

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

August 07, 2013

[Table of Contents](#)

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 June 28, 2013

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)

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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 ☐ (Do not check if a smaller reporting company) 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 July 26, 2013 was 43,390,278.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements (including certain projections and business trends) relating to Mindspeed Technologies, Inc. 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, assume 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 belief that the resolution of certain legal proceedings will not have a material adverse effect on our financial condition, results of operations or cash flows;

the ability of our relationships with leading 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 high-performance analog, communications processors and wireless infrastructure 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;

the increasing trend toward industry consolidation and the effect it could have on our operating results;

the sufficiency of our existing sources of liquidity to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements, including interest payments on debt obligations, for at least the next 12 months;

our restructuring plans, including timing, expected workforce reductions, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments, the impact on our business, the amounts of future charges to complete our restructuring plans, including any future plans to reduce operating expenses and/or increase revenue;

our intention to continue to expand our international business activities, including expansion of design and operations centers abroad, and the challenges associated with such expansion;

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our expectations regarding the cyclical nature of the semiconductor industry;

the impact of recent accounting pronouncements and the adoption of new accounting standards; and

our plans to periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property. 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:

Table of Contents

worldwide political and economic uncertainties and specific conditions in the markets we address;

fluctuations in our operating results and future operating losses;

cash requirements and terms and availability of financing;

our review of strategic alternatives;

successful and timely development in new markets and introduction of competitive new products;

significant fluctuations in the price of our common stock;

the adverse effect our debt obligations may have on our financial condition;

impairment of our goodwill;

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;

doing business internationally and our ability to successfully and cost effectively establish and manage operations in foreign jurisdictions;

maintaining compliance with applicable governmental regulations;

the expense of and our ability to defend our intellectual property against infringement claims by others;

lengthy sales cycles;

order and shipment uncertainty;

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our ability to obtain design wins and develop revenue from them;

product defects and bugs;

business acquisitions and investments;

substantial sales of the shares of our common stock issuable upon conversion of our convertible senior notes or shares issued in connection with the picoChip acquisition; 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 Securities and Exchange Commission, or 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.

Table of Contents

MINDSPEED TECHNOLOGIES, INC.

INDEX

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Consolidated Condensed Balance Sheets September 28, 2012 and June 28, 2013</u>	5
<u>Consolidated Condensed Statements of Operations Three Months and Nine Months Ended June 28, 2013 and June 29, 2012</u>	6
<u>Consolidated Condensed Statements of Comprehensive Loss Three Months and Nine Months Ended June 28, 2013 and June 29, 2012</u>	7
<u>Consolidated Condensed Statements of Cash Flows Nine Months Ended June 28, 2013 and June 29, 2012</u>	8
<u>Notes to Consolidated Condensed Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	43
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	58
<u>Item 3. Defaults upon Senior Securities</u>	58
<u>Item 4. Mine Safety Disclosures</u>	58
<u>Item 5. Other Information</u>	58
<u>Item 6. Exhibits</u>	59
<u>Signature</u>	61

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MINDSPEED TECHNOLOGIES, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS****(unaudited, in thousands)**

	June 28, 2013	September 28, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 43,047	\$ 49,098
Receivables, net of allowance for doubtful accounts of \$158 at June 28, 2013 and \$356 at September 28, 2012	17,471	14,527
Inventories	11,197	10,482
Prepaid expenses and other current assets	3,452	10,497
Total current assets	75,167	84,604
Property, plant and equipment, net	16,264	16,031
Intangible assets, net	32,561	35,351
Goodwill	26,596	57,110
Other assets	4,445	4,000
Total assets	\$ 155,033	\$ 197,096
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 6,882	\$ 9,262
Accrued compensation and benefits	4,370	6,401
Deferred income on sales to distributors	3,389	4,396
Deferred revenue	1,768	2,338
Line of credit - short-term	5,521	5,511
Short term debt	16,831	15,384
Contingent consideration		1,876
Other current liabilities	5,538	10,661
Total current liabilities	44,299	55,829
Line of credit - long-term	8,000	8,000
Long-term debt	43,502	44,765
Other liabilities	6,331	6,767
Total liabilities	102,132	115,361
Commitments and contingencies (Note 8)		
Stockholders' Equity		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value, 100,000 shares authorized; 43,371 (June 28, 2013) and 41,551 (September 28, 2012) issued and outstanding shares	434	416
Additional paid-in capital	380,835	371,949
Accumulated deficit	(327,891)	(290,507)
Accumulated other comprehensive loss	(477)	(123)

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Total stockholders' equity	52,901	81,735
Total liabilities and stockholders' equity	\$ 155,033	\$ 197,096

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)

	Three Months Ended		Nine Months Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Net revenue:				
Products	\$ 35,579	\$ 35,451	\$ 109,358	\$ 104,151
Intellectual property			6,000	591
Total net revenue	35,579	35,451	115,358	104,742
Cost of goods sold	13,776	18,186	45,485	47,244
Gross margin	21,803	17,265	69,873	57,498
Operating expenses:				
Research and development	15,153	18,105	46,856	50,853
Selling, general and administrative	9,823	11,610	29,604	34,020
Goodwill impairment charge			30,466	
Impairment of indefinite-lived intangible assets			500	
Acquisition-related costs	26	680	216	3,748
Restructuring charges	293	78	2,541	1,350
Total operating expenses	25,295	30,473	110,183	89,971
Operating loss	(3,492)	(13,208)	(40,310)	(32,473)
Interest expense	(1,387)	(849)	(4,067)	(1,808)
Other income, net	6,535	7,368	7,281	7,979
Income/(loss) before income taxes	1,656	(6,689)	(37,096)	(26,302)
Provision for income taxes	57	165	282	387
Net income/(loss)	\$ 1,599	\$ (6,854)	\$ (37,378)	\$ (26,689)
Net income/(loss) per share:				
Basic	\$ 0.04	\$ (0.18)	\$ (0.93)	\$ (0.74)
Diluted	\$ 0.04	\$ (0.18)	\$ (0.93)	\$ (0.74)
Weighted-average number of shares used in per share computation:				
Basic	40,575	38,784	40,064	35,992
Diluted	40,929	38,784	40,064	35,992

See accompanying notes to consolidated condensed financial statements.

Table of Contents

MINDSPEED TECHNOLOGIES, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(in thousands)

	Three Months Ended		Nine Months Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
Net income/(loss)	\$ 1,599	\$ (6,854)	\$ (37,378)	\$ (26,689)
Other comprehensive loss:				
Foreign currency translation adjustments	(158)	(33)	(358)	(121)
Comprehensive income/(loss)	\$ 1,441	\$ (6,887)	\$ (37,736)	\$ (26,810)

See accompanying notes to consolidated condensed financial statements.

Table of Contents**MINDSPEED TECHNOLOGIES, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(unaudited, in thousands)**

	Nine Months Ended	
	June 28, 2013	June 29, 2012
Cash Flows From Operating Activities		
Net loss	\$ (37,378)	\$ (26,689)
Adjustments required to reconcile net loss to net cash provided by/(used in) operating activities:		
Depreciation and amortization of property, plant and equipment	4,457	4,793
Amortization of intangible assets	2,816	2,403
Asset impairments	2,563	3,399
Fair value of contingent consideration	(10)	(7,277)
Restructuring charges	2,541	1,350
Goodwill impairment charge	30,466	
Impairment of indefinite-lived intangible assets	500	
Stock-based compensation	8,942	8,653
Inventory provisions	1,321	1,434
Amortization of debt discounts and debt issuance costs	848	457
Non-cash effect of picoChip settlement arrangement	(5,357)	
Other non-cash items, net	(69)	(36)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(2,864)	(203)
Inventories	(2,036)	5,000
Other assets, net	5,137	(3,942)
Accounts payable	(2,378)	(1,840)
Deferred income on sales to distributors	(1,007)	(559)
Restructuring charges	(2,619)	(2,026)
Accrued compensation and benefits	(2,015)	(4,098)
Accrued expenses and other current liabilities	(1,014)	(2,001)
Other liabilities, net	(719)	5,503
Net cash provided by/(used in) operating activities	2,125	(15,679)
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(4,081)	(3,132)
Payments under license agreements	(3,334)	(9,560)
Net cash paid for acquired companies		(20,096)
Net cash used in investing activities	(7,415)	(32,788)
Cash Flows From Financing Activities		
Payments made on capital lease obligations	(337)	(417)
Borrowings under term loan		15,000
Payments made on term loan	(375)	
Borrowings under line of credit	1,420	14,807
Payments made on line of credit	(1,410)	(1,317)
Borrowings under convertible debt		30,560
Deferred financing costs		(932)
Repurchase of restricted stock for income tax withholding	(1,244)	(1,295)
Proceeds from equity compensation programs	1,195	2,046

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Net cash (used in)/provided by financing activities	(751)	58,452
Effect of foreign currency exchange rates on cash	(10)	(74)
Net (decrease)/increase in cash and cash equivalents	(6,051)	9,911
Cash and cash equivalents at beginning of period	49,098	45,227
Cash and cash equivalents at end of period	\$ 43,047	\$ 55,138

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 solutions for communications applications in the wireline and wireless network infrastructure equipment, which includes broadband access networks (fixed and mobile), enterprise networks and metropolitan and WAN (fixed and mobile) networks.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All intercompany 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, goodwill and asset impairments (Note 3) and restructuring charges (Note 9), necessary to present fairly the Company's financial position, results of operations and cash flows in accordance with GAAP. 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, 2012.

The Company has experienced negative cash flows from operating activities over the last two quarters. The Company currently believes that its existing cash balances (net of minimum cash and cash equivalents balances for its financial covenants with Silicon Valley Bank, as discussed in Note 7), cash expected to be generated from operations and its revolving credit facility will be sufficient to fund operations, anticipated capital expenditures, working capital and other financing requirements, including principal and interest payments on debt obligations, for at least the next twelve months.

Fiscal Periods The Company's interim fiscal quarters end on the thirteenth Friday of each quarter. The third quarter of fiscal 2013 and 2012 ended on June 28, 2013 and June 29, 2012, respectively.

Recent Accounting Standards In February 2013, the FASB issued accounting guidance which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present significant amounts reclassified out of accumulated other comprehensive income by respective line items of net income if the amount reclassified is required to be reclassified to net income in its entirety. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. The provisions of this guidance will be effective for the Company in its first quarter of fiscal 2014 and should be applied prospectively. The Company does not expect the adoption of this guidance to have a material impact on its consolidated condensed financial statements.

Significant Accounting Policies There were no significant changes to the Company's significant accounting policies disclosed in its Annual Report on Form 10-K, filed on December 12, 2012, for the fiscal year ended September 28, 2012.

2. Financial Statement Details***Inventories***

Inventories consisted of the following:

	June 28, 2013	September 28, 2012
	(in thousands)	
Work-in-process	\$ 4,706	\$ 3,957
Finished goods	6,491	6,525

Total inventories	\$ 11,197	\$ 10,482
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Intangible Assets, Net

Intangible assets, net, consisted of licensed and acquired intangibles.

Table of Contents

Licensed Intangibles

Licensed intangibles consisted mainly of licenses of intellectual property. See Note 3 for a discussion of the \$2.0 million impairment charge on the carrying value of licensed intangibles during the second quarter of fiscal 2013.

	June 28, 2013	September 28, 2012
	(in thousands)	
Licensed intangibles	\$ 25,484	\$ 28,145
Accumulated amortization	(4,862)	(6,286)
Licensed intangibles, net	\$ 20,622	\$ 21,859

Weighted-average remaining life 69 months 59 months
Amortization of licensed intangible assets included in costs of goods sold was as follows:

	Three Months Ended June 28, 2013	June 29, 2012	Nine Months Ended June 28, 2013	June 29, 2012
	(in thousands)			
Amortization of licensed intangibles	\$ 372	\$ 595	\$ 1,763	\$ 1,835

Estimated future amortization of existing licensed intangible assets is as follows:

	Licensed Intangible Assets Amortization by Fiscal Year							
	Remainder of 2013	2014	2015	2016	2017	2018	Thereafter	Total
	(in thousands)							
Cost of goods sold	\$ 615	\$ 3,243	\$ 4,280	\$ 3,657	\$ 3,645	\$ 3,397	\$ 1,785	\$ 20,622

Acquired Intangibles

Acquired intangibles consisted of the following:

	June 28, 2013				Weighted-Average Useful Life (in years)
	Gross	Accumulated Impairment	Accumulated Amortization	Net Book Value	
	(in thousands)				
Trade names and trademarks	\$ 310	\$	\$ (291)	\$ 19	1.5
Developed technology	11,800		(1,380)	10,420	12
Customer relationships	1,500		(300)	1,200	7
In-process research and development	800	(500)		300	Indefinite
	\$ 14,410	\$ (500)	\$ (1,971)	\$ 11,939	

See Note 3 for a discussion of the \$500,000 impairment charge on the carrying value of in-process research and development (IPR&D) during the second quarter of fiscal 2013.

Table of Contents

	September 28, 2012			Weighted-Average Useful Life (in years)
	Gross	Accumulated Amortization (in thousands)	Net Book Value	
Trade names and trademarks	\$ 310	\$ (136)	\$ 174	1.5
Developed technology	11,800	(643)	11,157	12
Customer relationships	1,500	(139)	1,361	7
In-process research and development	800		800	Indefinite
	\$ 14,410	\$ (918)	\$ 13,492	

Amortization of acquired intangible assets included in the costs of goods sold and operating expense categories was as follows:

	Three Months Ended		Nine Months Ended	
	June 28, 2013	June 29, 2012	June 28, 2013	June 29, 2012
	(in thousands)			
Cost of goods sold	\$ 247	\$ 246	\$ 741	\$ 397
Selling, general and administrative	104	106	312	171
	\$ 351	\$ 352	\$ 1,053	\$ 568

Estimated future amortization of existing acquired intangible assets, excluding IPR&D, is as follows:

Acquired Intangible Assets Amortization by Fiscal Year				
Remainder of				
2013	2014	2015	2016	