MINDSPEED TECHNOLOGIES, INC
Form 10-Q
August 07, 2007

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

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

Commission file number: 000-50499

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

(Check one):

Large Accelerated Filer o Accelerated Filer þ Non-accelerated Filer o

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

The number of outstanding shares of the Registrant s Common Stock as of July 27, 2007 was 115,501,885.

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FORWARD-LOOKING STATEMENTS

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

- our competitive advantages;
- the ability of our relationships with network infrastructure original equipment manufacturers to facilitate early adoption of our products, enhance our ability to obtain design wins and encourage adoption of our technology in the industry;
- the growth prospects for the network infrastructure equipment and communications semiconductors markets, including increased demand for network capacity, the upgrade and expansion of legacy networks, and the build-out of networks in developing countries;
- our investment in research and development and participation in the formulation of industry standards;
- the growth rate for products in the enterprise, network access and metro service areas and our position to increase market share;
- the focus of our research and development efforts on certain products, including voice over Internet protocol and high performance analog applications, and our expectation of the growth prospects for those products;
- our ability to achieve design wins and convert wins into revenue;
- the availability of raw materials, parts and supplies;
- competition and the principal competitive factors for semiconductor suppliers, including time to market, product quality, reliability and performance, customer support, price and total system cost, new product innovation and compliance with industry standards;
- the continuation of intense price and product competition, and the resulting declining average selling prices for our products;
- the value of our intellectual property;
- the impact of changes in customer purchasing activities, inventory levels and inventory management practices;
- the importance of attracting and retaining highly skilled, dedicated personnel;
- the challenges of shifting any operations or labor offshore, including the likelihood of competition in offshore markets for qualified personnel;
- our ability to achieve revenue growth and profitability, or to achieve positive cash flows from operations, and the expected period through which we will continue to incur significant losses and negative cash flows;

our plans to reduce operating expenses, and the amount and timing of any such expense reductions;

- the importance of providing comprehensive product service and support;
- the dependence of our operating results on our ability to introduce products on a timely basis;
- the sufficiency of our existing sources of liquidity and expected sources of cash to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for the next twelve months;
- our expectation of paying our obligations relating to our restructuring plans and other obligations over their respective terms, our intention to fund those payments from available cash balances and funds from product sales, and the impact of such payments on our liquidity;
- the circumstances under which we may need to seek additional financing, our ability to obtain any such financing and any consideration of acquisition opportunities;
- our expectation that our provision for income taxes for fiscal 2007 will principally consist of income taxes related to our foreign operations;
- our expectations with respect to our recognition of income tax benefits in the future;
- our restructuring plans, including expected workforce reductions and facilities closures, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments to complete the actions, the source of funds for such payments, the impact on our liquidity and the resulting decreases in our research and development and selling, general and administrative expenses, and the amounts of future charges to complete our restructuring plans;
- our intentions with respect to inventories that were previously written down;
- our beliefs regarding the effect of the disposition of pending or asserted legal matters;
- our acquisition strategy and the impact of any future acquisitions;
- our plans relating to our use of stock-based compensation, the effectiveness of our incentive compensation programs and the expected amounts of stock-based compensation expense in future periods;
- our belief that the financial stability of suppliers is an important consideration in our customers purchasing decisions;
- the amount and timing of future payments under contractual obligations; and
- the impact of recent accounting pronouncements and the adoption of new accounting standards.

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

- market demand for our new and existing products and our ability to increase our revenues;
- our ability to maintain operating expenses within anticipated levels;
- our ability to reduce our cash consumption;

availability and terms of capital needed for our business;

- constraints in the supply of wafers and other product components from our third-party manufacturers;
- our ability to successfully and cost effectively establish and manage operations in foreign jurisdictions;
- the ability to attract and retain qualified personnel;
- successful development and introduction of new products;
- our ability to obtain design wins and develop revenues from them;
- pricing pressures and other competitive factors;
- order and shipment uncertainty;
- changes in our customers inventory levels and inventory management practices;
- fluctuations in manufacturing yields;
- product defects; and
- intellectual property infringement claims by others and the ability to protect our intellectual property.

The forward-looking statements in this report are subject to additional risks and uncertainties, including those set forth in Part II, Item 1A under the heading Risk Factors and those detailed from time to time in our other filings with the Securities and Exchange Commission. 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.

For presentation purposes of this Quarterly Report on Form 10-Q, references made to the periods ended June 30, 2007 and 2006 relate to the actual fiscal 2007 third quarter ended June 29, 2007 and the actual fiscal 2006 third quarter ended June 30, 2006, respectively.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2007	September 30, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 25,456	$ 29,976
Marketable securities	6,250	11,260
Receivables, net of allowance for doubtful accounts of $364 and $447 at June 30, 2007 and September 30, 2006, respectively	15,390	14,786
Inventories	16,253	19,008
Other current assets	2,603	3,690
Total current assets	65,952	78,720
Property, plant and equipment, net	12,689	12,961
Other assets	4,742	4,861
Total assets	$ 83,383	$ 96,542
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 8,457	$ 10,639
Deferred revenue	3,720	5,047
Accrued compensation and benefits	6,397	5,038
Accrued income tax	2,316	2,761
Restructuring	2,447	1,667
Other current liabilities	1,925	2,688
Total current liabilities	25,262	27,840
Convertible senior notes	44,931	44,618
Other liabilities	569	608
Total liabilities	70,762	73,066
Commitments and contingencies		
Stockholders Equity		
Preferred stock, $0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
Common stock, $0.01 par value: 500,000 shares authorized; 115,307 and 110,702 shares issued at June 30, 2007 and September 30, 2006, respectively	1,153	1,107
Additional paid-in capital	260,669	250,602

Accumulated deficit	(234,021)	(212,566)
Accumulated other comprehensive loss	(15,180)	(15,667)
Total stockholders equity	12,621	23,476
Total liabilities and stockholders equity	$ 83,383	$ 96,542

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended June 30,		Nine months ended June 30,	
	2007	2006	2007	2006
Net revenues	$ 33,207	$ 35,894	$ 94,122	$ 103,707
Cost of goods sold	10,522	11,195	32,016	31,898
Gross margin	22,685	24,699	62,106	71,809
Operating expenses:				
Research and development	13,871	15,049	44,181	48,596
Selling, general and administrative	10,835	11,807	32,907	35,305
Special charges	(104)	1,053	4,728	2,234
Total operating expenses	24,602	27,909	81,816	86,135
Operating loss	(1,917)	(3,210)	(19,710)	(14,326)
Interest expense	(560)	(569)	(1,678)	(1,673)
Other income, net	121	178	388	906
Loss before income taxes	(2,356)	(3,601)	(21,000)	(15,093)
Provision for income taxes	163	943	455	2,069
Net loss	$ (2,519)	$ (4,544)	$ (21,455)	$ (17,162)
Net loss per share, basic and diluted	$ (0.02)	$ (0.04)	$ (0.19)	$ (0.16)
Weighted-average number of shares used in per share computation	111,826	106,510	110,212	105,069

See accompanying notes to consolidated condensed financial statements.

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

	Nine months ended June 30,	
	2007	2006
Cash Flows From Operating Activities		
Net loss	$ (21,455)	$ (17,162)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,893	5,241
Stock-based compensation	5,870	5,592
Inventory provisions	(384)	(612)
Other non-cash items, net	444	341
Changes in assets and liabilities:		
Receivables	(568)	(1,143)
Inventories	3,139	(8,919)
Accounts payable	(2,459)	1,519
Deferred revenue	(1,327)	919
Accrued expenses and other current liabilities	1,854	(179)
Other	1,558	42
Net cash used in operating activities	(9,435)	(14,361)
Cash Flows From Investing Activities		
Capital expenditures	(3,436)	(2,999)
Purchases of available-for-sale marketable securities	(13,832)	(33,597)
Sales of available-for-sale marketable securities	18,000	49,135
Maturities of held-to-maturity marketable securities	863	1,725
Net cash provided by investing activities	1,595	14,264
Cash Flows From Financing Activities		
Exercise of stock options and warrants	3,320	5,157
Net cash provided by financing activities	3,320	5,157
Net increase (decrease) in cash and cash equivalents	(4,520)	5,060
Cash and cash equivalents at beginning of period	29,976	15,335
Cash and cash equivalents at end of period	$ 25,456	$ 20,395

See accompanying notes to consolidated condensed financial statements.

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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, access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 90,333,445 outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant stockholder received one share of Mindspeed common stock (including an associated preferred share purchase right) for every three shares of Conexant common stock held and cash for any fractional share of Mindspeed common stock. Following the Distribution, Mindspeed began operations as an independent, publicly held company. Prior to the Distribution, Conexant transferred to Mindspeed the assets and liabilities of the Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to Mindspeed under the Distribution Agreement entered into between Conexant and Mindspeed. Also prior to the Distribution, Conexant contributed to Mindspeed cash in an amount such that at the time of the Distribution Mindspeed s cash balance was $100 million. Mindspeed issued to Conexant a warrant to purchase 30 million shares of Mindspeed common stock at a price of $3.408 per share, exercisable for a period beginning one year and ending ten years after the Distribution. In connection with the Distribution, Mindspeed and Conexant also entered into a Credit Agreement (terminated December 2004), an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and the special charges (Note 5), necessary to present fairly the Company s financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States of America. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

Fiscal Periods For presentation purposes, references made to the periods ended June 30, 2007 and 2006 relate to the actual fiscal 2007 third quarter ended June 29, 2007 and the actual fiscal 2006 third quarter ended June 30, 2006, respectively.

Recent Accounting Standards The Company adopted Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections as of the beginning of fiscal 2007, with no material effect on its financial condition or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides interpretative guidance on the process of quantifying financial statement misstatements and is effective for fiscal years ending after November 15, 2006. The Company applied the provisions of SAB 108 in the first quarter of fiscal 2007 and there was no impact on its financial condition or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This pronouncement recommends a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in the Company s tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax

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

positions. The accounting provisions of FIN 48 will be effective for the Company s first fiscal quarter ending December 31, 2007 of fiscal 2008. The Company is in the process of evaluating the effect, if any, the adoption of FIN 48 will have on its financial condition or results of operations.

In February 2007, the FASB issued Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. The statement permits entities to choose to measure many financial instruments and certain other items at fair value that are currently not required to be measured at fair value. The Company will be required to adopt SFAS 159 in the first quarter of fiscal 2009 and does not expect that the adoption will have a material impact on its financial condition or results of operations.

In June 2007, the FASB ratified Emerging Issues Task Force (EITF) consensus on EITF Issue No. 07-3, Accounting for Non-refundable Advanced Payments for Goods or Services to be Used in Future Research and Development Activities. EITF Issue No. 07-3 requires that these payments be deferred and capitalized and expensed as goods are delivered or as the related services are performed. The Company will be required to adopt EITF 07-3 in the first quarter of fiscal 2009 and does not expect that the adoption will have a material impact on its financial condition or results of operations.

Income Taxes The provision for income taxes for the nine months ended June 30, 2007 and 2006 principally consists of income taxes incurred by the Company s foreign subsidiaries.

Supplemental Cash Flow Information Interest paid for both the nine months ended June 30, 2007 and 2006 was $1.7 million. Income taxes paid, net of refunds received, for the nine months ended June 30, 2007 and 2006 were $752,000 and $(69,000), respectively. Capital expenditures included in accounts payable for the nine months ended June 30, 2007 were $277,000.

2. Supplemental Financial Statement Data

Marketable Securities

Marketable securities principally consist of auction rate debt securities and auction rate preferred securities with interest at rates that are reset periodically (generally every seven or twenty-eight days). These securities are classified as available-for-sale securities and recorded at fair value in the accompanying balance sheets. Any unrealized gains/losses are included in other comprehensive income, unless a loss is determined to be other than temporary. As of June 30, 2007, the securities have a fair value of approximately $6.3 million and there are no unrealized gains or losses. The Company classifies available-for-sale securities as current assets in the accompanying balance sheets because the Company has the ability and intent to sell these securities as necessary to meet its liquidity requirements. At September 30, 2006, marketable securities also included U.S. Treasury securities having an aggregate face amount of approximately $860,000 purchased in connection with the sale of $46.0 million aggregate principal amount of Convertible Senior Notes. These securities, which matured at various dates through November 2006, were pledged to the trustee for the payment of the fourth scheduled interest payment on the notes when due. Consequently, at September 30, 2006, these securities were classified as held-to-maturity securities and were recorded at their amortized cost of $860,000, which approximated fair value.

Inventories

Inventories consist of the following (in thousands):

	June 30, 2007	September 30, 2006
Work-in-process	$ 8,187	$ 9,120
Finished goods	8,066	9,888
	$ 16,253	$ 19,008

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

During the nine months ended June 30, 2007 and 2006, the Company sold inventories with an original cost of approximately $3.1 million and $3.9 million, respectively, that had been written down to a zero cost basis during fiscal 2001.

Comprehensive Loss

Comprehensive loss is as follows (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2007	**2006**	**2007**	**2006**
Net loss	$ (2,519)	$ (4,544)	$ (21,455)	$ (17,162)
Foreign currency translation adjustments	67	269	487	170
Comprehensive loss	$ (2,452)	$ (4,275)	$ (20,968)	$ (16,992)

The balance of accumulated other comprehensive loss at June 30, 2007 and September 30, 2006 consists of accumulated foreign currency translation adjustments.

Revenues by Product Line

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

	Three months ended June 30,		Nine months ended June 30,	
	2007	**2006**	**2007**	**2006**
Multiservice access DSP products	$ 9,241	$ 8,896	$ 27,545	$ 28,733
High-performance analog products	9,408	11,925	27,360	31,935
WAN communications products	14,558	15,073	39,217	43,039
	$ 33,207	$ 35,894	$ 94,122	$ 103,707

Revenues by Geographic Area

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

	Three months ended June 30,		Nine months ended June 30,	
	2007	**2006**	**2007**	**2006**
Americas	$ 12,538	$ 11,557	$ 33,916	$ 36,447
Asia-Pacific	16,729	18,396	49,329	54,852
Europe, Middle East and Africa	3,940	5,941	10,877	12,408
	$ 33,207	$ 35,894	$ 94,122	$ 103,707

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.

The following direct customers accounted for 10% or more of net revenues:

Nine months ended

	June 30,	
	2007	**2006**
Customer A	17%	17%
Customer B	14%	11%

3. Stock-Based Compensation

Effective October 1, 2005, the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires that the Company account for all stock-based compensation using a fair-value method and recognize the fair value of each award as an expense over the service period. The Company elected to adopt SFAS 123R using modified prospective application. Under that method, compensation expense includes the fair value of new awards, modified awards and any unvested awards outstanding at October 1, 2005. However, the

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

consolidated financial statements for periods prior to the adoption of SFAS 123R have not been restated to reflect the fair value method of accounting for stock-based compensation.

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 reduces stock compensation expense by estimated forfeiture based on historical experience.

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

The fair value of stock options awarded during the nine months ended June 30, 2007 and 2006 was estimated at the date of grant using the Black-Scholes option-pricing model. The following table summarizes the weighted-average assumptions used and the resulting fair value of options granted:

	Nine months ended June 30, 2007	Nine months ended June 30, 2006
Weighted-average fair value of options granted	$ 1.17	$ 1.77

Weighted-average assumptions: