MINDSPEED TECHNOLOGIES, INC
Form 10-Q
February 09, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 1, 2010

OR

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

Commission file number: 001-31650

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code:
(949) 579-3000

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

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

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

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

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

The number of outstanding shares of the Registrant s Common Stock as of January 29, 2010 was 29,122,100.

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FORWARD-LOOKING STATEMENTS

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

- the ability of our relationships with network infrastructure original equipment manufacturers to facilitate early adoption of our products, enhance our ability to obtain design wins and encourage adoption of our technology in the industry;
- the growth prospects for the network infrastructure equipment and communications semiconductors markets, including increased demand for network capacity, the upgrade and expansion of 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 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;
- our ability to achieve design wins and convert design wins into revenue;
- the continuation of intense price and product competition, and the resulting declining average selling prices for our products;
- the impact of changes in customer purchasing activities, inventory levels and inventory management practices;
- the challenges of shifting any operations or labor offshore, including the likelihood of competition in offshore markets for qualified personnel;
- our ability to achieve revenue growth, regain and sustain profitability and positive cash flows from operations;
- our plans to reduce operating expenses, the amount and timing of any such expense reductions, and its effects on cash flow;
- our anticipation that we will not pay a dividend in the foreseeable future;
- the dependence of our operating results on our ability to develop and introduce new products and enhancements to existing products on a timely basis;
- the continuation of a trend toward industry consolidation and the effect it could have on our operating results;

the sufficiency of our existing sources of liquidity and expected sources of cash to repay the remaining $15.0 million in senior convertible debt and fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for the next 12 months;

the circumstances under which we may need to seek additional financing, our ability to obtain any such financing and any consideration of acquisition opportunities;

our expectation that our provision for income taxes for fiscal 2010 will principally consist of income taxes related to our foreign operations;

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

our restructuring plans, including timing, expected workforce reductions, the closure of the Dubai facility, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments to complete the actions, the source of funds for such payments, the impact on our liquidity and the resulting decreases in our research and development and selling, general and administrative expenses, and the amounts of future charges to complete our restructuring plans;

our plans with respect to future actions to reduce operating expenses and/or increase revenues;

our beliefs regarding the effect of the disposition of pending or asserted legal matters and the possibility of future legal matters;

our acquisition strategy, the means of financing such a strategy, and the impact of any past or future acquisitions, including the impact on revenue, margin and profitability;

our plans relating to our use of stock-based compensation, the effectiveness of our incentive compensation programs and the expected amounts of stock-based compensation expense in future periods;

our belief that the financial stability of suppliers is an important consideration in our customers purchasing decisions;

the effects of a downturn in the semiconductor industry and the general economy at large, including the impact of slower economic activity, an increase in bankruptcy filings, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, recent international conflicts and terrorist and military activity and the impact of natural disasters and public health emergencies on our revenue and results of operation;

the impact of reductions, delays and cancellation of orders from key customers given our dependence on a relatively small number of end customers and distributors for a significant portion of our revenue and our lack of long term purchase commitments;

the impact of volatility in the stock market on the market price of our common stock;

the impact on our business if we fail to comply with the minimum listing requirements for continued quotation on the Nasdaq Global Market;

the effect of changes in the amount of research coverage of our common stock, changes in earnings estimates or buy/sell recommendations by analysts and changes in investor perception of us and the industry in which we operate;

the effect of shifts in our product mix and the effect of maturing products;

the continued availability and costs of products from our suppliers;

- the value of our intellectual property, and our ability to continue recognizing patent-related revenues from the sale or licensing of our intellectual property and our plans to pursue our current intellectual property strategy;
- market demand for our new and existing products and our ability to increase our revenues;
- our intentions with respect to inventories that were previously written down and the effects on future demand and market conditions on inventory write-downs;
- our beliefs regarding the end-markets for sales of products to original equipment manufacturers and third-party manufacturing service providers in the Asia-Pacific region;
- our intention to continue to expand our international business activities, including expansion of design and operations centers abroad;
- our expectations regarding fluctuations in our growth patterns; and
- the impact of recent accounting pronouncements and the adoption of new accounting standards.

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

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

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- 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.

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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)

	January 1, 2010	October 2, 2009 As Adjusted - Note 5
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,481	$ 20,891
Receivables, net of allowance for doubtful accounts of $144 at both January 1, 2010 and October 2, 2009	12,743	7,662
Inventories	9,395	10,902
Deferred tax assets current	1,528	1,574
Prepaid expenses and other current assets	2,801	2,529
Total current assets	37,948	43,558
Property, plant and equipment, net	11,639	11,018
License agreements, net	6,824	6,505
Other assets	1,291	1,382
Total assets	$ 57,702	$ 62,463
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 7,673	$ 6,338
Accrued compensation and benefits	5,862	5,788
Accrued income tax	413	525
Deferred income on sales to distributors	5,063	2,604
Deferred revenue	796	1,106
Restructuring	925	448
Convertible senior notes short term		10,349
Other current liabilities	2,457	2,177
Total current liabilities	23,189	29,335
Convertible senior notes long term	13,513	13,415
Other liabilities	1,408	823
Total liabilities	38,110	43,573
Commitments and contingencies (Note 6)		
Stockholders Equity		
Preferred stock, $0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
	291	288

Common stock, $0.01 par value, 100,000 shares authorized; 29,056 (January 1, 2010) and 28,756 (October 2, 2009) issued and outstanding shares		
Additional paid-in capital	297,283	296,333
Accumulated deficit	(263,023)	(262,863)
Accumulated other comprehensive loss	(14,959)	(14,868)
Total stockholders equity	19,592	18,890
Total liabilities and stockholders equity	$ 57,702	$ 62,463

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended January 1, 2010	Three months ended January 2, 2009 As Adjusted - Note 5
Net revenues:		
Products	$ 37,026	$ 27,731
Intellectual Property		3,000
Total net revenues	37,026	30,731
Cost of goods sold	13,463	9,749
Gross margin	23,563	20,982
Operating expenses:		
Research and development	12,588	13,344
Selling, general and administrative	9,634	11,123
Special charges	860	2,305
Total operating expenses	23,082	26,772
Operating income (loss)	481	(5,790)
Interest expense	(630)	(913)
Other income, net	5	1,042
Loss before income taxes	(144)	(5,661)
Provision for income taxes	16	90
Net loss	$ (160)	$ (5,751)
Net loss per share, basic and diluted	$ (0.01)	$ (0.25)
Weighted-average number of shares used in per share computation	28,500	23,407

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended January 1, 2010	Three months ended January 2, 2009 As Adjusted - Note 5
Cash Flows From Operating Activities		
Net loss	$ (160)	$ (5,751)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities, net of effects of acquisitions:		
Depreciation and amortization	1,431	1,650
Special charges	860	2,305
Stock-based compensation	940	967
Inventory provisions	963	486
Gain on debt extinguishment		(1,121)
Amortization of debt discount on convertible senior notes	249	446
Other non-cash items, net	197	176
Changes in assets and liabilities:		
Receivables	(5,097)	5,837
Inventories	544	(2,701)
Accounts payable	714	(3,900)
Deferred revenue	2,459	(743)
Restructuring	(395)	(956)
Accrued expenses and other current liabilities	(365)	(175)
Other	(359)	213
Net cash provided by / (used in) operating activities	1,981	(3,267)
Cash Flows From Investing Activities		
Capital expenditures	(808)	(2,175)
Net cash used in investing activities	(808)	(2,175)
Cash Flows From Financing Activities		
Extinguishment of convertible debt	(10,500)	(17,320)
Payments made on capital lease obligations	(151)	
Borrowings under line of credit	7,000	
Payments made on borrowings under line of credit	(7,000)	
Debt issuance costs		(244)
Exercise of stock options and warrants	44	
Net cash used in financing activities	(10,607)	(17,564)

Effect of foreign currency exchange rates on cash	24	3
Net decrease in cash and cash equivalents	(9,410)	(23,003)
Cash and cash equivalents at beginning of period	20,891	43,033
Cash and cash equivalents at end of period	$ 11,481	$ 20,030

See accompanying notes to consolidated condensed financial statements.

MINDSPEED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, broadband access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 18,066,689 outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. Prior to the Distribution, Conexant transferred to Mindspeed the assets and liabilities of the Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to Mindspeed under the Distribution Agreement entered into between Conexant and Mindspeed. Also prior to the Distribution, Conexant contributed to Mindspeed cash in an amount such that at the time of the distribution Mindspeed s cash balance was $100.0 million. Mindspeed issued to Conexant a warrant to purchase approximately 6.1 million shares of Mindspeed common stock at a price of $16.74 per share (adjusted to reflect a change in the number of shares and exercise price, which resulted from the offering of common stock that the Company completed in fourth quarter fiscal 2009), exercisable for a period beginning one year and ending ten years after the Distribution. Following the Distribution, Mindspeed began operations as an independent, publicly held company.

In order to regain and sustain profitability and positive cash flows from operations, the Company may need to further reduce operating expenses and/or increase revenues. The Company has completed a series of cost reduction actions which have improved its operating cost structure, and will continue to assess the need to perform additional actions, when necessary. These expense reductions alone may not allow the Company to return to the profitability it achieved in the fourth quarter of fiscal 2008. The Company s ability to achieve the necessary revenue growth to return to profitability will depend on increased demand for network infrastructure equipment that incorporates its products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises, the level of which may decrease due to general economic conditions and uncertainty, over which the Company has no control. The Company may not be successful in achieving the necessary revenue growth or it may be unable to sustain past and future expense reductions in subsequent periods. The Company may not be able to regain or sustain profitability.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from product sales and the sale or licensing of intellectual property and its existing line of credit with Silicon Valley Bank, will be sufficient to fund its operations (including its research and development efforts) anticipated capital expenditures, working capital and other financing requirements, including interest payments on debt obligations, for the next 12 months. In November 2009, the Company repaid the $10.5 million outstanding balance of its 3.75% convertible senior notes, and has no other principal payments on currently outstanding debt due in the next 12 months. From time to time, the Company may acquire its debt securities through privately negotiated transactions, tender offers, exchange offers (for new debt or other securities), redemptions or otherwise, upon such terms and at such prices as the Company may determine appropriate. The Company will need to continue a focused program of capital expenditures to meet its research and development and corporate requirements. The Company may also consider acquisition opportunities to extend its technology portfolio and design expertise and to expand its product offerings. In order to fund capital expenditures, increase its working capital or complete any acquisitions, the Company may seek to obtain additional debt or equity financing. The Company may also need to seek to obtain additional debt or equity financing if it experiences downturns or cyclical fluctuations in its business that are more severe or longer than anticipated or if it fails to achieve anticipated revenue and expense levels. However, the Company cannot assure you that such financing will be available on favorable terms, or at all particularly in light of recent economic conditions in the capital markets.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and special charges (Note 7), necessary to present fairly the Company s financial position, results of operations and cash flows in accordance with generally accepted accounting principles (GAAP) in the United States of America. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended October 2, 2009. The Company has evaluated the impact of subsequent events on these interim consolidated financial statements through February 9, 2010.

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In June 2009, the Financial Accounting Standards Board, or FASB, established the Accounting Standards Codification, ASC or Codification, as the source of authoritative GAAP recognized by the FASB. The Codification is effective in the first interim and annual periods ending after September 15, 2009 and had no effect on the Company s consolidated financial statements.

Fiscal Periods The Company s interim fiscal quarters end on the thirteenth Friday of each quarter. The first quarter of fiscal 2010 and 2009 ended on January 1, 2010 and January 2, 2009, respectively.

Recent Accounting Standards On October 3, 2009, the Company adopted ASC 470-20, for the accounting of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlements), formerly FASB Staff Position APB 14-1. This standard required retrospective adjustments to prior period financial statements to conform with the current accounting treatment. Accordingly, the Company s prior period financial statements have been adjusted. ASC 470-20 requires that convertible debt instruments that may be settled in cash be separated into a debt component and an equity component. The value assigned to the debt component as of the issuance date is the estimated fair value of a similar debt instrument without the conversion feature. The difference between the proceeds obtained for the instruments and the estimated fair value assigned to the debt component represents the equity component. See Note 5 for additional information on the adoption of this accounting standard.

On October 3, 2009, the Company adopted ASC 260-10-45-61A, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This authoritative guidance provides that before the completion of an award s requisite service period, all outstanding awards that contain rights to nonforfeitable dividends in undistributed earnings with common stock are participating securities and shall be included in the computation of earnings per share. The Company determined that a limited number of its instruments granted in share-based payment transactions contained rights to nonforfeitable dividends in undistributed earnings. During the first quarter of fiscal 2010, the Company amended the related instruments plan documents to eliminate this provision and therefore no longer has any instruments subject to this authoritative guidance. The Company has determined that there is no impact to its presentation of earnings per share in any historical periods by including the limited number of applicable instruments prior to this plan amendment.

In September 2006, the FASB issued provisions under ASC 820-10, Fair Value Measurements and Disclosures, in order to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. In February 2008, the FASB released additional guidance under ASC 820-10, which delayed the effective date of the September 2006 provisions for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Consistent with the February 2008 updates, the Company elected to defer the adoption of the September 2006 provisions for nonfinancial assets and liabilities measured at fair value on a non-recurring basis until October 3, 2009. The Company adopted ASC 820-10 for non-financial assets and liabilities on October 3, 2009. This adoption did not have a material impact on the Company s consolidated financial statements.

Income Taxes The provision for income taxes for the three months ended January 1, 2010 and January 2, 2009 principally consists of income taxes incurred by the Company s foreign subsidiaries. In the three months of fiscal 2010, there has been no change in the balance of unrecognized tax benefits. The Company does not expect that the unrecognized tax benefit will change significantly within the next 12 months.

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

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

	Three months ended	
	January 1, 2010	**January 2, 2009**
Customer A	16%	18%
Customer B	11%	13%
Customer C	11%	9%

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

	January 1, 2010	**October 2, 2009**
Customer A	8%	19%
Customer B	2%	10%
Customer D	22%	4%
Customer E	18%	0%
Customer F	10%	6%
Customer G	4%	10%

Supplemental Cash Flow Information Interest paid for the three months ended January 1, 2010 and January 2, 2009 was $231,000 and $842,000, respectively. Income taxes paid, net of refunds received, for the three months ended January 1, 2010 and January 2, 2009 were $12,000 and $311,000, respectively. Non-cash investing activities in the first quarter of fiscal 2010 consisted of the purchase of $723,000 of property and equipment from suppliers on account, the license of $99,000 of intellectual property on account, and the purchase of $761,000 of equipment through capital leasing arrangements. Non-cash investing activities in the first three months of fiscal 2009 consisted of the purchase of $75,000 of property and equipment from suppliers on account, as well as the license of $2.7 million of intellectual property on account.

2. Supplemental Financial Statement Data

Inventories

Inventories consist of the following (in thousands):

	January 1, 2010	**October 2, 2009**
Work-in-process	$ 3,513	$ 4,124
Finished goods	5,882	6,778
Total inventories	$ 9,395	$ 10,902

During the three months ended January 1, 2010 and January 2, 2009, the Company s gross margin included a benefit of approximately $492,000 and $630,000, respectively, from the sale of inventory that had been written down to a zero cost basis during fiscal 2001. As of January 1, 2010, the Company continued to hold inventories with an original cost of $3.3 million, which were written down to a zero cost basis during fiscal 2001.

Deferred Income on Shipments to Distributors

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

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