademarks	\$ 310	\$ 84	\$ 226	1.5
Developed technology	11,800	398	11,402	12
Customer relationships	1,500	86	1,414	7
In-process research and development	800		800	Indefinite
	\$ 14,410	\$ 568	\$ 13,842	

Amortization of acquired intangible assets included in the costs of goods sold and operating expense categories was as follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
	(in thousands)			
Cost of goods sold	\$ 246	\$	\$ 398	\$
Selling, general and administrative	106		171	
	\$ 351	\$	\$ 568	\$

Estimated future amortization of existing acquired intangible assets, excluding IPR&D, is as follows:

	Purchased Intangible Assets Amortization by Fiscal Year						Total
	2013	2014	2015	2016	2017	Thereafter	
	(in thousands)						
Cost of goods sold	\$ 983	\$ 983	\$ 983	\$ 983	\$ 983	\$ 6,241	\$ 11,156
Selling, general and administrative	389	214	214	214	214	289	1,534
	\$ 1,372	\$ 1,197	\$ 1,197	\$ 1,197	\$ 1,197	\$ 6,530	\$ 12,690

Table of Contents**Goodwill**

The change in the carrying amount of goodwill from fiscal 2011 is as follows:

	Goodwill (in thousands)
Balance as of September 30, 2011	\$
Goodwill as a result of picoChip acquisition	57,167
Balance as of June 29, 2012	\$ 57,167

Deferred Income on Sales to Distributors

Deferred income on sales to distributors was as follows:

	June 29, 2012	September 30, 2011
	(in thousands)	
Deferred revenue on shipments to distributors	\$ 5,152	\$ 5,799
Deferred cost of goods sold on shipments to distributors	(406)	(503)
Reserves	41	50
Deferred income on sales to distributors	\$ 4,787	\$ 5,346

Other Liabilities

Details of other liabilities were as follows:

	June 29, 2012	September 30, 2011
	(in thousands)	
<i>Current</i>		
Deferred rent	\$ 842	\$ 617
Capital lease obligations	392	459
Accrued royalties	510	429
Accrued license fees	935	1,446
Escrow payable	3,491	
Accrued professional fees	1,230	470
Other	1,996	1,679
Total other current liabilities	\$ 9,396	\$ 5,100
<i>Long-term</i>		
Deferred rent	\$ 4,334	\$
Capital lease obligations	77	111
Accrued license fees	1,426	305
Other	730	1,010

Total other liabilities	\$ 6,567	\$ 1,426
-------------------------	----------	----------

Table of Contents**Computation of Net (Loss)/ Income Per Share**

The following table presents the computation of net (loss)/income per share:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands, except per share amounts)			
Net (loss)/income per share - basic				
Net (loss)/income	\$ (6,854)	\$ 464	\$ (26,689)	\$ 1,404
Basic weighted average common shares outstanding	38,784	32,400	35,992	32,147
Net (loss)/income per share - basic	\$ (0.18)	\$ 0.01	\$ (0.74)	\$ 0.04
Basic weighted average common shares outstanding	38,784	32,400	35,992	32,147
Effect of dilutive securities:				
Dilutive stock awards		990		997
Dilutive employee stock purchase plan shares				
Diluted weighted average common shares outstanding	38,784	33,390	35,992	33,144
Net (loss)/income per share - diluted	\$ (0.18)	\$ 0.01	\$ (0.74)	\$ 0.04

The following table presents the number of potentially dilutive shares of the Company's common stock excluded from the computation of diluted net (loss)/income per share as their effect would have been anti-dilutive:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
6.75% convertible senior notes	8,205		8,205	
6.50% convertible senior notes	3,165	3,165	3,165	3,165
Stock awards	4,323	2,364	3,546	2,042
Employee stock purchase plan shares	38	19	38	19
Warrants	6,109	6,109	6,109	6,109
Anti-dilutive common shares	21,840	11,657	21,063	11,335

Table of Contents**Comprehensive (Loss)/Income**

Comprehensive (loss)/income was as follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
Net (loss)/income	\$ (6,854)	\$ 464	\$ (26,689)	\$ 1,404
Foreign currency translation adjustments, net of tax	(33)	32	(121)	66
Comprehensive (loss)/income	\$ (6,887)	\$ 496	\$ (26,810)	\$ 1,470

Net Revenue by Product Line

Net revenue by product line was as follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
Communications convergence processing products	\$ 14,496	\$ 18,917	\$ 44,631	\$ 51,111
High-performance analog products	16,845	15,488	46,846	44,541
WAN communications products	4,110	7,811	12,674	23,160
Intellectual property			591	2,500
Total net revenue	\$ 35,451	\$ 42,216	\$ 104,742	\$ 121,312

Net Revenue by Geographic Area

Revenue by geographic area, based upon country of destination, was as follows:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
Americas	\$ 6,240	\$ 6,850	\$ 17,906	\$ 26,678
Asia-Pacific	26,790	31,725	79,728	84,310
Europe, Middle East and Africa	2,421	3,641	7,108	10,324
Total net revenue	\$ 35,451	\$ 42,216	\$ 104,742	\$ 121,312

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.

Table of Contents**Supplemental Cash Flow Information**

Non-cash investing and financing activities consisted of the following:

	Nine Months Ended	
	June 29, 2012	July 1 2011
	(in thousands)	
Purchase of property and equipment through capital leasing arrangements	\$ 113	\$
Contingent consideration payable in connection with business acquisition	10,038	
Purchase of property and equipment on account		943
License of intellectual property on account	1,680	2,843
Issuance of equity in a business acquisition	33,791	

Customer Concentrations

The following direct customers and/or distributors accounted for 10% or more of net revenue in the periods presented:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
Customer A	20.3%	18.1%	21.1%	17.4%
Customer B	29.3%	28.5%	24.5%	23.9%
Customer C	5.2%	10.6%	7.0%	8.2%

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

	June 29, 2012	September 30, 2011
Customer A	21.7%	28.3%
Customer B	19.9%	4.4%

3. Business Combination

On February 6, 2012, the Company completed the acquisition of picoChip and its wholly owned subsidiaries (picoChip). picoChip is a supplier of integrated system-on-chip (SoC) solutions for small cell base stations. The acquisition will expand the small cell base station product portfolio of the Company, which addresses the next generation mobile broadband communications infrastructure. Pursuant to the terms of the acquisition agreement, all of picoChip's outstanding shares were converted into the right to receive consideration consisting of cash and shares of the Company's common stock.

The acquisition-date fair value of the consideration transferred totaled \$64.3 million, which consisted of the following:

	Fair Value of Consideration Transferred (in thousands)
Cash	\$ 20,479
Common stock	33,791
Contingent consideration	10,038
Total	\$ 64,308

Table of Contents

The Company paid \$26.7 million (less certain deductions) in cash and issued an aggregate of approximately 5.2 million shares of the Company's authorized common stock, par value \$0.01 per share, to the stockholders of picoChip. The issuance of the approximate 5.2 million shares was valued based on the Company's closing common stock price on the acquisition's closing date.

The \$26.7 million of cash consideration was reduced by \$6.7 million of assumed liabilities, which primarily consisted of accrued employee bonuses, management transaction bonuses, direct costs of the acquisition incurred by picoChip that remained unpaid as of the acquisition's closing date, an estimated closing net asset adjustment and other liabilities pursuant to the acquisition agreement. The reduction in cash consideration was partially offset by \$383,000, which represented the amount of picoChip's cash on hand immediately prior to the close of the acquisition. The cash consideration transferred upon the close of the acquisition was \$20.5 million, of which, \$14.3 million was deposited into an escrow account and a majority of the remaining \$6.2 million was used to pay the remainder of picoChip's outstanding debt. Claims against the escrow account can be made until June 30, 2013, which is subject to extension if outstanding claims against the escrow remain unresolved at that date. Due to the nature of the escrow account, the cash portion of the consideration transferred has been determined only provisionally and is subject to change pending the outcome of potential escrow claims. Such changes to the aggregate purchase price may change goodwill.

The Company may also become obligated to make additional earnout payments, contingent on the achievement of milestones relating to: (i) revenue associated with sales of certain picoChip products for the period beginning on the closing of the acquisition and ending on December 31, 2012; and (ii) product and business development milestones. The maximum amount payable upon achievement of the revenue and development milestones is \$25.0 million. Earnout payments, if any, will be paid in the first quarter of calendar year 2013 and may be made in the form of cash, stock or any combination thereof at the discretion of the Company.

The maximum earnout payments related to the revenue milestone is \$13.0 million based on a 1.3x multiple of picoChip revenue generated in excess of \$25.0 million between the close of the acquisition and December 31, 2012. The Company does not expect picoChip revenue will meet this minimum revenue amount in calendar year 2012. As such, no value has been ascribed to this portion of the earnout.

The remaining potential earnout payments consist of a business development earnout payment of \$7.0 million and two product development earnout payments, which are each \$2.5 million. At the acquisition date, the Company estimated that these earnout payments would be made based on then existing facts and circumstances. The estimated fair value of these earnouts was determined by applying a discount rate to reflect the risk of the underlying conditions not being satisfied such that no payment would be due. During the third quarter of fiscal 2012, the Company determined that the business development milestone would not be achieved due to unforeseen changes in the competitive landscape and therefore reduced the earnout's fair value from \$6.3 million to zero. Although one of the product development milestones has been achieved, the Company has reduced the probability that the second product development milestone will be achieved within the required timeframe to result in payment and has therefore reduced the product development earnouts' fair value from a total of \$4.5 million to \$3.6 million. The Company continues to apply a discount rate in determining the fair value of the second product development earnout in order to reflect the risk of the underlying conditions not being satisfied such that no payment would be due. A risk-free rate was applied to the first product development earnout to account for the time until payment is made.

The Company has the right to offset its earnout payments with certain employee termination liabilities incurred subsequent to the close of the acquisition. The Company also has the right to offset the product development earnout with certain expenses incurred by the Company subsequent to the close of the acquisition in order to achieve the product development earnout. The estimated employee termination liabilities and costs to be incurred to achieve the product development earnout as of the close of the acquisition have been discounted at a risk-free rate because the Company will not realize the benefit of these reductions to earnout payments until the earnout payments have been made. As of June 29, 2012, the offsetting employee termination expenses and costs expected to be incurred to achieve the product development earnout were estimated to be \$859,000.

The total fair value of consideration transferred for the acquisition was allocated to the preliminary net tangible and intangible assets based upon their estimated fair values as of the date of the acquisition. The excess of the purchase

Table of Contents

price over the preliminary net tangible and intangible assets was recorded as goodwill. The acquisition transaction was a stock purchase in which the income tax attributes of picoChip carryover to the Company. The estimated deferred income tax attributes of picoChip, after establishment of deferred income tax liabilities associated with the step-up of the fair values of the net assets acquired over their pre-acquisition tax basis, resulted in a net deferred income tax asset. Given picoChip's history of reporting net losses, management concluded that realization of the net deferred income tax asset acquired is not more likely than not and therefore a valuation allowance was established to offset the entire net deferred income tax asset. As a result, deferred income taxes are not reflected in the table below. The Company's allocation of the purchase price is preliminary as it is still finalizing the amounts related to identifiable intangible assets, deferred revenues, accrued liabilities and the effects of income taxes resulting from the transaction. Any measurement period adjustments will be recorded retrospectively to the acquisition date. During the third quarter of fiscal 2012, the Company reduced goodwill by \$472,000 due to a decrease in assumed liabilities. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

	At February 6, 2012 (in thousands)
Assets acquired:	
Cash and cash equivalents	\$ 383
Receivables	1,401
Inventories	1,939
Prepaid expenses and other current assets	4,230
Capital lease	178
Property, plant and equipment, net	2,475
Intangible assets	
Trade names and trademarks	310
Developed technology	11,800
Customer relationships	1,500
In-process research and development	800
Goodwill	57,167
Total assets acquired	\$ 82,183
Liabilities assumed:	
Accounts payable	\$ 4,904
Accrued compensation and benefits	3,215
Deferred revenue	2,890
Other current liabilities	6,663
Capital lease obligation	203
Total liabilities assumed	\$ 17,875
Purchase price	\$ 64,308

As a result of the acquisition, the Company holds a presence in the 3G small cell base station market and plans to maintain this position as the small cell base station market transitions to dual-mode 3G/4G and 4G-only products. The goodwill recognized is therefore attributable primarily to revenue from future new products and the market opportunity of delivering a more complete portfolio of small cell solutions spanning residential to enterprise and metro product segments. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of accounts receivables acquired was \$1.4 million, with the gross contractual amount being \$1.5 million. The Company expects approximately \$105,000 to be uncollectible.

The fair value of trade names and trademarks and customer relationships was capitalized as of the acquisition date and will be subsequently amortized using a straight-line method to selling, general and administrative expenses over their estimated period of use of 18 months and seven years, respectively. The fair value of developed technology was capitalized as of the acquisition date and will be subsequently amortized using a straight-line method to cost of products sold over the estimated remaining life of 12 years.

Table of Contents

The Company incurred \$3.7 million of acquisition-related costs to date, of which, \$680,000 and \$3.7 million was expensed, respectively, in Acquisition-related costs in the three and nine fiscal months ended June 29, 2012.

The amount of net revenue and net loss of picoChip included in the Company's unaudited consolidated condensed statements of operations from the acquisition date to the three and nine fiscal months ended June 29, 2012 were as follows:

	Three Months Ended June 29, 2012	Nine Months Ended June 29, 2012
	(in thousands)	
Net revenue	\$ 3,845	\$ 5,905
Net loss	\$ (4,702)	\$ (8,995)

Supplemental Pro Forma Data (Unaudited)

The unaudited pro forma statements of operations data below gives effect to the acquisition, described above, as if it had occurred at October 2, 2010. These amounts have been calculated after applying the Company's accounting policies and adjusting the results of picoChip to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to inventory, property, plant and equipment and intangible assets and additional interest expense on acquisition-related borrowings had been applied and incurred since October 2, 2010. The supplemental pro forma earnings for the nine months ended June 29, 2012 were adjusted to exclude \$4.3 million of professional and transaction-related fees and \$892,300 of restructuring charges incurred in the second and third quarters of fiscal 2012. The supplemental pro forma earnings for the nine months ended July 1, 2011 were adjusted to include these charges. This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of future operations.

	Three Months Ended June 29, 2012	July 1, 2011	Nine Months Ended June 29, 2012	July 1, 2011
	(in thousands)			
Net revenue	\$ 35,451	\$ 45,212	\$ 104,742	\$ 136,451
Net loss	\$ (6,322)	\$ (5,643)	\$ (21,863)	\$ (17,632)

Included in net loss are operating expenses incurred by the picoChip team, nearly half of which related to product engineering of Mindspeed's dual mode Transcede® family of products.

4. Fair Value Measurements

On October 4, 2008, the Company adopted certain provisions under ASC 820, Fair Value Measurements and Disclosures, 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.

ASC 820 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. ASC 820 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.

Table of Contents

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.

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.

In May 2011, the FASB issued additional guidance on fair value measurements that clarified the application of existing guidance and disclosure requirements, changed certain fair value measurement principles and required additional disclosures about fair value measurements. The updated guidance was effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of these provisions did not have a material impact on the Company's unaudited consolidated condensed financial statements.

The following table represents the Company's assets and liabilities subject to fair value measurements on a recurring basis and hierarchy in accordance with ASC 825, Financial Instruments, and ASC 820:

	Fair Value as of June 29, 2012	Fair Value Measurements at June 29, 2012 Using Fair Value Hierarchy		
		Level 1 (in thousands)	Level 2	Level 3
Assets				
Money market fund	\$ 41,029	\$ 41,029	\$	\$
Assets at fair value	\$ 41,029	\$ 41,029	\$	\$
Liabilities				
Contingent consideration	\$ 2,761	\$	\$	\$ 2,761
Liabilities at fair value	\$ 2,761	\$	\$	\$ 2,761

	Fair Value as of September 30, 2011	Fair Value Measurements at September 30, 2011 Using Fair Value Hierarchy		
		Level 1 (in thousands)	Level 2	Level 3
Assets				
Money market fund	\$ 10,517	\$ 10,517	\$	\$
Assets at fair value	\$ 10,517	\$ 10,517	\$	\$

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

The following table presents a reconciliation of the beginning and ending balances of the Company's liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended June 29, 2012:

	Contingent Consideration (in thousands)
Balance as of September 30, 2011	\$
Additions - picoChip acquisition	10,038
Change in fair value of contingent consideration	(7,277)
Balance as of June 29, 2012	\$ 2,761

Table of Contents

During the third quarter of fiscal 2012, the Company determined that the business development milestone would not be achieved and therefore reduced the earnout's fair value from \$6.3 million to zero. The Company also estimated that the probability of achievement for one of the product development earnouts decreased from 100% to 50% during the third quarter of fiscal 2012. The product development earnouts' fair value therefore decreased from \$4.5 million to \$3.6 million.

The fair value measurements of the contingent consideration discussed above were based primarily on significant inputs not observable in the market and thus represent a Level 3 measurement as defined in ASC 820. The key assumptions were as follows:

Quantitative Information about Level 3 Fair Value Measurements as of June 29, 2012				
Liability	Fair Value (in thousands, except percentages)	Valuation Technique	Unobservable Inputs	Selected Input (Range)
Revenue Earnout	\$	N/A	Probability of Achieving	0.0%
Business Development Earnout	\$	N/A	Probability of Achieving	0.0%
Product Development Earnout (1 of 2)	\$ 1,164	Income Approach	Probability of Achieving Required Rate of Return	50.0% (40.0% - 60.0%) 10.0% (8.0% - 12.0%)
Product Development Earnout (2 of 2)	\$ 2,456	Income Approach	Probability of Achieving Required Rate of Return	100.0% (90.0% - 100.0%) 2.4%

Table of Contents

Quantitative Information about Level 3 Fair Value Measurements as of February 6, 2012

Liability	Fair Value (in thousands, except percentages)	Valuation Technique	Unobservable Inputs	Selected Input (Range)
Revenue Earnout	\$	N/A	Probability of Achieving	0.0% (0.0% - 5.0%)
Business Development Earnout	\$ 6,275	Income Approach	Probability of Achieving Required Rate of Return	100.0% (90.0% - 100.0%) 10.0% (8.0% - 12.0%)
Product Development Earnout (1 of 2)	\$ 2,241	Income Approach	Probability of Achieving Required Rate of Return	100.0% (90.0% - 100.0%) 10.0% (8.0% - 12.0%)
Product Development Earnout (2 of 2)	\$ 2,241	Income Approach	Probability of Achieving Required Rate of Return	100.0% (90.0% - 100.0%) 10.0% (8.0% - 12.0%)

As of June 29, 2012, the offsetting employee termination expenses and costs expected to be incurred to achieve the product development earnout were estimated to be \$859,000 and are not included in the above tables.

Table of Contents

Intangible asset valuations completed in connection with the Company's acquisition of picoChip have been based on level 3 inputs. The following table represents the Company's acquired intangible assets subject to fair value measurements that were based primarily on significant inputs not observable in the market and thus represent a Level 3 measurement as defined in ASC 820:

Quantitative Information about Level 3 Fair Value Measurements as of February 6, 2012

Asset	Fair Value	Valuation Technique (in thousands, except percentages)	Unobservable Inputs	Selected Input (Range)
Trade Names and Trademarks	\$ 310	Relief from Royalty	Revenue Projections	12.5% Market Share
			Estimated Useful Life	2 years (1 year - 3 years)
Developed Technology	\$ 11,800	Relief from Royalty	Revenue Attrition	5.0% - 10.0% (5.0% - 10.0%)
			Core Revenue Attributable	25.0% (15.0% - 35.0%)
			Base Revenue Projections	12.5% Market Share
IPR&D	\$ 800	Income Approach	Revenue Attrition	5.0% (5.0% - 10.0% per Year)
			Expected Product Cycle	5 Years (3 Years to 7 Years)
			Base Revenue Projections	12.5% Market Share
Customer Relationships		Multi-Period Excess		
	\$ 1,500	Earnings	Revenue Attrition	20.0% (19.3% - 20.8% per Year)
			Base Revenue Projections	12.5% Market Share
			Margin Improvement	80.0% (60.0% - 90.0% of Sales and Executive Professional Time)
			Estimated Useful Life	7 Years (5 Years to 10 Years)

5. Stock-Based Compensation

The Company has stock-based incentive plans in effect that provide for the grant of stock options, unrestricted stock, restricted stock units and other stock-awards to employees and non-employee directors. These stock-based incentive plans include inducement grants that are occasionally made to new employees of the Company. The Company also provides an employee stock purchase plan for all eligible employees. The fair value of stock-based awards are estimated on the date of grant and recognized as an expense ratably over the requisite service period.

In January 2012, the Company adopted an inducement incentive plan, under which 500,000 shares of common stock may be issued to its employees. In January 2012, the stockholders of the Company approved an amendment to the Company's employee stock purchase plan, which included an increase of 800,000 in the authorized number of shares reserved for issuance under such plan.

Table of Contents

The following table presents stock-based compensation by functional line item presented on the unaudited consolidated condensed statements of operations:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
Cost of goods sold	\$ 48	\$ 70	47	158
Research and development	871	524	2,702	1,140
Selling, general and administrative	2,278	1,217	5,904	2,725
Total stock-based compensation	\$ 3,197	\$ 1,811	\$ 8,653	\$ 4,023

A management bonus accrual of \$525,000 and \$1.6 million was recorded during the three and nine months ended June 29, 2012. The Company expects to pay half of the bonus in cash and the remaining half in equity awards. The equity award portion of the bonus is included in the selling, general and administrative line item in the above table.

Stock option grant date fair value was estimated using the Black-Scholes pricing model with the following weighted-average assumptions:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
Weighted-average assumptions:				
Expected option life	*	2.9 years	2.7 years	2.9 years
Risk-free interest rate	*	1.0%	0.3%	0.8%
Expected volatility	*	95.0%	97.0%	97.0%
Dividend yield	*			
Weighted-average grant date fair value per share	*	\$ 5.08	\$ 2.59	\$ 4.52

* No stock options were granted during the period.

Table of Contents

Stock Option Awards

The following tables summarize stock option activity:

	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2011	2,588	\$ 6.93	5.4 years	\$ 2,624
Granted	459	6.28		
Exercised	(272)	2.50		
Forfeited or expired	(334)	9.01		
Outstanding at June 29, 2012	2,441	7.01	5.3 years	214
Exercisable at June 29, 2012	1,461	\$ 7.10	4.2 years	\$ 203

Vesting Condition	Remaining Unrecognized Compensation Cost (in thousands)	Remaining Years to Vest
Service-based	\$ 3,917	1.3

Stock Awards

The following tables summarize stock award activity:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value	Fair Value of Shares Vested (in thousands)
Nonvested shares at September 30, 2011	2,055	\$ 7.74	
Granted	1,606	6.04	
Vested	(662)	7.64	\$ 3,549
Forfeited	(218)	6.92	
Nonvested shares at June 29, 2012	2,781	\$ 6.85	

Vesting Condition	Remaining Unrecognized Compensation Cost (in thousands)	Remaining Years to Vest
Service-based	\$ 14,378	3.2
Market based	279	0.5

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

Performance based	271	0.6
Total stock awards	\$ 14,928	

Table of Contents**6. Revolving Credit Facilities and Long-Term Debt*****6.75% Convertible Senior Notes***

On June 19, 2012, the Company sold \$32.0 million in aggregate principal amount of its 6.75% Convertible Senior Notes due 2017, or the 6.75% convertible notes, for net proceeds of \$30.6 million. Interest on the 6.75% convertible notes will be paid semi-annually in arrears in cash at a rate of 6.75% per year on the principal amount, accruing from June 19, 2012. The 6.75% convertible notes will mature on June 15, 2017, unless earlier repurchased, redeemed or converted. The 6.75% convertible notes are fully and unconditionally guaranteed on a senior, unsecured basis by certain of the Company's subsidiaries.

The 6.75% convertible notes are convertible at an initial conversion rate of 256.4103 shares of the Company's common stock per \$1,000 principal amount of 6.75% convertible notes, subject to adjustment in certain circumstances. This is equivalent to an initial conversion price of \$3.90 per share of common stock. Holders may convert the 6.75% convertible notes at any time prior to the close of business on the second scheduled trading day immediately preceding June 15, 2017. If the Company undergoes certain fundamental changes prior to maturity of the notes, including a change of control, sale of all or substantially all of the assets of the Company, a liquidation or dissolution of the Company, the failure of the common stock to be listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market, and certain other events as more fully described in the indenture relating to the 6.75% convertible notes, a holder thereof will have the option to require the Company to repurchase for cash all or any portion of such notes at a repurchase price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date.

On or after June 15, 2013, in the event that the last reported price of the Company's common stock exceeds the conversion price then in effect for 20 or more trading days during any 30 consecutive trading day period ending within five trading days prior to the date the Company receives a notice of conversion, the Company will, in addition to delivering shares upon conversion of the 6.75% convertible notes (and cash in lieu of fractional shares), make a "make-whole premium" payment in cash, shares of Company common stock or a combination thereof, subject to certain limitations, at the option of the Company, equal to the sum of the remaining scheduled payments of interest that would have been made on the 6.75% convertible notes to be converted had such notes remained outstanding through the earlier of the date that is three years after the date the Company receives the notice of conversion and June 15, 2017. If the Company elects to pay some or all of the "make-whole premium" in shares of the Company's common stock, then the number of shares of common stock a holder will receive will be that number of shares that have a value equal to the amount of the "make-whole premium" payment to be paid to such holder in shares, divided by the product of 0.97 and the average of the last reported sale prices of the common stock for the five trading days immediately preceding, and including, the third trading day immediately prior to the conversion date; provided that in no event will such price be less than \$3.00.

The Company can redeem all or any part of the 6.75% convertible notes for cash on or after June 15, 2015 if the last reported sale price of its common stock exceeds 150% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending within five trading days prior to the notice of redemption and certain other conditions are met (referred to as the provisional redemption). The redemption price will equal the principal amount of the convertible notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, plus a "make-whole premium" payment in cash, shares of the Company's common stock or a combination thereof, subject to certain limitations, at the option of the Company, equal to the sum of the remaining scheduled payments of interest that would have been made on the 6.75% convertible notes to be redeemed had such notes remained outstanding from the redemption date to June 15, 2017. If the Company elects to pay some or all of the "make-whole premium" in shares of the Company's common stock, then the number of shares of common stock a holder will receive will be that number of shares that have a value equal to the amount of the "make-whole premium" payment to be paid to such holder in shares, divided by the product of 0.97 and the average of the last reported sale prices of the Company's common stock for the five trading days immediately preceding, and including, the third trading day immediately prior to the redemption date; provided that in no event will such price be less than \$3.00.

If there is an event of default under the notes, the principal of and premium, if any, on all the notes and the interest accrued thereon may be declared immediately due and payable, subject to certain conditions set forth in the indenture. Events of default under the indenture include, but are not limited to, the Company: (i) becoming delinquent in making certain payments due under the notes; (ii) failing to deliver shares of common stock or cash upon conversion of the notes; (iii) failing to deliver certain required notices under the notes; (iv) incurring certain events of default with respect to other indebtedness or obligations; (v) becoming subject to certain bankruptcy proceedings or orders; or (vi) failing to pay or the acceleration of other indebtedness. If the Company fails to file certain periodic reports with the SEC, it will be required to make additional interest payments.

Table of Contents

The indenture relating to the 6.75% convertible notes contains a covenant that limits the Company's ability to incur Indebtedness, as that term is defined in the indenture, secured by a lien on the Company's assets or any Indebtedness that is senior to, or pari passu to, the 6.75% convertible notes, or permit any subsidiary to do so, other than a senior secured credit facility financing in an aggregate principal amount not to exceed \$35 million, and any subsidiary guarantees required thereunder, or any other Indebtedness outstanding as of the date of the indenture.

For financial accounting purposes, the Company's contingent obligations to make an interest make-whole premium payment in the event of an early conversion by the holders of the notes and to make additional interest payments in the event that the Company does not timely file certain periodic reports with the SEC are embedded derivatives. The redemption's requirement for the Company to make additional interest payments in the event of early redemption by the Company is also an embedded derivative. As of June 12, 2012, the date of the debt issuance, and as of June 29, 2012, the fair value of these contingent obligations has been estimated and is not significant.

The Company incurred \$437,000 of debt issuance costs, which is being amortized to interest expense over the term of the convertible notes through June 15, 2017 using the effective interest method. At June 29, 2012, debt issuance costs of \$433,000, net of accumulated amortization, was included in other assets.

The following table sets forth balance sheet information related to the 6.75% convertible senior notes:

	June 29, 2012	September 30, 2011
	(in thousands)	
Principal value of the liability component	\$ 32,000	\$
Unamortized value of debt discount	(1,426)	
Net carrying value of the liability component	\$ 30,574	\$

The following table sets forth interest expense information related to the 6.75% convertible senior notes:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
Interest expense - coupon	\$ 107	\$	\$ 107	\$
Interest expense - debt discount amortization	14		14	
Total	\$ 121	\$	\$ 121	\$
Effective interest rate on the liability for the period	9.08%	0.00%	9.08%	0.00%

Loan and Security Agreement

A loan and security agreement was entered into between the Company and Silicon Valley Bank (SVB) on February 6, 2012, as amended by that certain first amendment to the loan and security agreement entered into on June 12, 2012. The loan and security agreement includes: (i) a term loan facility of \$15.0 million; and (ii) a revolving credit facility of up to \$20.0 million. As of June 29, 2012, the outstanding balance on the term loan was \$15.0 million and the outstanding balance on the revolving credit facility was \$13.5 million. The obligations under the loan and security agreement are guaranteed by material subsidiaries of the Company and secured by a security interest in substantially all of the Company's assets and the Company's guarantors' assets, excluding intellectual property.

The principal on the term loan will be payable in quarterly installments beginning on March 31, 2013 and ending on the maturity date of the term loan, February 6, 2017. Quarterly principal payments of \$375,000 are due for each quarter during calendar year 2013, \$750,000 for each quarter during calendar year 2014, \$1.1 million for each quarter during calendar year 2015 and \$1.5 million for each quarter during calendar year 2016. Interest on the term loan will be paid quarterly beginning in calendar year 2012. The revolving credit facility also has a maturity date of February 6, 2017. Interest on the revolving credit facility will be paid quarterly beginning in calendar year 2012.

Table of Contents

The total amount available under the revolving credit facility is \$20.0 million. The Company is eligible to borrow amounts against the revolving credit facility up to the amount allowable by the borrowing base. The borrowing base is calculated on a monthly basis and is based on the amount of the Company's eligible accounts receivable. At June 29, 2012, the Company's outstanding revolving credit facility balance of \$13.5 million totaled the entire amount of the eligible borrowing base. To the extent that the eligible borrowing base is reduced, the Company is required to pay down the outstanding revolving credit facility balance to the amount of the eligible borrowing base. During the next 12 months, the Company expects the borrowing base will be sufficient to maintain borrowings on the revolving credit facility at a minimum of \$8.0 million. Consequently, it has classified \$8.0 million of the revolving credit facility as a long-term liability.

The Company has the option to choose, with a few exceptions, whether the term loan facility and the revolving credit facility bear interest based on a base rate, which is the prime rate published in The Wall Street Journal, or a LIBOR rate, which has a floor of 0.75%. A base rate facility will bear interest ranging from the base rate plus 1.25% to base rate plus 1.75%. A LIBOR rate facility will bear interest ranging from LIBOR rate plus 3.25% to LIBOR rate plus 3.75%. Both the base rate margin and LIBOR margin vary based upon the Company's liquidity ratio. As of June 29, 2012, the interest rate on both the term loan facility and the revolving credit facility was 4.25%. Total interest expense incurred on the term loan facility and revolving credit facility was \$294,300 for the three months ended June 29, 2012 and \$459,500 for the nine months ended June 29, 2012.

The revolving credit facility is subject to an unused line of credit fee. This fee is payable quarterly in an amount equal to 0.25% - 0.50% of the average daily unused portion of the credit facility. The unused line fee will vary based upon the Company's liquidity ratio.

The loan and security agreement requires the Company to meet certain requirements relating to a liquidity ratio and minimum cash and cash equivalent levels. If the Company fails to maintain the liquidity ratio and cash and cash equivalent levels within certain targets, the Company will be required to maintain covenants relating to adjusted EBITDA and a fixed charge coverage ratio.

The Company incurred approximately \$378,000 of debt issuance costs related to the loan and security agreement, which are being amortized to interest expense over the term of the facility through February 6, 2017 using the effective interest method. At June 29, 2012, debt issuance costs of \$324,700, net of accumulated amortization, were included in other assets.

6.50% Convertible Senior Notes

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its previously outstanding 3.75% convertible senior notes, pursuant to which holders of an aggregate of \$15.0 million of the 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 in August 2013 (the Exchange Offer). The Exchange Offer closed on August 1, 2008. The Company paid at the closing an aggregate of approximately \$100,000 in accrued and unpaid interest on the 3.75% convertible senior notes that were exchanged for the 6.50% convertible senior notes, as well as approximately \$900,000 in transaction fees.

The 6.50% convertible senior notes are convertible at the option of the holders, at any time on or prior to maturity, into shares of the Company's 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 notes, the Company generally has the right to deliver to the holders thereof, at the Company's option: (i) cash; (ii) shares of the Company's common stock; or (iii) a combination thereof. The initial conversion price of the 6.50% convertible senior notes will be adjusted to reflect stock dividends, stock splits, issuances of rights to purchase shares of the Company's common stock, and upon other events. If the Company undergoes certain fundamental changes prior to maturity of the notes, the holders thereof will have the right, at their option, to require us to repurchase for cash some or all of their 6.50% convertible senior notes at a repurchase price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date, or convert the notes into shares of its common stock and, under certain circumstances, receive additional shares of its common stock in the amount provided in the indenture.

The Company's contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is considered an embedded derivative. As of June 29, 2012, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

Table of Contents

The following table sets forth balance sheet information related to the 6.50% convertible senior notes:

	June 29, 2012	September 30, 2011
	(in thousands)	
Principal value of the liability component	\$ 15,000	\$ 15,000
Unamortized value of debt discount	(471)	(784)
Net carrying value of the liability component	\$ 14,529	\$ 14,216

The following table sets forth interest expense information related to the 6.50% convertible senior notes:

	Three Months Ended		Nine Months Ended	
	June 29, 2012	July 1 2011	June 29, 2012	July 1 2011
	(in thousands)			
Interest expense - coupon	\$ 244	\$ 243	\$ 731	\$ 731
Interest expense - debt discount amortization	104	102	312	304
Total	\$ 348	\$ 345	\$ 1,043	\$ 1,035
Effective interest rate on the liability for the period	9.28%	9.20%	9.27%	9.20%

7. Commitments and Contingencies

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company, including those pertaining to product liability, intellectual property, environmental, safety and health and employment matters. As is common in the industry, the Company currently has in effect a number of agreements in which it has agreed to defend, indemnify and hold harmless certain of its suppliers and customers from damages and costs which may arise from the infringement by the Company's products of third-party patents, trademarks or other proprietary rights. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be determined unfavorably against 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. Unless specifically noted below, during the period presented we have not: recorded any accrual for loss contingencies associated with the legal proceedings described below; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable. Based on its evaluation of matters which are pending or asserted, while there can be no assurance, 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.

In June 2011, the Company was notified by a customer, with whom the Company has an indemnification obligation, that such customer had settled an outstanding patent infringement claim that the customer asserts relates to products it purchased from the Company. The customer requested that the Company contribute approximately \$1.1 million to the settlement, representing its estimate of the Company's pro rata share of the settlement and related legal fees. The Company has notified the customer that it believes the indemnification obligation does not apply to the contribution sought by the customer, and the Company intends to vigorously defend this position.

On April 10, 2012, the Company entered into a third lease amendment with its landlord with respect to its headquarters located in Newport Beach, California, effective as of April 4, 2012. Pursuant to the terms of the amendment, a five year option to extend the lease was eliminated and the term of the lease was extended and will expire on December 31, 2019. The Company may, at its option, extend the term an additional four years at fair market

Table of Contents

rent. The amendment provides that the premises leased by the Company will be reduced from approximately 96,829 square feet to approximately 88,160 square feet by January 1, 2013. The amendment provides for the abatement of fixed monthly rent for the period from January 1, 2013 through July 31, 2013, subject to no event of default occurring. The landlord has the option to pay the Company \$1.2 million during the first week of January 2013 in lieu of foregoing the fixed monthly rent abatement. The amendment also provides that the landlord will pay the Company or its contractors approximately \$4.5 million for costs incurred by the Company in connection with construction of any alterations in the premises or as a payment against rent due under the lease.

8. Asset Impairments

In 2008, the Company entered into a license agreement with an intellectual property supplier. During the third quarter of fiscal 2012, the Company entered into a new license agreement with the same intellectual property supplier. As a result of the new license agreement, the Company determined that a \$1.8 million asset from the previous license agreement was impaired and recorded the charge in cost of goods sold on its unaudited consolidated condensed statements of operations.

In June 2011, the Company capitalized a photomask. During the third quarter of fiscal 2012, the Company capitalized a new photomask that replaced the original photomask. As a result of the new photomask, the Company determined that the \$1.6 million asset from the previous photomask was impaired and recorded the charge in cost of goods sold on its unaudited consolidated condensed statements of operations.

9. Restructuring Charges

The Company has, and may in the future, commit to restructuring plans to help manage the costs of the Company or to help implement strategic initiatives, among other reasons.

Second Quarter of Fiscal 2012 Restructuring Plan In the second quarter of fiscal 2012, the Company committed to the implementation of a restructuring plan to realize synergies in connection with its acquisition of picoChip, which was completed on February 6, 2012. The plan consisted primarily of a targeted headcount reduction in connection with the Company's acquisition of picoChip. The restructuring plan is expected to be substantially completed during the third quarter of fiscal 2012. The Company incurred \$1.3 million in charges in the second quarter of fiscal 2012 related to severance costs for affected employees.

Activity and liability balances related to the Company's second quarter of fiscal 2012 restructuring plan were as follows:

	Workforce Reductions (in thousands)
Charges to costs and expenses	\$ 1,261
Cash payments	(1,094)
Non-cash charge	8
Restructuring balance, June 29, 2012	\$ 175

The remaining accrued restructuring balance principally represents employee severance costs. The Company expects to pay these remaining obligations through the fourth quarter of fiscal 2012.

Fourth Quarter of Fiscal 2011 Restructuring Plan In the fourth quarter of fiscal 2011, the Company implemented a restructuring plan, which consisted primarily of a targeted headcount reduction in the selling, general and administrative functions and wide area networking (WAN) business unit. The Company incurred \$1.1 million of charges related to severance costs for the affected employees during the fourth quarter of fiscal 2011. The restructuring plan was substantially completed during the fourth quarter of fiscal 2011. An additional \$138,000 of charges was incurred related to severance costs for the affected employees during the third quarter of fiscal 2012.

Table of Contents

Activity and liability balances related to the Company's fourth quarter of fiscal 2011 restructuring plan from September 30, 2011 through June 29, 2012 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 902
Charges to costs and expenses	138
Cash payments	(946)
 Restructuring balance, June 29, 2012	 \$ 94

The remaining accrued restructuring balance principally represents employee severance costs. The Company expects to pay these remaining obligations through the fourth quarter of fiscal 2012.

Fourth Quarter of Fiscal 2010 Restructuring Plan In the fourth quarter of fiscal 2010, the Company implemented a restructuring plan, which consisted primarily of a targeted headcount reduction in its WAN product family and selling, general and administrative functions. The restructuring plan was substantially completed during the fourth quarter of fiscal 2010. Of the \$1.3 million in charges incurred during the fourth quarter of fiscal 2010, \$966,000 related to severance costs for affected employees and \$311,000 related to abandoned technology.

Activity and liability balances related to the Company's fourth quarter of fiscal 2010 restructuring plan from September 30, 2011 through June 29, 2012 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 42
Non-cash credit	(42)
 Restructuring balance, June 29, 2012	 \$

During the second quarter of fiscal 2012, any amounts left to be paid under this plan were paid and any remaining accrued amount was reversed.

10. Income Taxes

The Company utilizes the liability method of accounting for income taxes. The federal statutory rate was 34% for all periods. The difference between the Company's effective tax rate and the federal statutory rate is primarily due to the full valuation allowance offsetting any current period benefit from operating losses and the effect of foreign earnings taxed at rates differing from the federal statutory rate.

11. Related Party Transactions

In June 2011, the Company entered into an agreement to license certain intellectual property from a related party. The licensor is a related party because one of the Company's directors also serves as a director of the licensor and one of the Company's members of management serves on the licensor's technical advisory board. Pursuant to terms of the license agreement, the Company will pay an aggregate of \$6.0 million upon the completion of certain milestones, including the delivery of licensed intellectual property. In addition, the Company is obligated to pay royalties not to exceed an additional \$2.5 million for products sold that include the licensed intellectual property. As of June 29, 2012, the Company has paid \$3.5 million in related license fees.

12. Subsequent Events

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

On July 20, 2012, the Company committed to the implementation of a restructuring plan. The plan consists primarily of a headcount reduction in both the Company's selling, general and administrative functions and business units and secondarily of a facilities consolidation. The restructuring plan is expected to be substantially completed during the fiscal second quarter of 2013. The Company made the decision to implement the restructuring in furtherance of its efforts to reduce operating expenses and cash consumption. The Company currently expects to incur total charges ranging from approximately \$4.0 million to \$5.0 million and cash expenditures ranging from approximately \$3.5 million to \$4.5 million, each primarily related to severance costs for affected employees.

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 on Form 10-Q 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 30, 2011.

Overview

Mindspeed Technologies, Inc. designs, develops and sells semiconductor solutions for communications applications in the wireline and wireless network infrastructure equipment, which includes broadband access networks (fixed and mobile), enterprise networks and metropolitan and WAN (fixed and mobile) networks. We have organized our solutions for these interrelated and rapidly converging networks into three product families: communications convergence processing, high-performance analog and WAN communications. Our communications convergence processing products include ultra-low-power, multi-core digital signal processor (DSP) system-on-chip (SoC) products for the fixed and mobile (3G/4G) carrier infrastructure and residential and enterprise platforms. Our high-performance analog products include high-density crosspoint switches, optical drivers, equalization and signal-conditioning solutions that solve difficult switching, timing and synchronization challenges in next-generation optical networking, enterprise storage and broadcast video transmission applications. Our WAN communications portfolio helps optimize today's circuit-switched networks that furnish much of the Internet's underlying long-distance infrastructure.

Our products are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including:

Communications Convergence Processing triple-play access gateways for Voice-over-Internet Protocol (VoIP) and data processing platforms; broadband customer premises equipment (CPE) gateways and other equipment that carriers use to deliver voice, data and video services to residential subscribers; Internet Protocol (IP) private branch exchange (PBX) equipment and security appliances used in the enterprise and 3G/4G wireless small cell base stations in the carrier infrastructure;

High-Performance Analog next-generation fiber access network equipment (including passive optical networking, or PON, systems); switching and signal conditioning products supporting fiber-to-the-premise, optical transport networks (OTN), storage and server systems and broadcast video, inclusive of routers and other systems that are driving the migration to 3G high-definition (HD) transmission; and

WAN Communications circuit-switched networking equipment that implements asynchronous transfer mode (ATM) and T1/E1 and T3/E3 communications protocols.

Our customers include Alcatel-Lucent SA, Cisco Systems, Inc., Huawei Technologies Co., Ltd., Hitachi, Ltd., LM Ericsson Telephone Company, Mitsubishi Electric Corporation, Nokia Siemens Networks and Zhongxing Telecom Equipment Corp., among others.

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 nine months or longer to test and evaluate our products and an additional nine 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 believe our diverse portfolio of semiconductor solutions has us well positioned to capitalize on some of the most significant trends in telecommunications and enterprise spending, including: next generation network convergence; VoIP/fiber access deployment in developing and developed markets; 3G/4G wireless infrastructure build-out; the adoption of higher speed interconnectivity solutions; and the migration of broadcast video to HD.

Table of Contents

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 solutions for OEMs. Sales to distributors accounted for approximately 65% of our revenue for the first nine months of fiscal 2012. Our revenue is well diversified globally, with 83% of the revenue in the first nine months of fiscal 2012 coming from outside of the Americas. 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. Approximately 34% of our revenue for the first nine months of fiscal 2012 was derived from customers in China.

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 \$50.9 million on research and development in the first nine months of fiscal 2012. 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 growth markets, including communications convergence processor applications such as CPE processors for high-bandwidth multiservice access applications, high-performance analog applications such as optical networking and broadcast-video transmission, and wireless infrastructure solutions for small base stations. We have developed and maintain a broad intellectual property portfolio, and we may periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property.

We are dependent upon third parties for the development, manufacturing, 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 upon 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 their other customers 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. 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 deteriorations in general economic conditions, labor strikes, work stoppages, electrical power outages, fire, earthquake, flooding or other natural disasters. We may also incur increased manufacturing costs, including costs of finding acceptable alternative foundries or assembly and test service providers.

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, the level of which may decrease due to general economic conditions and uncertainty, over which we have no control. 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 communication 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 has generally led to pricing pressure and loss of market share. These factors have caused substantial fluctuations in our revenue and our results of operations in the past, and we may experience cyclical fluctuations in our business in the future. In order to achieve sustained profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase our revenue. We have completed a series of cost reduction actions, which have improved our operating cost structure, and we will continue to perform additional actions, when necessary.

Table of Contents

Critical Accounting Policies and Estimates

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, inventories, stock-based compensation, deferred income taxes and uncertain tax positions, and impairment of long-lived assets. These policies are described in further detail in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. There have been no significant changes in our critical accounting policies and estimates during the fiscal quarters ended December 30, 2011, March 30, 2012 and June 29, 2012 as compared to what was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, other than the addition of the following policies due to the acquisition of picoChip Inc. and its wholly owned subsidiaries on February 6, 2012.

Business Combinations The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. To the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired and liabilities assumed, such excess is allocated to goodwill. We determine the estimated fair values after review and consideration of relevant information, including discounted cash flows, quoted market prices and estimates made by management. We adjust the preliminary purchase price allocation, as necessary, during the measurement period of up to one year after the acquisition closing date as we obtain more information as to facts and circumstances existing at the acquisition date impacting asset valuations and liabilities assumed. Goodwill acquired in business combinations is assigned to the reporting unit(s) expected to benefit from the combination as of the acquisition date. Acquisition-related costs are recognized separately from the acquisition and are expensed as incurred.

Goodwill and Other Long-Lived Assets Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the acquired net tangible and intangible assets. Other long-lived assets include the acquired intangible assets of developed technology, customer relationships and in-process research and development, or IPR&D. We currently amortize our acquired intangible assets with definitive lives over periods ranging from one to twelve years using a method that reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. We capitalize IPR&D projects acquired as part of a business combination. On completion of each project, IPR&D assets are reclassified to developed technology and will be amortized over their estimated useful lives.

Impairment of Goodwill and Other Long-Lived Assets We will evaluate goodwill on an annual basis as of the end of the tenth month of each fiscal year or more frequently if we believe indicators of impairment exist. We will first assess qualitative factors to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If we conclude that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we will conduct a two step goodwill impairment test. The first step of the impairment test involves comparing the fair values of our reporting unit with its carrying values. We determine the fair values of our reporting unit using the income valuation approach, as well as other generally accepted valuation methodologies. If the carrying amount of our reporting unit exceeds its fair value, we will perform the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of our reporting unit's goodwill with the carrying value of that goodwill. The amount, by which the carrying value of the goodwill exceeds its implied fair value, if any, will be recognized as an impairment loss.

During development, IPR&D is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value to its carrying amount. If the carrying value exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Once an IPR&D project is complete, it becomes a definite lived intangible asset and is evaluated for impairment in accordance with our policy for the impairment of long-lived assets.

Recent Accounting Pronouncements

There have been no accounting pronouncements since the filing of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 that we expect to have a material impact on our unaudited consolidated condensed financial statements.

Table of Contents**Results of Operations****Net Revenue by Product Line**

The following table summarizes fiscal quarter net revenue by product line:

	June 29, 2012	Three Months Ended		% of Net Revenue	Change \$	%
		% of Net Revenue	July 1 2011			
(in thousands, except percentages)						
Communications convergence processing	\$ 14,496	40.0%	\$ 18,917	45.0%	\$ (4,421)	-23.4%
High-performance analog	16,845	48.0%	15,488	37.0%	1,357	8.8%
WAN communications	4,110	12.0%	7,811	18.0%	(3,701)	-47.4%
Total net product revenue	35,451	100.0%	42,216	100.0%	(6,765)	-16.0%
Intellectual property		0.0%		0.0%		
Net revenue	\$ 35,451	100.0%	\$ 42,216	100.0%	\$ (6,765)	-16.0%

The decrease in our net revenue for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 was due to lower sales volumes for our communications convergence processing products and WAN communications products. These decreases were partially offset by an increase in demand for our high-performance analog products. Net revenue from our communications convergence processing products decreased in the third quarter of fiscal 2012 when compared to the third quarter of fiscal 2011 due to a slowdown in the infrastructure voice market, which historically had experienced demand in the fiscal third quarter. This decrease was partially offset by shipments of small cell base stations resulting from our acquisition of picoChip, which closed on February 6, 2012, or \$3.8 million. Net revenue from high-performance analog products increased in the third quarter of fiscal 2012 when compared to the third quarter of fiscal 2011 due to increased demand for crosspoint switches and optical physical media devices. Net revenue from WAN communications products decreased in the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 due to a slowdown in demand at several large customers, particularly in legacy ATM-based systems. WAN communications products represent a legacy business for us, as we have shifted almost all of our research and development investment into our growth businesses of CPE, wireless and high-performance analog products. In the third fiscal quarter of 2012, there were no intellectual property sales agreements, consistent with the third fiscal quarter of 2011. We have developed and maintain a broad intellectual property portfolio, and we may periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property.

The demand environment was dynamic throughout the third quarter of fiscal 2012. Certain customers increased or accelerated product orders to earn financial incentives, while other customers requested product shipments that could not be supported due to standard manufacturing lead times exceeding the time between orders being placed and requested delivery dates. The net impact of these activities was an increase to net revenue of \$1.7 million for the three months ended June 29, 2012.

Table of Contents

The following table summarizes year-to-date net revenue by product line:

	June 29, 2012	Nine Months Ended		July 1 2011	% of Net Revenue	Change \$	%
		% of Net Revenue	% of Net Revenue				
(in thousands, except percentages)							
Communications convergence processing	\$ 44,631	42.0%	\$ 51,111	42.0%	\$ (6,480)	-12.7%	
High-performance analog	46,846	45.0%	44,541	37.0%	2,305	5.2%	
WAN communications	12,674	12.0%	23,160	19.0%	(10,486)	-45.3%	
Total net product revenue	104,151	99.0%	118,812	98.0%	(14,661)	-12.3%	
Intellectual property	591	1.0%	2,500	2.0%	(1,909)		
Net revenue	\$ 104,742	100.0%	\$ 121,312	100.0%	\$ (16,570)	-13.7%	

The decrease in our net revenue for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 was due to lower sales volumes for our communications convergence processing products, WAN communications products and intellectual property revenue. These decreases were partially offset by an increase in demand for our high-performance analog products. Net revenue from our communications convergence processing products decreased in the first nine months of fiscal 2012 when compared to the first nine months of fiscal 2011 due to a decrease in net revenue from a slowdown in carrier capital expenditures in 3G equipment, which resulted in fewer shipments of wireless media gateways used in terminating calls between the PTSN and mobile networks. This decrease was partially offset by an increase in shipments of CPE products, which are used in broadband CPE gateways and other equipment that service providers are deploying in order to deliver voice, data and video services to residential subscribers, as well as shipments of small cell base stations resulting from our acquisition of picoChip, which closed on February 6, 2012, of \$5.9 million. Net revenue from high-performance analog products increased in the first nine months of fiscal 2012 when compared to the first nine months of fiscal 2011 due to increased demand for optical physical media devices, as well as an increase in demand for crosspoint switches. Net revenue from WAN communications products decreased in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 due to a slowdown in demand at several large customers, particularly in legacy ATM-based systems. WAN communications products represent a legacy business for us, as we have shifted almost all of our research and development investment into our growth businesses of CPE, wireless and high-performance analog products. Net revenue from intellectual property licensing and sales decreased in the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 due to the timing of intellectual property sales. We have developed and maintain a broad intellectual property portfolio, and we may periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our patents.

Asset Impairments

In 2008, we entered into a license agreement with an intellectual property supplier. During the third quarter of fiscal 2012, we entered into a new license agreement with the same intellectual property supplier. As a result of the new license agreement, we determined that a \$1.8 million asset from the previous license agreement was impaired and recorded the charge in cost of goods sold on our unaudited consolidated condensed statements of operations.

In June 2011, we capitalized a photomask. During the third quarter of fiscal 2012, we capitalized a new photomask that replaced the original photomask. As a result of the new photomask, we determined that the \$1.6 million asset from the previous photomask was impaired and recorded the charge in cost of goods sold on our unaudited consolidated condensed statements of operations.

Gross Margin

Gross margin represents net revenue less cost of goods sold. As a fabless semiconductor company, we use third parties, including Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC), Amkor Technology, Inc., Unisem, Inc. and Advanced Semiconductor Engineering, Inc. (ASE), for wafer fabrication and assembly and test services. Cost of goods sold primarily consisted of: purchased finished wafers; assembly and test services; royalty and other intellectual property costs; labor and overhead costs associated with product procurement; asset impairments; amortization of the cost of mask sets purchased; and sustaining engineering expenses pertaining to products sold.

Table of Contents

The following table presents fiscal quarter gross margin:

	June 29, 2012	Three Months Ended		% of Net Revenue	Change \$	%
		% of Net Revenue	July 1 2011			
(in thousands, except percentages)						
Gross margin	\$ 17,265	49.0%	\$ 26,249	62.2%	\$ (8,984)	-34.2%

Gross margin decreased for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 due to a \$6.8 million, or 16%, decrease in product revenue. The decrease in gross margin was also due to \$3.4 million (3.2% of net revenue) of asset impairments recorded in cost of goods sold, which related to the impairment of an intellectual property license and a photomask during the third quarter of fiscal 2012, as described above, and \$760,000 from the write-up to fair value of acquired inventory and amortization of acquired intangible assets related to the picoChip acquisition. The decrease in our gross margin as a percent of net revenue for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 was driven primarily by the asset impairments and a change in product mix and absorption.

The following table presents fiscal year-to-date gross margin:

	June 29, 2012	Nine Months Ended		% of Net Revenue	Change \$	%
		% of Net Revenue	July 1 2011			
(in thousands, except percentages)						
Gross margin	\$ 57,498	55.0%	\$ 76,781	63.3%	\$ (19,283)	-25.1%

Gross margin decreased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 due to both a \$14.8 million, or 12%, decrease in product revenue, and a \$1.9 million decrease in intellectual property revenue. The decrease in gross margin was also due to \$3.4 million of asset impairments recorded in cost of goods sold, which related to the impairment of an intellectual property license and a photomask during the third quarter of fiscal 2012, as described above, and \$1.4 million from the write-up to fair value of acquired inventory and amortization of acquired intangible assets related to the picoChip acquisition. The decrease in our gross margin as a percent of net revenue for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 was driven primarily by a change in product mix, as well as a decrease in intellectual property revenue, which had little associated cost and the asset impairments.

Research and Development

Research and development (R&D) expenses consisted primarily of: direct personnel costs, including stock-based compensation; photomasks; electronic design automation tools; and pre-production evaluation and test costs.

Table of Contents

The following table presents details of fiscal quarter R&D expenses:

	June 29, 2012	Three Months Ended		Change		
		% of Net Revenue	July 1 2011	% of Net Revenue	\$	%
(in thousands, except percentages)						
Personnel-related costs	\$ 10,880		\$ 9,519		\$ 1,361	14.3%
Stock-based compensation	899		545		354	65.0%
Design & development costs	3,133		2,709		424	15.7%
Facilities	1,768		1,424		344	24.2%
Depreciation	846		528		318	60.2%
Other	579		352		227	64.5%
Research and development	\$ 18,105	51.0%	\$ 15,077	36.0%	\$ 3,028	20.1%

R&D expenses increased for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 primarily due to an increase in personnel-related costs. This increase was primarily due to the addition of personnel costs related to the picoChip R&D employees obtained during the second quarter of fiscal 2012. R&D expense also increased due to increased facilities and depreciation expense related to the additional facilities and property, plant and equipment obtained through the acquisition of picoChip.

The following table presents details of fiscal year-to-date R&D expenses:

	June 29, 2012	Nine Months Ended		Change		
		% of Net Revenue	July 1 2011	% of Net Revenue	\$	%
(in thousands, except percentages)						
Personnel-related costs	\$ 30,296		\$ 26,409		\$ 3,887	14.7%
Stock-based compensation	2,785		1,189		1,596	134.2%
Design & development costs	9,198		9,236		(38)	-0.4%
Facilities	4,781		4,191		590	14.1%
Depreciation	2,177		1,432		745	52.0%
Other	1,616		1,068		548	51.3%
Research and development	\$ 50,853	49.0%	\$ 43,525	36.0%	\$ 7,328	16.8%

R&D expenses increased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 primarily due to an increase in personnel-related costs and stock-based compensation expense. The increase in personnel-related costs was primarily due to the effect of merit increases effective in the fourth quarter of fiscal 2011, bonus expense in the second and third quarters of fiscal 2012 and the addition of personnel costs related to the picoChip R&D employees obtained during the second quarter of fiscal 2012. The increase in stock-based compensation expense was primarily due to an increase in the number and weighted-average grant date fair value of stock awards vesting in the first nine months of fiscal 2012. R&D expense also increased due to increased facilities and depreciation expense related to the additional facilities and property, plant and equipment obtained through the acquisition of picoChip.

Selling, General and Administrative

Our selling, general and administrative (SG&A) expenses include personnel costs, 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.

Table of Contents

The following table presents details of fiscal quarter SG&A expenses:

	June 29, 2012	Three Months Ended		Change		
		% of Net Revenue	July 1 2011	% of Net Revenue	\$	%
(in thousands, except percentages)						
Personnel-related costs	\$ 6,111		\$ 6,458		\$ (347)	-5.4%
Stock-based compensation	2,320		1,249		1,071	85.7%
Professional fees & outside services	933		1,138		(205)	-18.0%
Facilities	631		794		(163)	-20.5%
Depreciation	162		179		(17)	-9.5%
Other	1,453		1,216		237	19.5%
Selling, general and administrative	\$ 11,610	33.0%	\$ 11,034	26.0%	\$ 576	5.2%

SG&A expenses increased for the third quarter of fiscal 2012 compared to the third quarter of fiscal 2011 primarily due to an increase in stock-based compensation expense. The increase in stock-based compensation expense was primarily due to an increase in the number and weighted-average grant date fair value of stock awards vesting in the third quarter of fiscal 2012. The increase in stock-based compensation expense was partially offset by decreases in personnel-related costs and professional fees and outside services. The decrease in personnel-related costs was primarily due to the restructuring plans implemented during the fourth quarter of fiscal 2011 and second quarter of fiscal 2012.

The following table presents details of fiscal year-to-date SG&A expenses:

	June 29, 2012	Nine Months Ended		Change		
		% of Net Revenue	July 1 2011	% of Net Revenue	\$	%
(in thousands, except percentages)						
Personnel-related costs	\$ 17,735		\$ 19,290		\$ (1,555)	-8.1%
Stock-based compensation	6,032		2,798		3,234	115.6%
Professional fees & outside services	2,643		3,012		(369)	-12.3%
Facilities	2,192		2,478		(286)	-11.5%
Depreciation	473		488		(15)	-3.1%
Integration costs	1,993					
Other	2,952		3,258		(306)	-9.4%
Selling, general and administrative	\$ 34,020	32.0%	\$ 31,324	26.0%	\$ 2,696	8.6%

SG&A expenses increased for the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011 primarily due to an increase in stock-based compensation expense, which was partially offset by a decrease in personnel-related costs. The increase in stock-based compensation expense was primarily due to an increase in the number and weighted-average grant date fair value of stock awards vesting in the first nine months of fiscal 2012. The decrease in personnel-related costs was primarily due to the restructuring plans implemented during the fourth quarter of fiscal 2011 and second quarter of fiscal 2012, as well as a decrease in the amount of bonus expense during the first nine months of fiscal 2012 compared to the first nine months of fiscal 2011.

Table of Contents**Acquisition-Related Costs**

Acquisition-related costs totaled \$680,000 for the three months ended June 29, 2012 and \$3.7 million for the nine months ended June 29, 2012. Acquisition-related costs consisted primarily of professional fees incurred as a result of our acquisition of picoChip, which was completed on February 6, 2012. There were no acquisition-related costs incurred in the corresponding fiscal 2011 periods.

Restructuring Charges

We have, and may in the future, commit to restructuring plans to help manage our costs or to help implement strategic initiatives, among other reasons.

Second Quarter of Fiscal 2012 Restructuring Plan In the second quarter of fiscal 2012, we committed to the implementation of a restructuring plan to realize synergies in connection with our acquisition of picoChip, which closed on February 6, 2012. The plan consisted primarily of a targeted headcount reduction in connection with our acquisition of picoChip. The restructuring plan is expected to be substantially completed during the third quarter of fiscal 2012. Approximately \$1.3 million in charges were incurred in the second quarter of fiscal 2012 related to severance costs for affected employees.

Activity and liability balances related to our second quarter of fiscal 2012 restructuring plan were as follows:

	Workforce Reductions (in thousands)
Charges to costs and expenses	\$ 1,261
Cash payments	(1,094)
Non-cash charge	8
 Restructuring balance, June 29, 2012	 \$ 175

The remaining accrued restructuring balance principally represents employee severance costs. We expect to pay these remaining obligations through the fourth quarter of fiscal 2012.

Fourth Quarter of Fiscal 2011 Restructuring Plan In the fourth quarter of fiscal 2011, we implemented a restructuring plan, which consisted primarily of a targeted headcount reduction in the SG&A functions and wide area networking (WAN) business unit. We incurred \$1.1 million of charges related to severance costs for the affected employees during the fourth quarter of fiscal 2011. The restructuring plan was substantially completed during the fourth quarter of fiscal 2011. An additional \$138,000 of charges was incurred related to severance costs for the affected employees during the third quarter of fiscal 2012.

Activity and liability balances related to our fourth quarter of fiscal 2011 restructuring plan from September 30, 2011 through June 29, 2012 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 902
Charges to costs and expenses	138
Cash payments	(946)
 Restructuring balance, June 29, 2012	 \$ 94

The remaining accrued restructuring balance principally represents employee severance costs. We expect to pay these remaining obligations through the fourth quarter of fiscal 2012.

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

Fourth Quarter of Fiscal 2010 Restructuring Plan In the fourth quarter of fiscal 2010, we implemented a restructuring plan, which consisted primarily of a targeted headcount reduction in our WAN product family and SG&A functions. The restructuring plan was substantially completed during the fourth quarter of fiscal 2010. Of the \$1.3 million in charges incurred during the fourth quarter of fiscal 2010, \$966,000 related to severance costs for affected employees and \$311,000 related to abandoned technology.

Table of Contents

Activity and liability balances related to our fourth quarter of fiscal 2010 restructuring plan from September 30, 2011 through June 29, 2012 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 42
Non-cash credit	(42)
Restructuring balance, June 29, 2012	\$

During the second quarter of fiscal 2012, any amounts left to be paid under this plan were paid and any remaining accrued amount was reversed.

Interest Expense

The following tables present details of fiscal quarter and fiscal year-to-date interest expense:

	June 29, 2012	Three Months Ended % of Net Revenue	July 1 2011	% of Net Revenue	Change \$	%
	(in thousands, except percentages)					
Interest expense	\$ (849)	2.0%	\$ (398)	1.0%	\$ 451	113.3%