

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

February 09, 2010

**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 January 1, 2010**

**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)**

**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  Smaller reporting company   
(Do not check if a 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 January 29, 2010 was 29,122,100.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains statements relating to Mindspeed Technologies, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor created by those sections. All statements included in this Quarterly Report on Form 10-Q, other than those that are purely historical, are forward-looking statements. Words such as expect, believe, anticipate, outlook, could, target, project, intend, plan, seek, estimate and continue, as well as variations of such words and similar expressions, also identify forward-looking statements.

Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding:

- the ability of our relationships with network infrastructure original equipment manufacturers to facilitate early adoption of our products, enhance our ability to obtain design wins and encourage adoption of our technology in the industry;

- the growth prospects for the network infrastructure equipment and communications semiconductors markets, including increased demand for network capacity, the upgrade and expansion of 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;

**Table of Contents**

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;

**Table of Contents**

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;

**Table of Contents**

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.

**MINDSPEED TECHNOLOGIES, INC.  
INDEX**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Consolidated Condensed Balance Sheets January 1, 2010 and October 2, 2009</u>	7
<u>Consolidated Condensed Statements of Operations Three Months Ended January 1, 2010 and January 2, 2009</u>	8
<u>Consolidated Condensed Statements of Cash Flows Three Months Ended January 1, 2010 and January 2, 2009</u>	9
<u>Notes to Consolidated Condensed Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	35
<u>Item 4. Controls and Procedures</u>	36
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
<u>Item 6. Exhibits</u>	49
<u>Signature</u>	50
<u>Exhibit 10.1</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**MINDSPEED TECHNOLOGIES, INC.**  
**Consolidated Condensed Balance Sheets**  
(unaudited, in thousands, except per share amounts)

	<b>January 1, 2010</b>	<b>October 2, 2009 As Adjusted - Note 5</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
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
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
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)		
<b>Stockholders' Equity</b>		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding	291	288



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

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.

**Table of Contents**

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

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009 As Adjusted - Note 5</b>
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.		



**Table of Contents**

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

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
		<b>As Adjusted - Note 5</b>
<b>Cash Flows From Operating Activities</b>		
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)
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(808)	(2,175)
Net cash used in investing activities	(808)	(2,175)
<b>Cash Flows From Financing Activities</b>		
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)

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

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.

**Table of Contents**

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

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

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, broadband access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 18,066,689 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.

**Table of Contents**

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.





**Table of Contents**

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

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
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:

	<b>January 1, 2010</b>	<b>October 2, 2009</b>
	Customer A	8%
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):

	<b>January 1, 2010</b>	<b>October 2, 2009</b>
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):

	<b>January 1, 2010</b>	<b>October 2, 2009</b>
Deferred revenue on shipments to distributors	\$ 5,592	\$ 2,984
Deferred cost of inventory on shipments to distributors	(588)	(422)
Reserves	59	42

Deferred income on sales to distributors	\$	5,063	\$	2,604
--	----	-------	----	-------

**Table of Contents****Comprehensive Loss**

Comprehensive loss is as follows (in thousands):

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
		<b>As Adjusted - Note 5</b>
Net loss	\$ (160)	\$ (5,751)
Foreign currency translation adjustments, net of tax	(92)	(341)
Comprehensive loss	\$ (252)	\$ (6,092)

The balance of accumulated other comprehensive loss at January 1, 2010 and January 2, 2009 consists of accumulated foreign currency translation adjustments.

**Revenues by Product Line**

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

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
Multiservice access DSP products	\$ 13,955	\$ 10,789
High-performance analog products	11,580	10,519
WAN communications products	11,491	6,423
Intellectual property		3,000
Total net revenues	\$ 37,026	\$ 30,731

**Revenues by Geographic Area**

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

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
Americas	\$ 8,618	\$ 12,319
Asia-Pacific	26,056	14,294
Europe, Middle East and Africa	2,352	4,118
Total net revenues	\$ 37,026	\$ 30,731

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

**3. Fair Value Measurements**

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 and convertible senior notes.

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.

**Level 1** uses unadjusted quoted prices that are available in active markets for identical assets or liabilities.

The Company's Level 1 assets include investments in money market funds.

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

**Table of Contents**

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

The following table represents financial assets that the Company measured at fair value in accordance with ASC 825, Financial Instruments. The Company has classified these assets and liabilities in accordance with the fair value hierarchy set forth in ASC 820 (in thousands):

	Quoted Prices in Active Markets for Identical Instruments  (Level 1)	Significant Other Observable Inputs  (Level 2)	Total Fair Value as of January 1, 2010
January 1, 2010			
Assets:			
Cash equivalents	\$ 11,481		\$ 11,481
Liabilities:			
Senior convertible debt		\$ 18,716	\$ 18,716

	Quoted Prices in Active Markets for Identical Instruments  (Level 1)	Significant Other Observable Inputs  (Level 2)	Total Fair Value as of October 2, 2009
October 2, 2009			
Assets:			
Cash equivalents	\$ 20,891		\$ 20,891
Liabilities:			
Senior convertible debt		\$ 25,096	\$ 25,096

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

	January 1, 2010		October 2, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash equivalents	\$ 11,481	\$ 11,481	\$ 20,891	\$ 20,891
Liabilities:				
Senior convertible debt	\$ 13,513	\$ 18,716	\$ 25,486	\$ 25,096

**4. Stock-Based Compensation**

The Company accounts for stock-based compensation under the provisions of ASC 718, Compensation - Stock Compensation. ASC 718 requires that the Company account for all stock-based compensation using a fair-value method and recognize the fair value of each award as an expense over the service period.

Stock-based compensation awards generally vest over time and require continued service to the Company and, in some cases, require the achievement of specified performance conditions. The amount of compensation expense

recognized is based upon the number of awards that are ultimately expected to vest. The Company estimates forfeiture rates of 10% to 12.5% depending on the characteristics of the award.

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

**Table of Contents**

The fair value of stock options awarded during the three months ended January 1, 2010 and January 2, 2009 was estimated at the date of grant using the Black-Scholes option-pricing model. The following table summarizes the weighted-average assumptions used and the resulting fair value of options granted:

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
Weighted-average fair value of options granted	\$ 2.48	\$ 0.61
Weighted-average assumptions:		
Expected option life	2.6 years	2.9 years
Risk-free interest rate	1.2%	1.4%
Expected volatility	96%	76%
Dividend yield		

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

Stock-based compensation expense related to employee stock options and restricted stock under ASC 718 was allocated as follows (in thousands):

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
Cost of goods sold	\$ 32	\$ 35
Research and development	307	340
Selling, general and administrative	601	592
Total stock-based compensation expense	\$ 940	\$ 967

*Stock Compensation Plans*

The Company has two principal stock incentive plans: the 2003 Long-Term Incentives Plan and the Directors Stock Plan. The 2003 Long-Term Incentives Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards to officers and employees of the Company. The Directors Stock Plan provides for the grant of stock options, restricted stock units and other stock-based awards to the Company's non-employee directors. On March 10, 2009, the stockholders of the Company approved a plan amendment, which included an increase in the authorized number of shares reserved for issuance under the 2003 Long-Term Incentives Plan to approximately 6.7 million shares. As of January 1, 2010, an aggregate of 1.5 million shares of the Company's common stock were available for issuance under these plans.

The Company also has a 2003 Stock Option Plan, under which stock options were issued in connection with the Distribution. In the Distribution, each holder of a Conexant stock option (other than options held by persons in certain foreign locations) received an option to purchase a number of shares of Mindspeed common stock. The number of shares subject to, and the exercise prices of, the outstanding Conexant options and the Mindspeed options were adjusted so that the aggregate intrinsic value of the options was equal to the intrinsic value of the Conexant option immediately prior to the Distribution and the ratio of the exercise price per share to the market value per share of each option was the same immediately before and after the Distribution. As a result of such option adjustments, Mindspeed issued options to purchase an aggregate of approximately six million shares of its common stock to holders of



Conexant stock options (including Mindspeed employees) under the 2003 Stock Option Plan. There are no shares available for new stock option awards under the 2003 Stock Option Plan. However, any shares subject to the unexercised portion of any terminated, forfeited or cancelled option are available for future option grants only in connection with an offer to exchange outstanding options for new options.

Prior to February 2007, the Company maintained employee stock purchase plans for its domestic and foreign employees. Under ASC 718, the plans were non-compensatory and the Company has recorded no compensation expense in connection therewith. The employee stock purchase plans were terminated by the Company's board of directors effective February 28, 2007.

**Table of Contents**

From time to time, the Company may issue, and has previously issued stock based awards outside of these plans pursuant to stand-alone agreements and in accordance with NASDAQ Listing Rule 5635(c).

***Stock Option Awards***

Prior to fiscal 2006, stock-based compensation consisted principally of stock options. Eligible employees received grants of stock options at the time of hire; the Company also made broad-based stock option grants covering substantially all employees annually. Stock option awards have exercise prices not less than the market price of the common stock at the grant date and a contractual term of eight or ten years, and are subject to time-based vesting (generally over four years). On April 10, 2009, the Company offered current eligible employees of Mindspeed and its subsidiaries the right to exchange certain unexercised options to purchase shares of the Company's common stock. The offer period on the exchange program ended on May 15, 2009, at which time the Company exchanged 754,000 previously issued stock options for 250,000 new stock options with an exercise price of \$1.70, the market price of the Company's common stock on that date. The Company has chosen to account for this transaction under the bifurcated approach whereby the remaining unamortized expense of the exchanged awards is recognized over the original award period. The Company recorded an insignificant amount of incremental compensation expense in conjunction with this exchange.

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

	<b>Number</b>	<b>Weighted-Average</b>	<b>Weighted-Average</b>
	<b>of Shares</b>	<b>Exercise Price</b>	<b>Remaining Contractual Term</b>
Outstanding at October 2, 2009	3,128	\$ 6.48	4.9 years
Granted	408	4.36	
Exercised	(17)	2.65	
Forfeited or expired	(58)	10.34	
Outstanding at January 1, 2010	3,461	6.19	5.1 years
Exercisable at end of period	1,471	\$ 10.56	2.7 years

As of January 1, 2010, there was unrecognized compensation expense of \$2.6 million related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.4 years. The aggregate intrinsic value of both options outstanding and options exercisable as of January 1, 2010 was \$4.0 million and \$243,000, respectively.

***Restricted Stock Awards***

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

Many of the Company's restricted stock awards are intended to provide performance emphasis and incentive compensation through vesting tied to each employee's performance against individual goals, as well as to improvements in the Company's operating performance. The actual amounts of expense will depend on the number of awards that ultimately vest upon the satisfaction of the related performance and service conditions.



**Table of Contents**

The fair value of each award is charged to expense over the service period. The following table summarizes restricted stock award activity (shares in thousands):

	Number of Shares	Weighted- Average Grant Date Fair Value
Nonvested shares at October 2, 2009	371	\$ 4.50
Granted	286	4.38
Vested	(93)	4.90
Forfeited	(1)	4.64
Nonvested shares at January 1, 2010	563	\$ 4.05

The total fair value of shares vested during the three months ended January 1, 2010 was \$416,000. As of January 1, 2010 there was unrecognized compensation expense of \$1.5 million related to unvested restricted stock awards, which the Company expects to recognize over a weighted-average period of less than one year.

**5. Revolving Credit Facility and Convertible Senior Notes***Revolving Credit Facility*

At January 1, 2010, the Company had no outstanding borrowings under the revolving credit facility.

*3.75% Convertible Senior Notes due 2009*

In December 2004, the Company sold \$46.0 million aggregate principal amount of 3.75% convertible senior notes due 2009 for net proceeds (after discounts and commissions) of approximately \$43.9 million. The notes were senior unsecured obligations of the Company, ranking equal in right of payment with all future unsecured indebtedness. The convertible senior notes had an interest rate of 3.75%, payable semiannually in arrears each May 18 and November 18.

The notes were convertible, at the option of the holder, at any time prior to maturity into shares of the Company's common stock. If the notes had been converted, the Company had the option to elect to deliver cash in lieu of shares of its common stock or a combination of cash and shares of common stock. Effective May 13, 2005, the conversion price of the notes was adjusted to \$11.55 per share of common stock, which was equal to a conversion rate of approximately 86.58 shares of common stock per \$1,000 principal amount of notes. Prior to this adjustment, the conversion price applicable to the notes was \$14.05 per share of common stock, which was equal to approximately 71.17 shares of common stock per \$1,000 principal amount of notes. The adjustment was made pursuant to the terms of the indenture governing the notes. The conversion price was subject to further adjustment under the terms of the indenture to reflect stock dividends, stock splits, issuances of rights to purchase shares of common stock and certain other events.

In July 2008, \$15.0 million of the 3.75% convertible senior notes were exchanged as discussed below. In October 2008, the Company repurchased \$20.5 million aggregate principal amount of the notes due in November 2009, for \$17.3 million in cash. The repurchases occurred in two separate transactions on October 16 and October 23, 2008. During the first quarter of fiscal 2010, the 3.75% convertible senior notes matured and the remaining balance of \$10.5 million was repaid.

*6.50% Convertible Senior Notes due 2013*

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its 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 2013. The exchanges 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.

**Table of Contents**

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.

For financial accounting purposes, the Company's contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is an embedded derivative. As of January 1, 2010, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

*Impact of Adoption of New Accounting Standard*

ASC 470-20, the new accounting standard for convertible debt that may be settled in cash upon conversion, changed the accounting for the Company's convertible notes and the related debt issuance costs. Prior to the issuance of this accounting standard, the Company reported the 3.75% convertible senior notes at their principal amount of \$46.0 million, less an original issuance discount of \$2.1 million, in long-term debt and capitalized debt issuance costs amounting to approximately \$400,000. Upon adoption of the new accounting standard as of October 3, 2009, the Company adjusted the accounting for these convertible notes and the related deferred financing costs for all prior periods since their initial issuance, as described in Note 1. The Company determined that the estimated fair value of debt instruments similar to its 3.75% convertible senior notes, without the conversion feature, was \$28.4 million at the time of issuance. The resulting \$17.6 million discount on the debt was amortized through interest expense over the period from December 2004 through November 2009, which represented the expected life of the debt. The equity component, recorded as additional paid-in capital, was \$15.6 million as of the date of issuance, which represents the difference between the proceeds from issuance of the 3.75% senior convertible notes and the fair value of the debt as of the date of issuance. Additionally, the Company reclassified approximately \$146,000 of the deferred financing costs to equity as equity issuance costs, which will not be amortized to the statement of operations.

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its 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 2013. Prior to the issuance of this accounting standard, the Company reported the 6.50% convertible senior notes at their principal amount of \$15.0 million in long-term debt and capitalized debt issuance costs amounting to approximately \$900,000. Upon adoption of the new accounting standard as of October 3, 2009, the Company also adjusted the accounting for these convertible notes and the related deferred financing costs for all prior periods since their initial issuance. The Company determined that the estimated fair value of debt instruments similar to its 6.50% convertible senior notes, without the conversion feature, was \$13.0 million at the time of issuance. The resulting \$2.0 million discount on the debt will be amortized through interest expense over the period from August 2008 through August 2013, which represents the expected life of the debt. In conjunction with the exchange, the Company recorded a gain of approximately \$200,000 representing the difference between the fair value of the debt component of the newly issued instrument and the book value of the old debt instrument, less unamortized issuance costs. The carrying amount of the equity component upon this exchange transaction was \$2.0 million, however, there was no net charge to additional paid-in capital.

**Table of Contents**

In October 2008, the Company repurchased \$20.5 million aggregate principal amount of its 3.75% convertible senior notes due in November 2009, for cash of \$17.3 million. The repurchases occurred in two separate transactions on October 16 and October 23, 2008. In accordance with ASC 470-20, the Company recorded a gain of \$1.1 million related to these repurchases. The gain was calculated as the difference between the fair value of the liability component of the notes immediately before settlement, and the book value of the notes net of unamortized debt issuance costs. To measure the fair value of the repurchased notes as of the settlement dates, the Company calculated an implied interest rate of approximately 17% using Level 2 observable inputs. This rate was applied to the repurchased portion of the notes using the same present value technique used in the valuation performed as of the issuance date. No value was allocated to the equity component of the instrument at the time of these extinguishments. The October 2, 2009 condensed consolidated balance sheet and the consolidated condensed statement of operations and consolidated condensed statement of cash flows for the three months ended January 2, 2009 have been adjusted for the change in accounting principle as follows:

	As Previously		
<b>Consolidated Balance Sheet October 2, 2009 (in thousands)</b>	<b>Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
Other assets long term	\$ 1,479	\$ (97)	\$ 1,382
Total assets	62,560	(97)	62,463
Convertible senior notes short term	10,486	(137)	10,349
Total current liabilities	29,472	(137)	29,335
Convertible senior notes long term	15,000	(1,585)	13,415
Total liabilities	45,295	(1,722)	43,573
Additional paid-in capital	280,919	15,414	296,333
Accumulated deficit	(249,074)	(13,789)	(262,863)
Total stockholders equity	17,265	1,625	18,890
Total liabilities and stockholders equity	\$ 62,560	\$ (97)	\$ 62,463

	As Previously		
<b>Consolidated Condensed Statement of Operations Three months ended January 2, 2009 (in thousands)</b>	<b>Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
Interest expense	\$ 469	\$ 444	\$ 913
Other income, net	2,801	(1,759)	1,042
Loss before income taxes	(3,458)	(2,203)	(5,661)
Net loss	\$ (3,548)	\$ (2,203)	\$ (5,751)
Net loss per share, basic and diluted	\$ (0.15)	\$ (0.10)	\$ (0.25)
Weighted average number of shares used in per share calculation	23,407	23,407	23,407

	As Previously		
<b>Consolidated Condensed Statement of Cash Flows Three months ended January 2, 2009 (in thousands)</b>	<b>Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
Cash flows from operating activities:			
Net loss	\$ (3,548)	\$ (2,203)	\$ (5,751)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on debt extinguishment	(2,880)	1,759	(1,121)
Amortization of debt discount		446	446
Other non-cash items, net*	178	(2)	176

Net cash used in operating activities	\$ (3,267)	\$ (3,267)
---------------------------------------	------------	------------

\* Includes the amortization of debt issuance costs



**Table of Contents**

The following table sets forth balance sheet information related to the notes (in thousands):

	<b>January 1, 2010</b>	<b>October 2, 2009</b>
3.75% convertible senior notes		
Principal value of the liability component	\$	\$ 10,500
Unamortized value of the liability component		151
Net carrying value of the liability component	\$	\$ 10,349
6.50% convertible senior notes		
Principal value of the liability component	\$ 15,000	\$ 15,000
Unamortized value of the liability component	1,487	1,585
Net carrying value of the liability component	\$ 13,513	\$ 13,415

The following table sets forth interest expense information related to the notes (in thousands):

	<b>Three months ended</b>	
	<b>January 1, 2010</b>	<b>January 2, 2009</b>
3.75% convertible senior notes		
Interest expense coupon	\$ 48	\$ 137
Interest expense debt discount amortization	151	351
Total	\$ 199	\$ 494
Effective interest rate on the liability component for the period	14.68%	13.62%
6.50% convertible senior notes		
Interest expense coupon	\$ 244	\$ 244
Interest expense debt discount amortization	98	95
Total	\$ 342	\$ 339
Effective interest rate on the liability component for the period	9.12%	9.04%

**6. Commitments and Contingencies**

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

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that the Company will be able to license a third party's intellectual property. Injunctive relief could have a material adverse effect on the financial condition or results of operations of the Company. Based on its evaluation of matters which are pending or asserted, management of the Company believes the disposition of such

matters will not have a material adverse effect on the financial condition or results of operations of the Company.

**7. Special Charges**

Special charges consists of restructuring charges totaling \$860,000 in the first quarter of fiscal 2010 and \$2.3 million in the first quarter of fiscal 2009.

*Restructuring Charges*

*Mindspeed First Quarter Fiscal 2010 Restructuring Plan* In the first quarter of fiscal 2010, the Company announced the implementation of cost reduction measures consisting of a facilities consolidation and a targeted headcount reduction. During the first quarter of fiscal 2010, the Company incurred special charges of \$860,000 in connection with this restructuring, primarily related to contractual obligations on vacated space at its Newport Beach, California headquarters. The Company does not expect to incur any significant additional expenses related to this plan in future periods.

**Table of Contents**

Activity and liability balances related to the Company's first quarter of fiscal 2010 restructuring plan through January 1, 2010 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Charged to costs and expenses	\$ 287	\$ 573	\$ 860
Cash payments	(70)	(195)	(265)
Restructuring balance, January 1, 2010	\$ 217	\$ 378	\$ 595

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2010.

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

Activity and liability balances related to the Company's second quarter fiscal 2009 restructuring plan through January 1, 2010 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, October 2, 2009	\$ 78	\$	\$ 78
Cash payments	(19)		(19)
Restructuring balance, January 1, 2010	\$ 59	\$	\$ 59

The remaining accrued restructuring balance principally represents employee severance benefits. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2010.

*Mindspeed First Quarter Fiscal 2009 Restructuring Plan* During the first quarter of fiscal 2009, the Company implemented a restructuring plan under which it reduced its workforce by approximately 6%. In connection with this reduction in workforce, the Company recorded a charge of \$2.4 million for severance benefits payable to the affected employees. In December 2008, the Company vacated approximately 70% of its Massachusetts facility and recorded a charge related to contractual obligations on this space of approximately \$400,000. This restructuring plan is complete and the Company does not expect to incur significant additional expenses related to this restructuring plan in future periods.

Activity and liability balances related to the Company's first quarter fiscal 2009 restructuring plan through January 1, 2010 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, October 2, 2009	\$ 287	\$ 86	\$ 373
Cash payments	(60)	(48)	(108)
Restructuring balance, January 1, 2010	\$ 227	\$ 38	\$ 265



**Table of Contents**

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2011.

*Mindspeed Restructuring Plans* In fiscal 2006 and 2007, the Company implemented a number of cost reduction initiatives to improve its operating cost structure. These cost reduction initiatives included workforce reductions, significant reductions in capital spending and the consolidation of certain facilities. Activity under these initiatives was minimal in fiscal 2009 and the first quarter of fiscal 2010. The remaining accrued restructuring balance related to these plans is \$6,000 at January 1, 2010.

**8. Related Party Transactions**

The Company leases its headquarters and principal design center in Newport Beach, California from Conexant. For the three months ended January 1, 2010 and January 2, 2009 rent and operating expenses paid to Conexant were \$1.5 million and \$1.3 million, respectively.

**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 October 2, 2009.

**Overview**

Mindspeed Technologies, Inc. (we or Mindspeed) designs, develops and sells semiconductor solutions for communications applications in the wireline and wireless network infrastructure, which includes today's separate, but interrelated and converging, enterprise, broadband access, metropolitan and wide area networks. Our products are classified into three focused product families: multiservice access; high-performance analog; and wide area networking. Our multiservice access digital signal processor (DSP) products include ultra-low-power multi-core DSP system-on-a-chip products for carrier-class triple-play edge gateways, metro trunking gateways and voice-over-IP (VoIP) and multi-play service platforms in the carrier infrastructure. Our multiservice access products are also used in broadband customer premises equipment (CPE) gateways and other equipment that carriers are deploying in order to deliver voice, data and video services to residential subscribers. Our high-performance analog products include high-density crosspoint switches, optical drivers and other devices, plus timing, equalization and signal-conditioning solutions for next-generation fiber access networks, including Ethernet passive optical networking (EPON) equipment. Our high-performance analog technology also helps address switching, timing and signal-conditioning challenges being used in enterprise storage equipment, and is helping to drive the broadcast-video network transition to 3G high-definition transmission. Our wide area networking (WAN) communications products include a broad portfolio for legacy requirements in the existing circuit-switched network, as well as emerging 3G wireless backhaul applications.

Our products are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including voice and media gateways, high-speed routers, switches, access multiplexers, cross-connect systems, add-drop multiplexers, digital loop carrier equipment, IP private branch exchanges, optical modules, broadcast video systems and wireless basestation equipment. Service providers use this equipment for:

- packet processing in high-speed multiservice access applications, including advanced VoIP and triple-play (voice, data and video) service delivery;

- high-speed analog transmission and switching for next-generation optical networking, enterprise storage and broadcast video transmission applications, with difficult switching, timing and synchronization requirements; and

- WAN communications over the public switched telephone network, which furnishes much of the Internet's underlying long-distance infrastructure.

Our customers include Alcatel-Lucent, Cisco Systems, Inc., Huawei Technologies Co. Ltd., LM Ericsson Telephone Company, Nokia Siemens Networks, Nortel Networks, Inc. and Zhongxing Telecom Equipment Corp.

**Trends and Factors Affecting Our Business**

Our products are components of network infrastructure equipment. As a result, we rely on network infrastructure OEMs to select our products from among alternative offerings to be designed into their equipment. These design wins are an integral part of the long sales cycle for our products. Our customers may need six months or longer to test and evaluate our products and an additional six months or more to begin volume production of equipment that incorporates our products. We believe our close relationships with leading network infrastructure OEMs facilitate early adoption of our products during development of their products, enhance our ability to obtain design wins and encourage adoption of our technology by the industry. We believe our diverse portfolio of semiconductor solutions has us well positioned to capitalize on some of the most significant trends in telecommunications spending, including: next generation network convergence; VoIP/fiber access deployment in developing and developed markets; 3G wireless infrastructure build-out; and the migration of broadcast video to high definition.



**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 networking solutions for OEMs. Sales to distributors accounted for approximately 44% of our revenues for the first quarter of fiscal 2010 and 49% of our revenues for the first quarter of fiscal 2009. Our revenue is diversified globally, with 77% of revenue in the first quarter of fiscal 2010 coming from outside of the Americas. We believe a portion of the products we sell to OEMs and third-party manufacturing service providers in the Asia-Pacific region is ultimately shipped to end markets in the Americas and Europe. We believe we are well-situated in China, where fiber deployments are being rolled out by the country's major telecommunications carriers. Through our OEM customers, we are shipping into the fiber-to-the-building (FTTB) deployments of China Telecom and China Unicom. In the first quarter of fiscal 2010, 29% of our revenue was derived from 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 \$12.6 million on research and development in the first quarter of fiscal 2010 and \$13.3 million in the first quarter of fiscal 2009. 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 VoIP and other high-bandwidth multiservice access applications, plus high-performance analog applications, such as optical networking and broadcast-video transmission, and wireless infrastructure solutions for basestation processing and backhaul applications. We have developed and maintain a broad intellectual property portfolio, and we intend to periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property. We 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 other clients that are larger than we are, or who have superior contractual rights to enforce manufacture of their products, including to the exclusion of producing our products. We may also incur increased manufacturing costs, including costs of finding acceptable alternative foundries or assembly and test service providers. In order to achieve sustained profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase our revenues. 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.

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 telecommunication networks in developing countries. However, the semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles and wide fluctuations in product supply and demand. In addition, there has been an increasing trend toward industry consolidation, particularly among major network equipment and telecommunications companies. Consolidation in the industry may lead to pricing pressure and loss of market share. These factors have caused substantial fluctuations in our revenues and our results of operations in the past, and we may experience cyclical fluctuations in our business in the future.





**Table of Contents****Critical Accounting Policies and Estimates**

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

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

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

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

*Stock-Based Compensation* We account for stock-based compensation transactions using a fair-value method and recognize the fair value of each award as an expense over the service period. The fair value of restricted stock awards is based upon the market price of our common stock at the grant date. We estimate the fair value of stock option awards, as of the grant date, using the Black-Scholes option-pricing model. The use of the Black-Scholes model requires that we make a number of estimates, including the expected option term, the expected volatility in the price of our common stock, the risk-free rate of interest and the dividend yield on our common stock. If our expected option term and stock-price volatility assumptions were different, the resulting determination of the fair value of stock option awards could be materially different. In addition, judgment is also required in estimating the number of share-based awards that we expect will ultimately vest upon the fulfillment of service conditions (such as time-based vesting) or the achievement of specific performance conditions. If the actual number of awards that ultimately vest differs significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted. We classify compensation expense related to these awards in our consolidated statement of operations based on the department to which the recipient reports.

*Revenue Recognition* Our products are often integrated with software that is essential to the functionality of the equipment. Additionally, we provide unspecified software upgrades and enhancements through our maintenance contracts for many of our products. Accordingly, we account for revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 985-605, Software Revenue Recognition, and all related interpretations. For sales of products where software is not included or is incidental to the equipment, we apply the provisions of ASC 605, Revenue Recognition, and all related interpretations.



**Table of Contents**

We generate revenues from direct product sales, sales to distributors, maintenance contracts, development agreements and the sale and license of intellectual property. We recognize revenues when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) our price to the customer is fixed or determinable; and (iv) collection of the sales price is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed. Advanced services revenue is recognized upon delivery or completion of performance.

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

We recognize revenues on sales to distributors based on the rights granted to these distributors in our distribution agreements. We have certain distributors who have been granted return rights and receive credits for changes in selling prices to end customers, the magnitude of which is not known at the time products are shipped to the distributor. The return rights granted to these distributors consist of limited stock rotation rights, which allow them to rotate up to 10% of the products in their inventory twice a year, as well as certain product return rights if the applicable distribution agreement is terminated. These distributors also receive price concessions because they resell our products to end customers at various negotiated price points which vary by end customer, product, quantity, geography and competitive pricing environments. When a distributor's resale is priced at a discount from the distributor's invoice price, we credit back to the distributor a portion of the distributor's original purchase price after the resale transaction is complete. Thus, a portion of the Deferred income on sales to distributors balance will be credited back to the distributor in the future. Under these agreements, we defer recognition of revenue until the products are resold by the distributor, at which time our final net sales price is fixed and the distributor's right to return the products expires. At the time of shipment to these distributors, (i) we record a trade receivable at the invoiced selling price because there is a legally enforceable obligation from the distributor to pay us currently for product delivered, (ii) we relieve inventory for the carrying value of products shipped because legal title has passed to the distributor, and (iii) we record deferred revenue and deferred cost of inventory under the Deferred income on sales to distributors caption in the liability section of our consolidated balance sheets. We evaluate the deferred cost of inventory component of this account for possible impairment by considering potential obsolescence of products that might be returned to us and by considering the potential of resale prices of these products being below our cost. By reviewing deferred inventory costs in the manners discussed above, we ensure that any portion of deferred inventory costs that are not recoverable from future contractual revenue are charged to cost of sales as an expense. Deferred income on sales to distributors effectively represents the gross margin on sales to distributors, however, the amount of gross margin we recognize in future periods may be less than the originally recorded deferred income as a result of negotiated price concessions. In recent years, such concessions have exceeded 30% of list price on average. For detail of this account balance, see Note 2 to our consolidated financial statements.

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

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

**Table of Contents**

*Deferred Income Taxes and Uncertain Tax Positions* We have provided a full valuation allowance against our U.S. federal and state deferred tax assets. If sufficient positive evidence of our ability to generate future U.S. federal and/or state taxable income becomes apparent, we may be required to reduce our valuation allowance, resulting in income tax benefits in our statement of operations. We evaluate the realizability of our deferred tax assets and assess the need for a valuation allowance quarterly. We follow ASC 740, Income Taxes, for the accounting for uncertainty in income taxes recognized in an entity's financial statements. ASC 740 prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws and regulations themselves are subject to change as a result of changes in fiscal policy, changes in legislation, the evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially reverse previously recorded tax liabilities.

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

**Recent Accounting Pronouncements**

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 our consolidated financial statements.

On October 3, 2009, we 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 current period accounting treatment. Accordingly, our prior period financial statements have been adjusted. ASC 420 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 to our consolidated financial statements for additional information on the adoption of this accounting standard.

On October 3, 2009, we 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. We 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, we amended the related instruments' plan documents to eliminate this provision and therefore no longer have any instruments subject to this authoritative guidance. We have determined that there is no impact to our 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, we 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. We adopted ASC 820-10 for non-financial assets and liabilities on October 3, 2009. Our adoption did not have a material impact on our consolidated financial statements.

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

The following table summarizes our net revenues:

(\$ in millions)	Three months ended		
	January 1, 2010	Change	January 2, 2009
Multiservice access DSP products	\$ 13.9	29%	\$ 10.8
High-performance analog products	11.6	10%	10.5
WAN communications products	11.5	80%	6.4
Intellectual property		(100)%	3.0
Net revenues	\$ 37.0	21%	\$ 30.7

The 21% increase in our net revenues for the fiscal 2010 first quarter compared to the comparable fiscal 2009 period mainly reflects higher sales volume in all three of our product families, partially offset by lower revenues from the sale and licensing of intellectual property. Net revenues from our multiservice access DSP products increased \$3.1 million, or 29%, mainly reflecting an increase in shipments in our 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. Net revenues from our high-performance analog products increased \$1.1 million, or 10%, when comparing the first quarter of fiscal 2010 to the first quarter of fiscal 2009. Within high-performance analog, we benefited from increased demand for our physical media devices, which are used in equipment for fiber-to-the-premise deployments, metropolitan area networks and wide area networks. Net revenues from our WAN communications products increased \$5.1 million, or 80%, mainly reflecting an increase in demand in North America and Europe, particularly with respect to our network processor products.

**Gross Margin**

(\$ in millions)	Three months ended		
	January 1, 2010	Change	January 2, 2009
Gross margin	\$ 23.6	12%	\$ 21.0
Percent of net revenues	64%		68%

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

Our gross margin for the first quarter of fiscal 2010 increased \$2.6 million over our gross margin for the first quarter of fiscal 2009, principally reflecting an increase in product sales. Gross margin as a percent of net revenues decreased from 68% in the first quarter of fiscal 2009 to 64% in the first quarter of fiscal 2010. The decrease is primarily attributed to a drop in revenues associated with the sale or licensing of intellectual property, which have little associated cost. The gross margin benefit as a percent of net revenues from the sale of or licensing of intellectual property recorded in the first quarter of fiscal 2009 was 3.3%. Also contributing to the decrease in gross margin as a percent of net revenues are product mix changes.

Our gross margin benefited from the sale of inventories with an original cost of \$0.5 million in the first quarter of fiscal 2010 and \$0.6 million in the first quarter of fiscal 2009 that we had written down to a zero cost basis during fiscal 2001. These sales resulted from renewed demand for certain products that was not anticipated at the time of the write-downs. The previously written-down inventories were generally sold at prices which exceeded their original

cost. As of January 1, 2010, we continued to hold inventories with an original cost of \$3.3 million which were previously written down to zero in 2001. We currently intend to hold these remaining inventories and will sell these inventories if we continue to experience a renewed demand for these products. While there can be no assurance that we will be able to do so, if we are able to sell a portion of the inventories which are carried at zero cost basis, our gross margin will be favorably affected by an amount equal to the original cost of the zero-cost basis inventory sold. To the extent that we do not experience renewed demand for the remaining inventories, they will be scrapped as they become obsolete.



**Table of Contents****Research and Development**

(\$ in millions)	Three months ended		
	January 1, 2010	Change	January 2, 2009
Research and development	\$ 12.6	(5)%	\$ 13.3
Percent of net revenues	34%		43%

Our research and development (R&D) expenses consist principally of direct personnel costs, photomasks, electronic design automation tools and pre-production evaluation and test costs. The \$756,000 decrease in R&D expenses for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 reflects a \$225,000 decrease in compensation and personnel-related costs, a \$161,000 decrease in the cost of our facilities, mainly due to restructuring activities we have conducted over the last 12 months, and a decrease of \$291,000 related to a reduction in the cost of engineering hardware and software.

**Selling, General and Administrative**

(\$ in millions)	Three months ended		
	January 1, 2010	Change	January 2, 2009
Selling, general and administrative	\$ 9.6	(14)%	\$ 11.1
Percent of net revenues	26%		36%

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. The \$1.5 million decrease in our SG&A expenses for the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 reflects a \$1.0 million decrease in compensation and personnel-related costs, including cash bonuses. In addition, the costs associated with our facilities have decreased \$83,000, commissions paid to our sales representatives have decreased \$121,000 and telecom related costs have decreased \$114,000. These cost reductions are mainly due to restructuring activities we have conducted over the last 12 months.

**Special Charges**

Special charges consists of restructuring charges totaling \$860,000 in the first quarter of fiscal 2010 and \$2.3 million in the first quarter of fiscal 2009. The increase in special charges between the first quarter of fiscal 2010 and the first quarter of fiscal 2009 is a result of the restructuring plan in the first quarter of fiscal 2009 being larger in scope than the restructuring plan in the first quarter of fiscal 2010.

*Restructuring Charges*

*Mindspeed First Quarter of Fiscal 2010 Restructuring Plan* In the first quarter of fiscal 2010, we announced the implementation of cost reduction measures consisting of a facilities consolidation and a targeted headcount reduction. During the first quarter of fiscal 2010, we incurred special charges of \$860,000 in connection with this restructuring, primarily related to contractual obligations on vacated space at our Newport Beach, California headquarters. We do not expect to incur any significant additional expenses related to this plan in future periods.

**Table of Contents**

Activity and liability balances related to our first quarter of fiscal 2010 restructuring plan through January 1, 2010 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Charged to costs and expenses	\$ 287	\$ 573	\$ 860
Cash payments	(70)	(195)	(265)
Restructuring balance, January 1, 2010	\$ 217	\$ 378	\$ 595

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. We expect to pay these obligations over their respective terms, which expire at various dates through fiscal 2010.

*Mindspeed Second Quarter of Fiscal 2009 Restructuring Plan* In the second quarter of fiscal 2009, we announced the implementation of cost reduction measures with most of the savings expected to be derived from focused reductions in the areas of sales, general and administrative and wide area networking communication spending, including the closure of our Dubai facility. During fiscal 2009, we incurred special charges of \$1.1 million in connection with this restructuring, primarily related to severance costs for affected employees. This restructuring plan is complete and we do not expect to incur significant additional expenses related to this restructuring plan in future periods.

Activity and liability balances related to our second quarter of fiscal 2009 restructuring plan through January 1, 2010 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, October 2, 2009	\$ 78	\$	\$ 78
Cash payments	(19)		(19)
Restructuring balance, January 1, 2010	\$ 59	\$	\$ 59

The remaining accrued restructuring balance principally represents employee severance benefits. We expect to pay these obligations over their respective terms, which expire at various dates through fiscal 2010.

*Mindspeed First Quarter Fiscal 2009 Restructuring Plan* During the first quarter of fiscal 2009, we implemented a restructuring plan under which we reduced our workforce by approximately 6%. In connection with this reduction in workforce, we recorded a charge of \$2.4 million for severance benefits payable to the affected employees. In December 2008, we vacated approximately 70% of our Massachusetts facility and recorded a charge related to contractual obligations on this space of approximately \$400,000. This restructuring plan is complete and we do not expect to incur significant additional expenses related to this restructuring plan in future periods.

Activity and liability balances related to our first quarter of fiscal 2009 restructuring plan through January 1, 2010 are as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, October 2, 2009	\$ 287	\$ 86	\$ 373
Cash payments	(60)	(48)	(108)
Restructuring balance, January 1, 2010	\$ 227	\$ 38	\$ 265

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. We expect to pay these obligations over their respective terms, which expire at various dates through fiscal 2011.

*Mindspeed Restructuring Plans* In fiscal 2006 and 2007, we implemented a number of cost reduction initiatives to improve our operating cost structure. These cost reduction initiatives included workforce reductions, significant reductions in capital spending and the consolidation of certain facilities. Activity under these initiatives was minimal in fiscal 2009 and the first quarter of fiscal 2010. The remaining accrued restructuring balance related to these plans is \$6,000 at January 1, 2010.

**Table of Contents****Interest Expense**

(\$ in millions)	Three months ended	
	January 1, 2010	January 2, 2009
Interest expense	\$ (0.6)	\$ (0.9)

Interest expense mainly represents interest on our convertible senior notes. Interest expense decreased \$0.3 million in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009. The decrease was primarily the result of lower overall debt balances due to the repayment of the remaining \$10.5 million due under our 3.75% convertible senior notes, which matured in November 2009. Our adoption of ASC 470-20 added non-cash interest expense of \$235,000 for the first quarter of fiscal 2010 and \$447,000 for first quarter of fiscal 2009. See Notes 1 and 5 to our consolidated financial statements for further information related to this adoption.

**Other Income, Net**

(\$ in millions)	Three months ended	
	January 1, 2010	January 2, 2009
Other income, net	\$	\$ 1.0

Other income principally consists of interest income, foreign exchange gains and losses and other non-operating gains and losses, including gains/losses on debt extinguishments. The \$1.0 million decrease in other income in the first quarter of fiscal 2010 compared to the first quarter of fiscal 2009 principally reflects the \$1.1 million gain we recorded in connection with the extinguishment of \$20.5 million aggregate principle amount of our 3.75% convertible senior notes for cash of \$17.3 million, which occurred in the first quarter of fiscal 2009.

**Provision for Income Taxes**

Our provision for income taxes for the first quarters of fiscal 2010 and 2009 principally consisted of income taxes incurred by our foreign subsidiaries. As a result of our recent operating losses and our expectation of future operating results, we determined that it is more likely than not that the U.S. federal and state income tax benefits (principally net operating losses we can carry forward to future years), which arose during the first quarters of fiscal 2010 and 2009 will not be realized. Accordingly, we have not recognized any income tax benefits relating to our U.S. federal and state operating losses for those periods and we do not expect to recognize any income tax benefits relating to future operating losses until we believe that such tax benefits are more likely than not to be realized. We expect that our provision for income taxes for fiscal 2010 will principally consist of income taxes related to our foreign operations.

**Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash and cash equivalent balances, cash generated from product sales and the sales or licensing of our intellectual property, and our line of credit with Silicon Valley Bank. As of January 1, 2010, our cash and cash equivalents totaled \$11.5 million. Our working capital at January 1, 2010 was \$14.8 million. As of October 2, 2009, our cash and cash equivalents totaled \$20.9 million and working capital was \$14.2 million. The decrease in cash and cash equivalents from October 2, 2009 to January 1, 2010 is primarily a result of the repayment of the outstanding \$10.5 million of our 3.75% convertible senior notes.

In order to regain and sustain profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase revenues. We have completed a series of cost reduction actions, including one in the first quarter of fiscal 2010, which have improved our operating expense structure. We will continue to assess the need to perform additional actions, if necessary. These expense reductions alone may not allow us to return to the profitability we achieved in the fourth quarter of fiscal 2008. Our ability to achieve the necessary revenue growth to return to profitability will depend on increased demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises the level of which may decrease due to general economic conditions, and uncertainty, over which we have no control. We may not be successful in achieving the necessary revenue growth or we may be unable to sustain past and future expense reductions in subsequent periods. We may not be able to regain or sustain profitability.



**Table of Contents**

We believe that our existing sources of liquidity, along with cash expected to be generated from product sales and the sale and licensing of intellectual property, will be sufficient 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. In November 2009, we repaid the \$10.5 million outstanding balance of our 3.75% senior convertible notes, and we have no other principal payments on currently outstanding debt due in the next 12 months. From time to time, we may acquire our 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 we may determine appropriate. We will need to continue a focused program of capital expenditures to meet our research and development and corporate requirements. We may also consider acquisition opportunities to extend our technology portfolio and design expertise and to expand our product offerings. In order to fund capital expenditures, increase our working capital or complete any acquisitions, we may seek to obtain additional debt or equity financing. We may also need to seek to obtain additional debt or equity financing if we experience downturns or cyclical fluctuations in our business that are more severe or longer than anticipated or if we fail to achieve anticipated revenue and expense levels. However, we cannot assure you that such financing will be available to us on favorable terms, or at all, particularly in light of recent economic conditions in the capital markets.

Cash generated by operating activities was \$2.0 million for the first quarter of fiscal 2010 compared to cash used in operating activities of \$3.3 million for the first quarter of fiscal 2009. Operating cash flows for the first quarter of fiscal 2010 reflect our net loss of \$160,000, which consists of non-cash charges (depreciation and amortization, restructuring charges, stock-based compensation expense, inventory provisions, amortization of debt discount and other) of \$4.6 million, and net working capital changes of approximately \$2.5 million. Operating cash flows for the first quarter of fiscal 2009 reflect our net loss of \$5.8 million, which consists of non-cash charges (depreciation and amortization, restructuring charges, stock-based compensation expense, inventory provisions, gain on debt extinguishment, amortization of debt discount and other) of \$4.9 million and net working capital changes of approximately \$2.4 million.

The significant components of our \$2.5 million net working capital change in the first quarter of fiscal 2010 include a \$5.1 million increase in accounts receivable, which is due to both the timing of sales and the timing of collections. Our net days sales outstanding increased from 20 days in the fourth quarter of fiscal 2009 to 31 days in the first quarter of fiscal 2010. In addition, our balance in deferred income on sales to distributors increased \$2.5 million during the first quarter of fiscal 2010 due to our distributors ordering a significant amount of inventory toward the end of our first fiscal quarter.

Cash used in investing activities of \$808,000 for the first quarter of fiscal 2010 consisted of the payments for capital expenditures. Cash used in investing activities of \$2.2 million for the first quarter of fiscal 2009 also consisted of the payments for capital expenditures.

Cash used in financing activities of \$10.6 million for the first quarter of fiscal 2010 principally consisted of \$10.5 million used to retire the remaining principle amount of our 3.75% convertible senior notes which matured in November 2009. Cash used in financing activities of \$17.6 million for the first quarter of fiscal 2009 principally consisted of \$17.3 million paid to retire \$20.5 million in principle amount of our 3.75% convertible senior notes due in November 2009 and \$244,000 of debt issuance costs paid related to both our revolving credit facility and the issuance of our 6.50% convertible senior notes.

***Revolving Credit Facility and Convertible Senior Notes******Revolving Credit Facility***

On September 30, 2008, we entered into a loan and security agreement with Silicon Valley Bank, or SVB, which was amended effective March 2, 2009. Under the loan and security agreement, SVB has agreed to provide us with a three-year revolving credit line of up to \$15.0 million, subject to availability against certain eligible accounts receivable, for the purposes of: (i) working capital; (ii) funding our general business requirements; and (iii) repaying or repurchasing our 3.75% convertible senior notes due in November 2009. Our indebtedness to SVB under the loan and security agreement is guaranteed by three of our domestic subsidiaries and secured by substantially all of the domestic assets of the company and such subsidiaries, other than intellectual property.



**Table of Contents**

Any indebtedness under the loan and security agreement bears interest at a variable rate ranging from prime plus 0.25% to a maximum rate of prime plus 1.25%, as determined in accordance with the interest rate grid set forth in the loan and security agreement. The loan and security agreement contains affirmative and negative covenants which, among other things, require us to maintain a minimum tangible net worth and to deliver to SVB specified financial information, including annual, quarterly and monthly financial information, and limit our ability to (or, in certain circumstances, to permit any subsidiaries to), subject to certain exceptions and limitations: (i) merge with or acquire other companies; (ii) create liens on our property; (iii) incur debt obligations; (iv) enter into transactions with affiliates, except on an arm's length basis; (v) dispose of property; and (vi) issue dividends or make distributions.

As of January 1, 2010, we were in compliance with all required covenants and had no outstanding borrowings under our revolving credit facility with SVB.

*3.75% Convertible Senior Notes due 2009*

In December 2004, we sold an aggregate principal amount of \$46.0 million in 3.75% convertible senior notes due in November 2009 for net proceeds (after discounts and commissions) of approximately \$43.9 million. Our adoption of ASC 470-20 changed the accounting for these convertible senior notes and the related deferred financing costs. Prior to the issuance of this accounting standard, we reported the 3.75% convertible senior notes at their principal amount of \$46.0 million, less an original issuance discount of \$2.1 million, in long-term debt and capitalized debt issuance costs amounting to approximately \$400,000. Upon adoption of ASC 470-20, we adjusted the accounting for the convertible senior notes and the deferred financing costs for all prior periods since initial issuance of the debt in December 2004. We recorded a discount on the convertible senior notes in the amount of \$17.6 million as of the date of issuance, which was amortized over the five year period from December 2004 through November 2009. See Notes 1 and 5 to our consolidated financial statements for further information on this adoption.

In July 2008, we entered into separate exchange agreements with certain holders of our 3.75% convertible senior notes due 2009, pursuant to which holders of an aggregate of \$15.0 million of these notes agreed to exchange their notes for \$15.0 million in aggregate principal amount of a new series of 6.50% convertible senior notes due 2013. In October 2008, we repurchased \$20.5 million aggregate principal amount of our 3.75% convertible senior notes due in November 2009, for \$17.3 million in cash. The repurchases occurred in two separate transactions on October 16 and October 23, 2008. During the first quarter of fiscal 2010, our 3.75% convertible senior notes matured and the remaining balance of \$10.5 million was repaid.

*6.50% Convertible Senior Notes due 2013*

We issued the convertible senior notes due in August 2013 pursuant to an indenture, dated as of August 1, 2008, between us and Wells Fargo Bank, N.A., as trustee.

The convertible senior notes are unsecured senior indebtedness and bear interest at a rate of 6.50% per annum. Interest is payable on February 1 and August 1 of each year, commencing on February 1, 2009. The notes mature on August 1, 2013. At maturity, we will be required to repay the outstanding principal of the notes. At January 1, 2010, \$15.0 million in aggregate principal amount of our 6.50% convertible senior notes were outstanding.

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 our common stock at a conversion rate initially equal to approximately \$4.74 per share of common stock, which is subject to adjustment in certain circumstances. Upon conversion of the notes, we generally have the right to deliver to the holders thereof, at our option: (i) cash; (ii) shares of our common stock; or (iii) a combination thereof. The initial conversion price of the notes will be adjusted to reflect stock dividends, stock splits, issuances of rights to purchase shares of our common stock, and upon other events. If we undergo certain fundamental changes prior to maturity of the 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 our common stock and, under certain circumstances, receive additional shares of our common stock in the amount provided in the indenture.





**Table of Contents**

For financial accounting purposes, our contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is an embedded derivative. As of January 1, 2010, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

If there is an event of default under the 6.50% convertible senior 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. An event of default under the indenture will occur if we: (i) are delinquent in making certain payments due under the notes; (ii) fail to deliver shares of common stock or cash upon conversion of the notes; (iii) fail to deliver certain required notices under the notes; (iv) fail, following notice, to cure a breach of a covenant under the notes or the indenture; (v) incur certain events of default with respect to other indebtedness; or (vi) are subject to certain bankruptcy proceedings or orders. If we fail to deliver certain SEC reports to the trustee in a timely manner as required by the indenture, (x) the interest rate applicable to the notes during the delinquency will be increased by 0.25% or 0.50%, as applicable (depending on the duration of the delinquency), and (y) if the required reports are not delivered to the trustee within 180 days after their due date under the indenture, a holder of the notes will generally have the right, subject to certain limitations, to require us to repurchase all or any portion of the notes then held by such holder.

Our adoption of ASC 470-20 changed the accounting for these 6.50% convertible senior notes and the related deferred financing costs. Prior to the issuance of this accounting standard, we reported the notes at their principal amount of \$15.0 million in long-term debt and capitalized debt issuance costs amounting to approximately \$900,000. Upon adoption of ASC 470-20, we adjusted the accounting for the 6.50% convertible senior notes and the deferred financing costs for all prior periods since initial issuance of the debt in August 2008. We recorded a discount on the convertible senior notes in the amount of \$2.0 million as of the date of issuance, which will be amortized over the five year period from August 2008 through August 2013. See Notes 1 and 5 to our consolidated financial statements for further information on this adoption.

***Conexant Warrant***

On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution to Conexant stockholders of all outstanding shares of common stock of our company, its wholly owned subsidiary. Following the distribution, we began operations as an independent, publicly held company.

In the distribution, we issued to Conexant a warrant to purchase approximately 6.1 million shares of our 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 we completed in fourth quarter fiscal 2009), exercisable for a period of ten years after the distribution. The warrant may be transferred or sold in whole or part at any time. The warrant contains antidilution provisions that provide for adjustment of the exercise price, and the number of shares issuable under the warrant, upon the occurrence of certain events. If we issue, or are deemed to have issued, shares of our common stock, or securities convertible into our common stock, at prices below the current market price of our common stock (as defined in the warrants) at the time of the issuance of such securities, the warrant's exercise price will be reduced and the number of shares issuable under the warrant will be increased. The amount of such adjustment if any, will be determined pursuant to a formula specified in the warrant and will depend on the number of shares issued, the offering price and the current market price of our common stock at the time of the issuance of such securities. Adjustments to the warrant pursuant to these antidilution provisions may result in significant dilution to the interests of our existing stockholders and may adversely affect the market price of our common stock. The antidilution provisions may also limit our ability to obtain additional financing on terms favorable to us.

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



**Table of Contents**

**Off-Balance Sheet Arrangements**

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

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

At January 1, 2010, our cash and cash equivalents consisted solely of cash. We do not use derivative instruments for speculative or investment purposes.

**Interest Rate Risk**

Our cash and cash equivalents are not subject to significant interest rate risk. As of January 1, 2010, the carrying value of our cash and cash equivalents approximated fair value.

At January 1, 2010, our debt consisted of long-term convertible senior notes. Our convertible senior notes bear interest at fixed rate of 6.50%. Consequently, our results of operations and cash flows are not subject to any significant interest rate risk relating to our convertible senior notes. In addition, we have a long-term revolving credit facility. Advances under our credit facility bear interest at a variable rate ranging from prime plus 0.25% to a maximum rate of prime plus 1.25%, as determined in accordance with the interest rate grid set forth in the loan and security agreement. If the prime rate increases, thereby increasing our effective borrowing rate by the same amount, cash interest expense related to the credit facility would increase depending on the amount of outstanding borrowings. Because there were no outstanding borrowings on the credit facility as of January 1, 2010, any change in the prime interest rate would have no effect on our obligations under the credit facility.

**Foreign Exchange Risk**

We transact business in various foreign currencies and we face foreign exchange risk on assets and liabilities that are denominated in foreign currencies. The majority of our foreign exchange risks are not hedged; however, from time to time, we may utilize foreign currency forward exchange contracts to hedge a portion of our exposure to foreign exchange risk.

These hedging transactions are intended to offset the gains and losses we experience on foreign currency transactions with gains and losses on the forward contracts, so as to mitigate our overall risk of foreign exchange gains and losses. We do not enter into forward contracts for speculative or trading purposes. At January 1, 2010, we held no foreign currency forward exchange contracts. Based on our overall currency rate exposure at January 1, 2010, a 10% change in currency rates would not have a material effect on our consolidated financial position, results of operations or cash flows.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of January 1, 2010. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of January 1, 2010, these disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the fiscal quarter ended January 1, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

We have revised the risk factors that relate to our business, as set forth below. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 2, 2009. We encourage investors to review these risk factors, as well as those contained under Forward-Looking Statements preceding Part I of this Quarterly Report on Form 10-Q.

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

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

Although we generated \$2.0 million in cash through operating activities during the first quarter of fiscal 2010, we used \$5.4 million cash in operating activities during fiscal 2009. Our principal sources of liquidity are our existing cash balances and cash generated from product sales and sales and licensing of intellectual property. As of January 1, 2010, our cash and cash equivalents totaled \$11.5 million. In November 2009, we repaid the \$10.5 million outstanding balance of our 3.75% convertible senior notes, and we have no other principal payments on debt due in the next 12 months. We believe that our existing sources of liquidity, along with cash expected to be generated from product sales and the sale and licensing of intellectual property and our existing line of credit with Silicon Valley Bank, will be sufficient to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements, including interest payments on our debt obligations, for at least the next 12 months. However, this may not be the case. If we incur operating losses and negative cash flows in the future, we may need to further reduce our operating costs or obtain alternate sources of financing, or both. We have completed transactions that involved the issuance of equity and the issuance or incurrence of indebtedness, including credit facilities. Even after completing these transactions, we may need additional capital in the future and may not have access to additional sources of capital on favorable terms or at all. If we raise additional funds through the issuance of equity, equity-based or debt securities, such securities may have rights, preferences or privileges senior to those of our common stock and our stockholders may experience dilution of their ownership interests. In addition, there can be no assurance that we will continue to benefit from the sale or licensing of intellectual property as we have in previous periods.

**Table of Contents**

***We have incurred operating losses in the past and we may incur losses in future periods.***

We incurred a net loss of \$160,000 in the first quarter of fiscal 2010 and have incurred significant losses in prior periods. We may continue to incur losses and negative cash flows in future periods.

In order to regain and sustain profitability and positive cash flows from operations, we must further reduce operating expenses and/or increase our revenues. We have completed a series of cost reduction actions which have improved our operating cost structure, including a restructuring plan implemented in the first quarter of fiscal 2010. We will continue to assess the need to perform additional actions, when necessary. These expense reductions alone may not allow us to return to profitability, or to sustain the profitability we achieved in the fourth quarter of fiscal 2008. Our ability to achieve the necessary revenue growth to return to profitability will depend on increased demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises, the level of which may decrease due to general economic conditions, and uncertainty, over which we have no control. We may not be successful in achieving the necessary revenue growth or the expected expense reductions. Moreover, we may be unable to sustain past or expected future expense reductions in subsequent periods. We may not be able to regain profitability or sustain the profitability we achieved in prior periods.

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

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

Additionally, recently general worldwide economic conditions have experienced a deterioration due to credit conditions resulting from the current financial crisis affecting the banking system and financial markets and other factors, slower economic activity, concerns about inflation and deflation, volatility in 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. These conditions make it extremely difficult for our customers, our vendors and us to accurately forecast and plan future business activities, and they could cause U.S. and foreign businesses to further slow spending on our products and services, which would delay and lengthen sales cycles. Furthermore, during challenging economic times, our customers may face issues gaining timely access to sufficient credit or could even need to file for bankruptcy. Either of these circumstances could result in an impairment of their ability to make timely payments to us. If these circumstances were to occur, we may be required to increase our allowance for doubtful accounts and our days sales outstanding would be negatively impacted. Additionally, in periods of high volatility, semiconductor companies, being several steps removed from the end consumer in the supply chain, traditionally experience growth patterns different from those experienced by end customers. This can manifest itself in periods of growth in excess of their customers followed by periods of under-shipment before the volatility settles down. However, given recent economic conditions, it is possible that any correlation will continue to be less predictable and will result in increased volatility in our operating results and stock price. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery worldwide, in the semiconductor industry or in the wired and wireless communications markets. If the economy or markets in which we operate do not continue at their present levels or continue to deteriorate, we may record additional charges related to restructuring costs and our business, financial condition and results of operations will

likely be materially and adversely affected. Additionally, the combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could have a synergistic negative impact on the results of our operations.

**Table of Contents**

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

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

- our operating and financial performance and prospects, including our ability to regain and sustain the profitability we achieved in the fourth quarter of fiscal 2008;
- the depth and liquidity of the market for our common stock which can impact, among other things, the volatility of our stock price and the availability of market participants to borrow shares;
- investor perception of us and the industry in which we operate;
- the level of research coverage of our common stock;

changes in earnings estimates or buy/sell recommendations by analysts;

- the issuance and sale of additional shares of common stock;
- general financial and other market conditions; and
- domestic and international economic conditions.

In addition, public stock markets have experienced, and may in the future experience, extreme price and trading volume volatility, particularly in the technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to or disproportionately impacted by the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock. If we do not meet the requirements for continued quotation on the Nasdaq Global Market (NASDAQ), our common stock could be delisted which would adversely affect the ability of investors to sell shares of our common stock and could otherwise adversely affect our business.

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

Our revenues and operating results have fluctuated in the past and may fluctuate in the future. These fluctuations are due to a number of factors, many of which are beyond our control. These factors include, among others:

- changes in end-user demand for the products manufactured and sold by our customers;
- the effects of competitive pricing pressures, including decreases in average selling prices of our products;
- the gain or loss of significant customers;
- market acceptance of our products and our customers' products;
- our ability to develop, introduce, market and support new products and technologies on a timely basis;
- intellectual property disputes;
- the timing of receipt, reduction or cancellation of significant orders by customers;
- fluctuations in the levels of component inventories held by our customers and changes in our customers' inventory management practices;



**Table of Contents**

shifts in our product mix and the effect of maturing products;  
availability and cost of products from our suppliers;  
the timing and extent of product development costs;  
new product and technology introductions by us or our competitors;  
fluctuations in manufacturing yields; and  
significant warranty claims, including those not covered by our suppliers.

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

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

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

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

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

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

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

**Table of Contents**

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

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

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

the lack of assured supply, potential shortages and higher prices;

the effects of disputes or litigation involving our third-party foundries;

increased lead times;

limited control over delivery schedules, manufacturing yields, production costs and product quality; and

the unavailability of, or delays in obtaining, products or access to key process technologies.

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

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

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

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

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

results of operations.

**Table of Contents**

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

A significant part of our strategy involves our continued pursuit of growth opportunities in a number of international markets. We market, sell, design and service our products internationally. Products shipped to international destinations, primarily in the Asia-Pacific region and Europe, were approximately 79% of our net revenues for the first quarter of fiscal 2010 and 66% of our net revenues for the first quarter of fiscal 2009. China is a particularly important international market for us, as more than 29% of our first quarter fiscal 2010 revenue came from customers in China. In addition, we have design centers, customer support centers, and rely on suppliers, located outside the U.S., including foundries and assembly and test service providers located in the Asia-Pacific region. We intend to continue to expand our international business activities and may open other design centers and customer support centers abroad. Our international sales and operations are subject to a number of risks inherent in selling and operating abroad which could adversely impact our international sales and could make our international operations more expensive. These include, but are not limited to, risks regarding:

currency exchange rate fluctuations;

local economic and political conditions;

disruptions of capital and trading markets;

accounts receivable collection and longer payment cycles;

wage inflation;

difficulties in staffing and managing foreign operations;

potential hostilities and changes in diplomatic and trade relationships;

restrictive governmental actions (such as restrictions on the transfer or repatriation of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);

changes in legal or regulatory requirements;

difficulty in obtaining distribution and support;

the laws and policies of the U.S. and other countries affecting trade, foreign investment and loans and import or export licensing requirements;

existing or future environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the contents of our products, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety;

tax laws;

limitations on our ability under local laws to protect our intellectual property;

cultural differences in the conduct of business; and

natural disasters, acts of terrorism and war.

Because most of our international sales are currently denominated in U.S. dollars, our products could become less competitive in international markets if the value of the U.S. dollar increases relative to foreign currencies. As we

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

**Table of Contents**

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

***We are subject to intense competition.***

The communications semiconductor industry in general, and the markets in which we compete in particular, are intensely competitive. We compete worldwide with a number of U.S. and international semiconductor manufacturers that are both larger and smaller than we are in terms of resources and market share. We currently face significant competition in our markets and expect that intense price and product competition will continue. This competition has resulted, and is expected to continue to result, in declining average selling prices for our products.

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

stronger financial position and liquidity;

longer, or stronger, presence in key markets;

greater name recognition;

more secure supply chain;

lower cost alternatives to our products;

access to larger customer bases; and

significantly greater sales and marketing, manufacturing, distribution, technical and other resources.

As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the development, promotion and sale of their products than we can. Moreover, we have incurred substantial operating losses and we may continue to incur losses in future periods. We believe that financial stability of suppliers is an important consideration in our customers purchasing decisions. If our OEM customers perceive that we lack adequate financial stability, they may choose semiconductor suppliers that they believe have a stronger financial position or liquidity.

Current and potential competitors also have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. These relationships may affect customers purchasing decisions. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We may not be able to compete successfully against current and potential competitors.

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

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

**Table of Contents**

Successful product development and introduction depends on numerous factors, including, among others:

our ability to anticipate customer and market requirements and changes in technology and industry standards;

our ability to accurately define new products;

our ability to complete development of new products, and bring our products to market, on a timely basis;

our ability to differentiate our products from offerings of our competitors; and

overall market acceptance of our products.

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

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

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

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

***Uncertainties involving the ordering and shipment of our products could adversely affect our business.***

Our sales are typically made pursuant to individual purchase orders and we generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders until 30 days prior to shipment. In addition, we sell a substantial portion of our products through distributors, some of whom have a right to return unsold products to us. Sales to distributors accounted for approximately 44% of our revenues for the first quarter of fiscal 2010 and 49% of our revenues for the first quarter of fiscal 2009.

Because of the significant lead times for wafer fabrication and assembly and test services, we routinely purchase inventory based on estimates of end-market demand for our customers' products. End-market demand may be subject to dramatic changes and is difficult to predict. End-market demand is highly influenced by the timing and extent of carrier capital expenditures which may decrease due to general economic conditions, and uncertainty, over which we have no control. The difficulty in predicting demand may be compounded when we sell to OEMs indirectly through distributors or contract manufacturers, or both, as our forecasts of demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to the failure of anticipated orders to materialize could result in our holding excess or obsolete inventory, which could result in

write-downs of inventory. Conversely, if we fail to anticipate inventory needs we may be unable to fulfill demand for our products, resulting in a loss of potential revenue.



**Table of Contents**

***If network infrastructure OEMs do not design our products into their equipment, we will be unable to sell those products. Moreover, a design win from a customer does not guarantee future sales to that customer.***

Our products are not sold directly to the end-user but are components of other products. As a result, we rely on network infrastructure OEMs to select our products from among alternative offerings to be designed into their equipment. We may be unable to achieve these design wins. Without design wins from OEMs, we would be unable to sell our products. Once an OEM designs another supplier's semiconductors into one of its product platforms, it is more difficult for us to achieve future design wins with that OEM's product platform because changing suppliers involves significant cost, time, effort and risk for the OEM. Achieving a design win with a customer does not ensure that we will receive significant revenues from that customer and we may be unable to convert design wins into actual sales. Even after a design win, the customer is not obligated to purchase our products and can choose at any time to stop using our products if, for example, its own products are not commercially successful.

***Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenues related to those products.***

Our customers generally need six months or longer to test and evaluate our products and an additional six months or more to begin volume production of equipment that incorporates our products. These lengthy periods also increase the possibility that a customer may decide to cancel or change product plans, which could reduce or eliminate sales to that customer. As a result of this lengthy sales cycle, we may incur significant research and development and selling, general and administrative expenses before we generate any revenues from new products. We may never generate the anticipated revenues if our customers cancel or change their product plans as customers may increasingly do if economic conditions continue to deteriorate.

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

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

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

pay substantial damages for past, present and future use of the infringing technology;

cease the manufacture, use or sale of infringing products;

discontinue the use of infringing technology;

expend significant resources to develop non-infringing technology;

pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology;

license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all; or

relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.



**Table of Contents**

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

***If we are not successful in protecting our intellectual property rights, it may harm our ability to compete.***

We rely primarily on patent, copyright, trademark and trade secret laws, as well as employee and third-party nondisclosure and confidentiality agreements and other methods, to protect our proprietary technologies and processes. We may be required to engage in litigation to enforce or protect our intellectual property rights, which may require us to expend significant resources and to divert the efforts and attention of our management from our business operations; in particular:

the steps we take to prevent misappropriation or infringement of our intellectual property may not be successful;

any existing or future patents may be challenged, invalidated or circumvented; or

the measures described above may not provide meaningful protection.

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

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

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

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

**Table of Contents**

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

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

However, any such transactions could result in:

issuances of equity securities dilutive to our existing stockholders;

substantial cash payments;

the incurrence of substantial debt and assumption of unknown liabilities;

large one-time write-offs;

amortization expenses related to intangible assets;

ability to use our net operating loss carryforwards;

the diversion of management's attention from other business concerns; and

the potential loss of key employees, customers and suppliers of the acquired business.

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

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

***Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.***

As of October 2, 2009, we had net operating loss carryforwards of approximately \$651.2 million for federal income tax purposes. Under Section 382 of the Internal Revenue Code, if a corporation undergoes an ownership change, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be significantly limited. An ownership change is generally defined as a greater than 50% change in equity ownership by value over a three-year period. In August 2009, our board of directors adopted a shareholder rights agreement that is designed to help preserve our ability to utilize fully certain tax assets primarily associated with net operating loss carryforwards under Section 382 of the Internal Revenue Code. Even with this rights agreement in place, we may experience an ownership change in the future as a result of shifts in our stock ownership, including upon the issuance of our common stock, the exercise of stock options or warrants or as a result of any conversion of our convertible notes into shares of our common stock, among other things. If we were to trigger an ownership change in the future, our ability to use any net operating loss carryforwards existing at that time could be significantly limited.

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

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



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

Conexant holds a warrant to acquire approximately 6.1 million shares of our 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 our common stock offering completed in the fourth quarter of fiscal 2009), exercisable through June 27, 2013, representing approximately 16% of our outstanding common stock on a fully diluted basis. The warrant may be transferred or sold in whole or part at any time. If Conexant sells the warrant or if Conexant or a transferee of the warrant exercises the warrant and sells a substantial number of shares of our common stock in the future, or if investors perceive that these sales may occur, the market price of our common stock could decline or market demand for our common stock could be sharply reduced. At January 1, 2010, we had \$15.0 million aggregate principal amount of convertible senior notes outstanding. These notes are convertible at any time, at the option of the holder, into a total of approximately 3.2 million shares of common stock. The conversion of the notes and subsequent sale of a substantial number of shares of our common stock could also adversely affect demand for, and the market price of, our common stock. Each of these transactions could adversely affect our ability to raise additional financing by issuing equity or equity-based securities in the public capital markets.

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

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

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

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

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

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

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

**Table of Contents**

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

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

the division of our board of directors into three classes to be elected on a staggered basis, one class each year;

the exclusive responsibility of the board of directors to fill vacancies on the board of directors;

the ability of our board of directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;

a prohibition on stockholder action by written consent;

a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders;

a requirement that a supermajority vote be obtained to remove a director for cause or to amend or repeal certain provisions of our restated certificate of incorporation or amended and restated bylaws;

elimination of the right of stockholders to call a special meeting of stockholders; and

a fair price provision.

Our stockholders rights agreements give our stockholders certain rights that would substantially increase the cost of acquiring us in a transaction not approved by our board of directors.

In addition to the stockholders rights agreements and the provisions in our restated certificate of incorporation and amended and restated bylaws, Section 203 of the Delaware General Corporation Law generally provides that a corporation shall not engage in any business combination with any interested stockholder during the three-year period following the time that such stockholder becomes an interested stockholder, unless a majority of the directors then in office approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder or specified stockholder approval requirements are met.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Purchases of Equity Securities**

	<b>Total Number of Shares (or Units)  Purchased</b>	<b>Average Price Paid per Share  (or Unit)  \$</b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
October 3, 2009 to October 30, 2009				



October 31, 2009 to November 27, 2009	7,749(a)		3.56
November 28, 2009 to January 1, 2010			
	7,749	\$	3.56

(a) Represents shares of our common stock withheld from, or delivered by, employees in order to satisfy applicable tax withholding obligations in connection with the vesting of restricted stock. These repurchases were not made pursuant to any publicly announced plan or program.

**Table of Contents**

**ITEM 6. EXHIBITS**

- 3.1 Restated Certificate of Incorporation of the Registrant, filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-106146), is incorporated herein by reference.
- 3.2 Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated July 1, 2008, is incorporated herein by reference (SEC File No. 001-31650).
- 3.3 Certificate of Designation of Series B Junior Participating Preferred Stock, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 10, 2009, is incorporated herein by reference (SEC File No. 001-31650).
- 3.4 Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2005, is incorporated herein by reference (SEC File No. 000-50499).
- 4.1 Specimen Certificate for the Registrant's Common Stock, par value \$.01 per share, filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2008, is incorporated herein by reference (SEC File No. 001-31650).
- 4.2 Rights Agreement dated as of June 26, 2003, by and between the Registrant and Mellon Investor Services LLC, as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference (SEC File No. 001-31650).
- 4.3 First Amendment to Rights Agreement, dated as of December 6, 2004, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference (SEC File No. 001-31650).
- 4.4 Second Amendment to Rights Agreement, dated as of June 16, 2008, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 11, 2008, is incorporated herein by reference (SEC File No. 000-50499).
- 4.5 Section 382 Rights Agreement, dated as of August 9, 2009, between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 10, 2009, is incorporated herein by reference (SEC File No. 001-31650).
- 4.6 Common Stock Purchase Warrant dated June 27, 2003, issued by the Registrant to Conexant Systems, Inc., filed as Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 4.7 Registration Rights Agreement dated as of June 27, 2003 by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 4.8

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

Indenture, dated as of August 1, 2008, between the Registrant and Wells Fargo Bank, N.A., filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 4, 2008, is incorporated herein by reference (SEC File No. 001-31650).

4.9 Form of 6.50% Convertible Senior Notes due 2013, attached as Exhibit A to the Indenture (Exhibit 4.9 hereto), is incorporated herein by reference.

\*10.1 Mindspeed Technologies, Inc. Directors Stock Plan, as amended and restated.

\*10.2 Summary of Mindspeed Technologies, Inc. Fiscal Year 2010 Cash Bonus Plan, as set forth in the Registrant's Current Report on Form 8-K dated December 16, 2009, is incorporated herein by reference (SEC File No. 001-31650).

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURE**

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

MINDSPEED TECHNOLOGIES, INC.  
(Registrant)

Date: February 9, 2010

By /s/ BRET W. JOHNSEN  
Bret W. Johnsen  
Senior Vice President, Chief Financial Officer  
and Treasurer  
(principal financial and accounting officer)

**Table of Contents**

**EXHIBIT INDEX**

- 10.1 Mindspeed Technologies, Inc. Directors Stock Plan, as amended and restated.
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.