

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

May 06, 2008

**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION**

Washington, D.C. 20549

FORM 10-Q

x

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

For the quarterly period ended March 28, 2008

OR

OR

o

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

Commission file number: 000-50499

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

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

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

92660-3095
(Zip code)

Registrant's telephone number, including area code:

(949) 579-3000

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

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

Large Accelerated Filer o

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

Accelerated Filer x

Smaller Reporting Company o

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****MINDSPEED TECHNOLOGIES, INC.****Consolidated Condensed Balance Sheets**

(unaudited, in thousands, except per share amounts)

	March 28, 2008	September 28, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 28,690	\$ 25,796
Receivables, net of allowance for doubtful accounts of \$350 and \$353 at March 28, 2008 and September 28, 2007, respectively	17,681	13,584
Inventories	9,662	15,023
Other current assets	2,479	3,763
Total current assets	58,512	58,166
Property, plant and equipment, net	13,061	13,147
Intangible assets, net	2,795	3,200
Goodwill	2,429	2,324
License agreements, net	2,655	1,798
Other assets	2,832	3,444
Total assets	\$ 82,284	\$ 82,079
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 7,216	\$ 7,117
Deferred income on sales to distributors	3,516	4,226
Accrued compensation and benefits	5,606	5,286
Accrued income tax	111	752
Restructuring	540	1,478
Other current liabilities	3,332	3,493
Total current liabilities	20,321	22,352
Convertible senior notes	45,255	45,037
Other liabilities	651	444
Total liabilities	66,227	67,833
Commitments and contingencies		
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; 119,135 and 115,759 shares issued at March 28, 2008 and September 28, 2007, respectively	1,191	1,158
Additional paid-in capital	266,057	262,501
Accumulated deficit	(236,944)	(234,480)
Accumulated other comprehensive loss	(14,247)	(14,933)
Total stockholders' equity	16,057	14,246
Total liabilities and stockholders' equity	\$ 82,284	\$ 82,079

See accompanying notes to consolidated condensed financial statements.

MINDSPEED TECHNOLOGIES, INC.

Consolidated Condensed Statements of Operations

(unaudited, in thousands, except per share amounts)

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

See accompanying notes to consolidated condensed financial statements.

MINDSPEED TECHNOLOGIES, INC.

Consolidated Condensed Statements of Cash Flows

(unaudited, in thousands)

	Six months ended	
	March 28, 2008	March 30, 2007
Cash Flows From Operating Activities		
Net loss	\$ (2,666)	\$ (18,936)
Adjustments to reconcile net loss to net cash Provided by (used in) operating activities:		
Depreciation and amortization	3,115	2,589
Stock-based compensation	3,027	3,585
Inventory provisions	(1,064)	(228)
Other non-cash items, net	258	254
Changes in assets and liabilities, net of effects of acquisitions:		
Receivables	(3,917)	4,103
Inventories	6,425	669
Accounts payable	1,265	(1,958)
Deferred income on sales to distributors	(716)	(1,198)
Accrued expenses and other current liabilities	147	2,569
Other	2,335	1,141
Net cash provided by (used in) operating activities	8,209	(7,410)
Cash Flows From Investing Activities		
Capital expenditures	(4,127)	(1,822)
Acquisition of assets, net of cash acquired	(1,172)	
Purchases of available-for-sale marketable securities		(12,832)
Sales of available-for-sale marketable securities		12,500
Maturities of held-to-maturity marketable securities		863
Net cash (used in) investing activities	(5,299)	(1,291)
Cash Flows From Financing Activities		
Exercise of stock options and warrants	111	2,422
Net cash provided by financing activities	111	2,422
Effect of foreign currency exchange rates on cash	(127)	
Net increase (decrease) in cash and cash equivalents	2,894	(6,279)
Cash and cash equivalents at beginning of period	25,796	29,976
Cash and cash equivalents at end of period	\$ 28,690	\$ 23,697

See accompanying notes to consolidated condensed financial statements.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation and Significant Accounting Policies

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, 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 28, 2007.

Liquidity - In order to become profitable, or to generate and sustain positive cash flows from operations, the Company must further reduce operating expenses and/or increase revenues. During the first six months of fiscal 2008, the Company benefited from the completion of a series of cost reduction actions which have improved its operating cost structure. These expense reductions alone may not make the Company profitable or allow it to sustain profitability if it is achieved. The Company's ability to achieve the necessary revenue growth 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 Company may not be successful in achieving the necessary revenue growth or may be unable to sustain past and future expense reductions in subsequent periods. The Company may not achieve profitability or sustain such profitability, if achieved.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from product sales, will be sufficient to fund its operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for at least the next 12 months. The Company will need to continue a focused program of capital expenditures to meet its research and development

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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 to it on favorable terms, or at all.

Reclassifications - Certain reclassifications have been made to 2007 financial statements to conform to the 2008 presentation.

Fiscal Periods Our interim fiscal quarters end on the thirteenth Friday of each quarter. The second quarter of fiscal 2008 and 2007 ended on March 28, 2008 and March 30, 2007, respectively.

Recent Accounting Standards On September 29, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* and 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 positions. See Note 3 for further information on the adoption of FIN 48.

In December 2007, the FASB issued Financial Accounting Standards (SFAS) No. 141R, *Business Combinations*, and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements*, an Amendment of ARB No. 51. These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. These Statements are effective for fiscal years beginning after December 15, 2008. The Company will be required to adopt SFAS No. 141R and SFAS No. 160 in the first quarter of fiscal 2010. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing accounting principles until October 2, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an Amendment of FASB Statement No. 133. This Statement requires enhanced disclosures about an entity's derivative and hedging activities and is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will be required to adopt SFAS 161 in the first quarter of fiscal 2010 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 six months ended March 28, 2008 and March 30, 2007, respectively, principally consists of income taxes incurred by the Company's foreign subsidiaries.

Supplemental Cash Flow Information Interest paid for the six months ended March 28, 2008 and March 30, 2007 was \$862,500 and \$862,500, respectively. Income taxes paid, net of refunds received, for the six months ended March 28, 2008 and March 30, 2007 were \$11,000 and \$186,000, respectively. Non-cash investing activities in the first six months fiscal 2008 consisted of the purchase of \$329,000 of property and equipment from suppliers on account. Assets acquired consists of amounts paid and received during the first six months of fiscal 2008 on cash, accounts receivable, accounts payable and accrued liabilities created through the acquisition of certain assets of Ample Communications, Inc., which occurred in the fourth quarter of fiscal 2007.

2. Supplemental Financial Statement Data

Inventories

Inventories consist of the following (in thousands):

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	March 28, 2008	September 28, 2007
Work-in-process	\$ 5,641	\$ 7,497
Finished goods	4,021	7,526
	\$ 9,662	\$ 15,023

During the six months ended March 28, 2008 and March 30, 2007, the Company sold inventories with an original cost of approximately \$0.9 million and \$2.0 million, respectively, that had been written down to a zero cost basis during fiscal 2001.

Intangible Assets and Goodwill

In conjunction with the acquisition of certain assets of Ample Communications, Inc. on September 25, 2007, the Company acquired certain intangible assets. These intangible assets consist of backlog (approximately \$100,000), developed technology (approximately \$3,100,000) and goodwill (approximately \$2,324,000). In the first six months of fiscal 2008, the Company recorded purchase accounting adjustments related to additional transaction costs, additional cash and accounts receivable received as well as a decrease in the value of fixed assets received. Accordingly, the balance of goodwill has changed as follows (in thousands):

	September 28, 2007	Purchase Price Adjustments	March 28, 2008
Goodwill	\$ 2,324	\$ 105	\$ 2,429

Deferred Income on Sales to Distributors

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

	March 28, 2008	September 28, 2007
Deferred revenue on sales to distributors	\$ 3,997	\$ 4,953
Deferred cost of inventory on sales to distributors	(535)	(808)
Reserves	54	81
Deferred income on sales to distributors	\$ 3,516	\$ 4,226

Comprehensive Loss

Comprehensive loss is as follows (in thousands):

	Three months ended		Six months ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Net loss	\$ (1,837)	\$ (7,619)	\$ (2,666)	\$ (18,936)
Foreign currency translation adjustments	577	86	686	420
Comprehensive loss	\$ (1,260)	\$ (7,533)	\$ (1,980)	\$ (18,516)

The balance of accumulated other comprehensive loss at March 28, 2008 and September 28, 2007 consists of accumulated foreign currency translation adjustments.

Revenues by Product Line

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

	Three months ended		Six months ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Multiservice access DSP products	\$ 11,865	\$ 9,318	\$ 21,807	\$ 18,304
High-performance analog products	10,154	8,158	20,728	17,952
WAN communications products	14,229	13,282	29,014	24,659
	\$ 36,248	\$ 30,758	\$ 71,549	\$ 60,915

Revenues by Geographic Area

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

	Three months ended		Six months ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
Americas	\$ 12,462	\$ 11,359	\$ 26,088	\$ 21,378
Asia-Pacific	18,166	15,417	35,837	32,600
Europe, Middle East and Africa	5,620	3,982	9,624	6,937
	\$ 36,248	\$ 30,758	\$ 71,549	\$ 60,915

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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 in the periods presented:

	Six months ended	
	March 28, 2008	March 30, 2007
Customer A	16%	14%