

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

May 06, 2008

**UNITED STATES SECURITIES AND EXCHANGE  
COMMISSION**

Washington, D.C. 20549







# FORM 10-Q

x

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

**For the quarterly period ended March 28, 2008**

**OR**

**OR**



o

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

**Commission file number: 000-50499**

**MINDSPEED TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

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

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

**92660-3095**  
(Zip code)

Registrant's telephone number, including area code:

**(949) 579-3000**

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

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

Large Accelerated Filer o

Accelerated Filer x

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

Smaller Reporting Company o

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

The number of outstanding shares of the Registrant's Common Stock as of April 25, 2008 was 118,949,693.

### FORWARD-LOOKING STATEMENTS

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

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

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- our ability to achieve revenue growth and profitability, or to sustain positive cash flows from operations, and the expected period through which we will continue to incur losses and negative cash flows;
- our plans to reduce operating expenses, the amount and timing of any such expense reductions, and its effects on cash flow;
- our anticipation that we will continue our intellectual property strategy in future periods;
- our anticipation that we will not pay a dividend in the foreseeable future;
- the dependence of our operating results on our ability to develop and introduce new products and enhancements to existing products on a timely basis;
- our belief that we may implement a reverse stock split and the possible effects of any reverse stock split;
- the continuation of a trend toward industry consolidation and the effect it could have on our operating results;
- our belief that we are benefiting from the increasing deployment of Internet protocol-based networks both in new network buildouts (particularly in Asia) and the replacement of circuit-switched networks;

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- the sufficiency of our existing sources of liquidity and expected sources of cash to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for the next 12 months;
- our expectation of paying our obligations relating to our restructuring plans and other obligations over their respective terms, our intention to fund those payments from available cash balances and funds from product sales, and the impact of such payments on our liquidity;
- the circumstances under which we may need to seek additional financing, our ability to obtain any such financing and any consideration of acquisition opportunities;
- our expectation that our provision for income taxes for fiscal 2008 will principally consist of income taxes related to our foreign operations;
- our expectations with respect to our recognition of income tax benefits in the future;
- our restructuring plans, including expected workforce reductions and facilities closures, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments to complete the actions, the source of funds for such payments, the impact on our liquidity and the resulting decreases in our research and development and selling, general and administrative expenses, and the amounts of future charges to complete our restructuring plans;
- our beliefs regarding the effect of the disposition of pending or asserted legal matters;
- our acquisition strategy, the means of financing such a strategy, and the impact of any past or future acquisitions, including the impact on revenue, margin and profitability;
- our intentions to market, sell and support acquired Ethernet aggregation products and to develop and further extend the Ethernet MAC product line;
- our plans relating to our use of stock-based compensation, the effectiveness of our incentive compensation programs and the expected amounts of stock-based compensation expense in future periods;
- our belief that the financial stability of suppliers is an important consideration in our customers' purchasing decisions;

- the amount and timing of future payments under contractual obligations; and
- the impact of recent accounting pronouncements and the adoption of new accounting standards.

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

- market demand for our new and existing products and our ability to increase our revenues;
- downturns in the semiconductor industry;
- political and economic uncertainties affecting our foreign operations;
- our ability to maintain operating expenses within anticipated levels;
- our ability to further generate cash;
- terms and availability of financing;
- supply constraints due to our dependence on third-party manufacturers;

- our ability to successfully and cost effectively establish and manage operations in foreign jurisdictions;
- the ability to attract and retain qualified personnel;
- successful development and introduction of new products;
- our ability to successfully integrate acquired businesses and realize the anticipated benefits from such acquisitions;
- our ability to obtain design wins and develop revenues from them;
- pricing pressures and other competitive factors;
- industry consolidation;
- order and shipment uncertainty;
- changes in our customers' inventory levels and inventory management practices;
- investor, vendor and customer confidence in our company and products;
- risks associated with business acquisitions and investments;
- fluctuations in manufacturing yields;
- fluctuations in the price of our common stock;

- our ability to meet the listing standards of The NASDAQ Stock Market LLC;
- product defects; and
- the expense of and our ability to defend our intellectual property against infringement claims by others.

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

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MINDSPEED TECHNOLOGIES, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## MINDSPEED TECHNOLOGIES, INC.

## Consolidated Condensed Balance Sheets

(unaudited, in thousands, except per share amounts)

	March 28, 2008	September 28, 2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 28,690	\$ 25,796
Receivables, net of allowance for doubtful accounts of \$350 and \$353 at March 28, 2008 and September 28, 2007, respectively	17,681	13,584
Inventories	9,662	15,023
Other current assets	2,479	3,763
Total current assets	58,512	58,166
Property, plant and equipment, net	13,061	13,147
Intangible assets, net	2,795	3,200
Goodwill	2,429	2,324
License agreements, net	2,655	1,798
Other assets	2,832	3,444
Total assets	\$ 82,284	\$ 82,079
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 7,216	\$ 7,117
Deferred income on sales to distributors	3,516	4,226
Accrued compensation and benefits	5,606	5,286
Accrued income tax	111	752
Restructuring	540	1,478
Other current liabilities	3,332	3,493
Total current liabilities	20,321	22,352
Convertible senior notes	45,255	45,037
Other liabilities	651	444
Total liabilities	66,227	67,833
Commitments and contingencies		
<b>Stockholders Equity</b>		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value: 500,000 shares authorized; 119,135 and 115,759 shares issued at March 28, 2008 and September 28, 2007, respectively		
	1,191	1,158
Additional paid-in capital	266,057	262,501
Accumulated deficit	(236,944)	(234,480)
Accumulated other comprehensive loss	(14,247)	(14,933)
Total stockholders equity	16,057	14,246
Total liabilities and stockholders equity	\$ 82,284	\$ 82,079

See accompanying notes to consolidated condensed financial statements.

## MINDSPEED TECHNOLOGIES, INC.

## Consolidated Condensed Statements of Operations

(unaudited, in thousands, except per share amounts)

	Three months ended		Six months ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Net revenues	\$ 36,248	\$ 30,758	\$ 71,549	\$ 60,915
Cost of goods sold	11,799	10,817	22,141	21,494
Gross margin	24,449	19,941	49,408	39,421
Operating expenses:				
Research and development	13,704	14,710	27,422	30,310
Selling, general and administrative	11,674	11,279	23,180	22,072
Special charges	93	1,237	174	4,832
Total operating expenses	25,471	27,226	50,776	57,214
Operating loss	(1,022)	(7,285)	(1,368)	(17,793)
Interest expense	(564)	(559)	(1,126)	(1,118)
Other (expense) income, net	(186)	320	(25)	267
Loss before income taxes	(1,772)	(7,524)	(2,519)	(18,644)
Provision for income taxes	65	95	147	292
Net loss	\$ (1,837)	\$ (7,619)	\$ (2,666)	\$ (18,936)
Net loss per share, basic and diluted	\$ (0.02)	\$ (0.07)	\$ (0.02)	\$ (0.17)
Weighted-average number of shares used in per share computation	115,225	110,429	114,501	109,405

See accompanying notes to consolidated condensed financial statements.

## MINDSPEED TECHNOLOGIES, INC.

## Consolidated Condensed Statements of Cash Flows

(unaudited, in thousands)

	Six months ended	
	March 28, 2008	March 30, 2007
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (2,666)	\$ (18,936)
Adjustments to reconcile net loss to net cash Provided by (used in) operating activities:		
Depreciation and amortization	3,115	2,589
Stock-based compensation	3,027	3,585
Inventory provisions	(1,064)	(228)
Other non-cash items, net	258	254
Changes in assets and liabilities, net of effects of acquisitions:		
Receivables	(3,917)	4,103
Inventories	6,425	669
Accounts payable	1,265	(1,958)
Deferred income on sales to distributors	(716)	(1,198)
Accrued expenses and other current liabilities	147	2,569
Other	2,335	1,141
Net cash provided by (used in) operating activities	8,209	(7,410)
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(4,127)	(1,822)
Acquisition of assets, net of cash acquired	(1,172)	