

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

May 06, 2011

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**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 April 1, 2011**

**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 April 29, 2011 was 33,487,768.

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**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, 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:

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 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 belief that we are well-situated in China and that fiber deployments are being rolled out by the country's major telecommunications carriers;

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 continuation of intense price and product competition, and the resulting declining average selling prices for our products;

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

the sufficiency of our cash balances, along with cash expected from product sales, 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;

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

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;

the value of our intellectual property, our ability to continue recognizing patent-related revenue from the sale or licensing of our intellectual property and our plans to periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property;

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;

our expectations regarding the effect of the recent crisis in Japan on our operations in the fiscal third quarter of 2011 and beyond;

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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.

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:

fluctuations in our operating results and future operating losses;

constraints in the supply of wafers and other product components from our third-party manufacturers;

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

fluctuations in the price of our common stock;

loss of or diminished demand from one or more key customers or distributors;

successful development and introduction of new products;

cash requirements and terms and availability of financing;

our ability to attract and retain qualified personnel;

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

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

pricing pressures and other competitive factors;

lengthy sales cycles;

order and shipment uncertainty;

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

product defects and bugs;

business acquisitions and investments; and

our ability to utilize our net operating loss carryforwards and certain other tax attributes.

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

Mindspeed® and Mindspeed Technologies® are registered trademarks of Mindspeed Technologies, Inc. Other brands, names and trademarks contained in this report are the property of their respective owners.

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

	<b>April 1, 2011</b>	<b>October 1, 2010</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 44,908	\$ 43,685
Receivables, net of allowance for doubtful accounts of \$189 at both April 1, 2011 and October 1, 2010	19,248	25,678
Inventories	12,596	10,205
Deferred tax assets, net	2,340	2,264
Prepaid expenses and other current assets	3,117	3,035
Total current assets	82,209	84,867
Property, plant and equipment, net	14,284	12,700
Licensed intangibles, net	13,567	9,887
Other assets	1,391	1,230
Total assets	\$ 111,451	\$ 108,684
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 10,781	\$ 9,303
Accrued compensation and benefits	6,150	9,336
Accrued income tax	1,283	1,503
Deferred income on sales to distributors	5,774	5,199
Deferred revenue	558	658
Restructuring	212	710
Other current liabilities	5,270	4,396
Total current liabilities	30,028	31,105
Convertible senior notes - long term	14,012	13,810
Other liabilities	1,623	2,133
Total liabilities	45,663	47,048
Commitments and contingencies (Note 6)		
<b>Stockholders Equity</b>		
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; 32,607 (April 1, 2011) and 32,220 (October 1, 2010) issued and outstanding shares	326	322
Additional paid-in capital	321,641	318,468

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Accumulated deficit	(256,061)	(257,001)
Accumulated other comprehensive loss	(118)	(153)
Total stockholders' equity	65,788	61,636
Total liabilities and stockholders' equity	\$ 111,451	\$ 108,684

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)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Net revenue:				
Products	\$ 38,553	\$ 40,253	\$ 76,596	\$ 77,279
Intellectual property			2,500	
Total net revenue	38,553	40,253	79,096	77,279
Cost of goods sold	14,283	14,333	28,564	27,796
Gross margin	24,270	25,920	50,532	49,483
Operating expenses:				
Research and development	14,525	12,221	28,448	24,809
Selling, general and administrative	10,079	10,391	20,290	20,025
Special charges		(71)	(18)	789
Total operating expenses	24,604	22,541	48,720	45,623
Operating income/(loss)	(334)	3,379	1,812	3,860
Interest expense	(399)	(394)	(797)	(1,024)
Other income/(expense), net	(41)	196	(41)	201
Income/(loss) before income taxes	(774)	3,181	974	3,037
Provision/(benefit) for income taxes	(15)	42	34	58
Net income/(loss)	\$ (759)	\$ 3,139	\$ 940	\$ 2,979
Net income/(loss) per share:				
Basic	\$ (0.02)	\$ 0.11	\$ 0.03	\$ 0.10
Diluted	\$ (0.02)	\$ 0.10	\$ 0.03	\$ 0.10

Shares used in computation of net income/(loss) per share:

Basic	32,133	29,362	32,021	28,931
Diluted	32,133	30,687	33,032	29,922

See accompanying notes to consolidated condensed financial statements.

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

	<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 940	\$ 2,979
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,572	2,422
Amortization of licensed intangibles	1,135	443
Asset impairments	4	
Restructuring charges	(18)	789
Stock-based compensation	2,212	2,217
Inventory provisions	181	1,025
Amortization of debt discount on convertible debt	223	347
Other non-cash items, net		215
Changes in operating assets and liabilities:		
Receivables	6,442	(7,398)
Inventories	(2,572)	2,392
Accounts payable	1,931	111
Deferred income on sales to distributors	575	2,126
Restructuring	(491)	(770)
Accrued compensation and benefits	(3,229)	89
Accrued expenses and other current liabilities	(213)	437
Other	(190)	(531)
Net cash provided by operating activities	9,502	6,893
<b>Cash Flows From Investing Activities</b>		
Purchases of property, plant and equipment	(3,920)	(2,308)
Payments for licensed intangibles	(5,009)	(739)
Net cash used in investing activities	(8,929)	(3,047)
<b>Cash Flows From Financing Activities</b>		
Gross proceeds from sale of equity		18,300
Offering costs from sale of equity		(1,307)
Extinguishment of convertible debt		(10,500)
Payments made on capital lease obligations	(274)	(249)
Borrowings under line of credit		7,000
Payments made on borrowings under line of credit		(7,000)
Repurchase of restricted stock for income tax withholding	(291)	(192)
Proceeds from equity compensation programs	1,256	474
Net cash provided by financing activities	691	6,526

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Effect of foreign currency exchange rates on cash	(41)	85
Net increase in cash and cash equivalents	1,223	10,457
Cash and cash equivalents at beginning of period	43,685	20,891
Cash and cash equivalents at end of period	\$ 44,908	\$ 31,348

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 solutions for communications applications in the wireline and wireless network infrastructure, which includes enterprise networks, broadband access networks (fixed and mobile) and metropolitan and wide area 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 and special charges (Note 7), 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 October 1, 2010.

*Fiscal Periods* The Company's interim fiscal quarters end on the thirteenth Friday of each quarter. The second quarter of fiscal 2011 and 2010 ended on April 1, 2011 and April 2, 2010, respectively.

*Recent Accounting Standards* In September 2009, the Emerging Issues Task Force reached a consensus on Accounting Standards Update, or ASU, 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements, or ASU 2009-13 and ASU 2009-14, Software (Topic 985) Certain Revenue Arrangements That Include Software Elements, or ASU 2009-14. ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (i) vendor specific objective evidence (VSOE) of fair value; or (ii) third-party evidence (TPE) before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that have already been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. These new updates are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted these provisions effective October 2, 2010, and they did not have a material impact on its consolidated condensed financial statements.

*Revenue Recognition* The Company's revenue consists principally of sales of semiconductor devices and, to a lesser extent, support and maintenance contracts, development agreements and the sale and license of intellectual property. The Company recognizes revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the price to the customer is fixed or determinable; and (iv) collection of the sales price is probable. 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.

The Company's semiconductor products either do not contain software that is more than incidental to the functionality of the product, or the software functions together with non-software deliverables to deliver the essential functionality of the product. Accordingly, the Company accounts for revenue in accordance with the provisions of Accounting Standards Codification 605, Revenue Recognition, or ASC 605, and all related

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interpretations. Additionally, the Company provides unspecified software upgrades and enhancements through its support and maintenance contracts for certain of its semiconductor products. Support and maintenance services revenue is deferred and recognized ratably over the period during which the services are to be performed.

Revenue is recognized 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.

Revenue is recognized on sales to distributors based on the rights granted to these distributors in the distribution agreements. The Company has 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 the Company's 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, the Company credits 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, recognition of revenue is deferred until the products are resold by the distributor, at which time the Company's 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) a trade receivable at the invoiced selling price is recorded because there is a legally enforceable obligation from the distributor to pay the Company currently for product delivered; (ii) inventory is relieved for the carrying value of products shipped because legal title has passed to the distributor; and (iii) deferred revenue and deferred cost of inventory are recorded under the Deferred income on sales to distributors caption in the liability section of the Company's consolidated balance sheets. The Company evaluates the deferred cost of inventory component of this account for possible impairment by considering potential obsolescence of products that might be returned and by considering the potential of resale prices of these products being below the Company's cost. By reviewing deferred inventory costs in the manner discussed above, the Company ensures that any portion of deferred inventory costs that are not recoverable from future contractual revenue are charged to cost of goods sold as an expense. Deferred income on sales to distributors effectively represents the gross margin on sales to distributors, however, the amount of gross margin that is recognized in future periods may be less than the originally recorded deferred income as a result of subsequent negotiated price concessions. In recent years, such concessions have exceeded 30% of list price on average. See Note 2 for detail of this account balance.

Revenue from other distributors is recognized 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 and 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 four above mentioned 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****2. Supplemental Financial Statement Data*****Inventories***

Inventories consisted of the following (in thousands):

	<b>April 1, 2011</b>	<b>October 1, 2010</b>
Work-in-process	\$ 6,331	\$ 4,681
Finished goods	6,265	5,524
Total inventories, net	\$ 12,596	\$ 10,205

***Deferred Income on Sales to Distributors***

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

	<b>April 1, 2011</b>	<b>October 1, 2010</b>
Deferred revenue on shipments to distributors	\$ 6,252	\$ 5,674
Deferred cost of goods sold on shipments to distributors	(531)	(528)
Reserves	53	53
Deferred income on sales to distributors	\$ 5,774	\$ 5,199

***Other Liabilities***

Details of other liabilities were as follows (in thousands):

	<b>April 1, 2011</b>	<b>October 1, 2010</b>
<i>Current</i>		
Deferred rent	886	1,075
Capital lease obligations	458	478
Royalties	358	426
Licensed intangibles	2,086	1,302
Other	1,482	1,115
Total other current liabilities	\$ 5,270	\$ 4,396
<i>Long-term</i>		
Capital lease obligations	\$ 320	\$ 574
Licensed intangibles	646	952
Other	657	607
Total other liabilities	\$ 1,623	\$ 2,133

***Computation of Net Income/(Loss) per Share***

The following table presents the computation of net income/(loss) per share (in thousands, except per share amounts):

**Three Months Ended      Six Months Ended**

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	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Earnings per share - basic				
Net income/(loss)	\$ (759)	\$ 3,139	\$ 940	\$ 2,979
Basic weighted average common shares outstanding	32,133	29,362	32,021	28,931
Earnings per share - basic	\$ (0.02)	\$ 0.11	\$ 0.03	\$ 0.10



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Basic weighted average common shares outstanding	32,133	29,362	32,021	28,931
Effect of dilutive securities:				
Convertible senior notes				
Dilutive stock awards		1,325	993	991
Dilutive employee stock purchase plan shares			18	
Diluted weighted average common shares outstanding	32,133	30,687	33,032	29,922
Earnings per share diluted	\$ (0.02)	\$ 0.10	\$ 0.03	\$ 0.10

Net income/(loss) per share does not include the effect of anti-dilutive common share equivalents resulting from outstanding equity awards, warrants, and convertible senior notes. There were 12.0 million and 13.0 million anti-dilutive common share equivalents for the three months ended April 1, 2011 and April 2, 2010, respectively. There were 11.0 million and 13.3 million anti-dilutive common share equivalents for the six months ended April 1, 2011 and April 2, 2010, respectively.

**Comprehensive Income/(Loss)**

Comprehensive income/(loss) was as follows (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Net income/(loss)	\$ (759)	\$ 3,139	\$ 940	\$ 2,979
Foreign currency translation adjustments, net of tax	111	(231)	35	(323)
Comprehensive income/(loss)	\$ (648)	\$ 2,908	\$ 975	\$ 2,656

**Net Revenue by Product Line**

Net revenue by product line were as follows (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Communications convergence processing products	\$ 15,569	\$ 16,168	\$ 32,194	\$ 30,123
High-performance analog products	14,949	13,531	29,053	25,111
WAN communications products	8,035	10,554	15,349	22,045
Intellectual property			2,500	
Total net revenue	\$ 38,553	\$ 40,253	\$ 79,096	\$ 77,279

**Net Revenue by Geographic Area**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Americas	\$ 7,796	\$ 7,888	\$ 19,827	\$ 16,506

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Asia-Pacific	27,414	28,857	52,586	54,913
Europe, Middle East and Africa	3,343	3,508	6,683	5,860
Total net revenue	\$ 38,553	\$ 40,253	\$ 79,096	\$ 77,279

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.

*Supplemental Cash Flow Information*

Non-cash investing activities in the first six months of fiscal 2011 consisted of the purchase of \$516,000 of property and equipment from suppliers on account and the license of \$3.8 million of intellectual property on account. Non-cash investing activities in the first six months of fiscal 2010 consisted of the purchase of \$234,000 of equipment through capital leasing arrangements and the license of \$786,000 of intellectual property on account.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Customer A	25%	15%	22%	13%
Customer B	18%	19%	17%	18%
Customer C	10%	7%	9%	9%
Customer D	8%	14%	7%	11%

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

	<b>April 1, 2011</b>	<b>October 1, 2010</b>
Customer A	25%	5%
Customer B	18%	25%
Customer E	9%	12%

**3. Fair Value Measurements**

The following table represents financial assets measured at fair value (in thousands):

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Total Fair Value as of April 1, 2011</b>
April 1, 2011		
Assets:		
Cash	\$ 20,383	\$ 20,383
Money market fund	15,517	15,517
Government money market fund	9,008	9,008
Total cash and cash equivalents	\$ 44,908	\$ 44,908

	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Total Fair Value as of October 1, 2010</b>
October 1, 2010		
Assets:		
Cash	\$ 22,174	\$ 22,174
Money market fund	16,007	16,007
Government money market fund	5,504	5,504

Total cash and cash equivalents	\$ 43,685	\$ 43,685
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**4. Stock-Based Compensation**

The Company has stock-based incentive plans in effect that provide for the grant of stock options, unrestricted stock, restricted stock units and other stock-awards to employees and non-employee directors. The Company also provides an employee stock purchase plan for all eligible employees. The fair value of stock-based awards are estimated on the date of grant and recognized as an expense ratably over the requisite service period.

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The following table presents stock-based compensation by functional line item presented on our unaudited consolidated condensed statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2011	April 2, 2010	April 1, 2011	April 2, 2010
Cost of goods sold	\$ 45	\$ 38	\$ 88	\$ 70
Research and development	308	198	616	505
Selling, general and administrative	697	1,041	1,508	1,642
Total stock-based compensation	\$ 1,050	\$ 1,277	\$ 2,212	\$ 2,217

Stock option grant date fair value was estimated using the Black-Scholes pricing model with the following weighted-average assumptions:

	Six Months Ended	
	April 1, 2011	April 2, 2010
Weighted-average assumptions:		
Expected option life	2.9 years	2.7 years
Risk-free interest rate	0.7%	1.3%
Expected volatility	99%	95%
Dividend yield		
Weighted-average grant date fair value per share	\$ 4.02	\$ 2.92

*Stock Option Awards*

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

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average
			Remaining Contractual Term
Outstanding at October 1, 2010	2,900	\$ 6.41	4.8 years
Granted	449	6.65	
Exercised	(165)	3.16	
Forfeited or expired	(320)	9.11	
Outstanding at April 1, 2011	2,864	6.33	5.2 years
Exercisable at end of period	1,365	\$ 8.25	3.9 years

As of April 1, 2011, there was unrecognized compensation expense of \$2.9 million related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.5 years. The aggregate intrinsic value of options outstanding and options exercisable as of April 1, 2011 was \$9.2 million and \$3.6 million, respectively.

*Stock Awards*

On March 10, 2010, the Company granted awards of 190,000 performance shares to certain executive officers of the Company, with vesting subject to satisfaction of specific market and performance conditions. These awards begin to vest on the date when the average of the closing price of the Company's common stock reaches certain minimum amounts over a consecutive 20-day trading period. On each vesting trigger date, 8.33% of the shares of common stock underlying these awards will vest for each completed three month period from the grant date to the vesting trigger date. An additional 8.33% of the shares of common stock underlying these awards will vest on each three month anniversary date of the vesting trigger date. If the vesting trigger price is not achieved prior to the three year anniversary date of the grant date, these awards will be forfeited. These awards were valued using the Monte Carlo simulation model, which estimates value based on the probability of vesting achievement.

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The following table summarizes restricted stock award activity (shares in thousands):

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
Nonvested shares at October 1, 2010	680	\$ 6.64
Granted	135	6.58
Vested	(170)	5.02
Forfeited	(4)	3.09
Nonvested shares at April 1, 2011	641	\$ 6.84

The total fair value of shares vested during the six months ended April 1, 2011 was \$1.2 million. As of April 1, 2011, there was unrecognized compensation expense of \$2.6 million related to unvested stock awards, which the Company expects to recognize over a weighted-average period of approximately one year.

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

At April 1, 2011, the Company had no outstanding borrowings under its available \$5.0 million revolving credit facility and was in compliance with all required covenants.

*3.75% Convertible Senior Notes due 2009*

In December 2004, the Company 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. Through the end of fiscal 2009, the Company repurchased or exchanged \$35.5 million of aggregate principal amount of this debt. During the first quarter of fiscal 2010, the Company's 3.75% convertible senior notes matured and the remaining balance of \$10.5 million was repaid.

The following table sets forth interest expense information related to the 3.75% convertible senior notes (in thousands):

	<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>
3.75% convertible senior notes		
Interest expense coupon	\$	\$ 48
Interest expense debt discount amortization		151
Total	\$	\$ 199
Effective interest rate on the liability component for the period		14.68%

*6.50% Convertible Senior Notes due 2013*

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its previously outstanding 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 Exchange Offer). The Exchange Offer 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.

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



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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.

The Company's contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is considered an embedded derivative. As of April 1, 2011, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

The following table sets forth balance sheet information related to the 6.50% convertible senior notes (in thousands):

	April 1, 2011	October 1, 2010
6.50% convertible senior notes		
Principal value of the liability component	\$ 15,000	\$ 15,000
Unamortized value of the liability component	988	1,190
Net carrying value of the liability component	\$ 14,012	\$ 13,810

The following table sets forth interest expense information related to the 6.50% convertible senior notes (in thousands):

	Three Months Ended		Six Months Ended	
	April 1, 2011	April 2, 2010	April 1, 2011	April 2, 2010
6.50% convertible senior notes				
Interest expense - coupon	\$ 244	\$ 244	\$ 488	\$ 488
Interest expense - debt discount amortization	101	99	202	197
Total	\$ 345	\$ 343	\$ 690	\$ 685
Effective interest rate on the liability component for the period	9.20%	9.15%	9.20%	9.13%

**6. Commitments and Contingencies**

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company, including those pertaining to product liability, intellectual property, environmental, safety and health and employment matters. As is common in the industry, the Company currently has in effect a number of agreements in which it has agreed to defend, indemnify and hold harmless certain of its suppliers and customers from damages and costs which may arise from the infringement by the Company's products of third-party patents, trademarks or other proprietary rights. The Company has never incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be determined unfavorably against 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. Unless specifically noted below, during the period presented we have not: recorded any accrual for loss contingencies

associated with the legal proceedings described below; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable. Based on its evaluation of matters which are pending or asserted, while there can be no assurance, 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.

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One of the Company's customers, with whom we have an existing indemnification agreement, has been named in a patent infringement lawsuit. The outcome of this litigation and any potential exposure to the Company cannot be estimated at this time. Accordingly, the Company has no liabilities recorded related to this, or other indemnification agreements, as of April 1, 2011.

**7. Special Charges**

Special charges in the three and six months ended April 1, 2011 consisted of restructuring charge reversals totaling \$18,000. Special charges in the three and six months ended April 2, 2010 consisted of restructuring charge reversals of \$71,000 and restructuring charges of \$789,000, respectively.

**Restructuring Charges**

The Company has from time to time, and may in the future, commit to restructuring plans to help manage the costs of the Company or to help implement strategic initiatives, among other reasons.

*Fourth Quarter of Fiscal 2010 Restructuring Plan* In the fourth quarter of fiscal 2010, the Company committed to the implementation of a restructuring plan. The plan consisted primarily of a targeted headcount reduction in its wide area networking (WAN) communications product family and selling, general and administrative functions. The restructuring plan was substantially completed during the fourth quarter of fiscal 2010. Of the \$1.3 million in charges incurred, \$966,000 related to severance costs for affected employees and \$311,000 related to abandoned technology.

Activity and liability balances related to the Company's fourth quarter of fiscal 2010 restructuring plan from October 1, 2010 through April 1, 2011 were as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, October 1, 2010	\$ 701	\$	\$ 701
Cash payments	(489)		(489)
Restructuring balance, April 1, 2011	\$ 212	\$	\$ 212

The remaining accrued restructuring balance principally represents employee severance benefits. The Company expects to pay these remaining obligations through the second quarter of fiscal 2012.

*Fiscal 2009 Restructuring Plans* In fiscal 2009, the Company implemented two restructuring plans to improve its operating structure. These restructuring plans included workforce reductions, closure of facilities and reductions in areas of selling, general and administrative and WAN communications spending.

At October 1, 2010, the total remaining accrued restructuring balance under these plans was \$20,000. During the first quarter of fiscal 2011, any amounts left to be paid under these plans were paid and any remaining accrued amounts were reversed. At April 1, 2011, there was no remaining accrued restructuring balance related to these plans.

**8. Income Taxes**

The Company utilizes the liability method of accounting for income taxes. The federal statutory rate was 34% for all periods. The difference between the Company's effective tax rate and the federal statutory rate is primarily due to the effect of foreign earnings taxed at rates differing from the federal statutory rate.

In the first six months of fiscal 2011, there was no change in the balance of unrecognized tax benefits. In the third quarter of fiscal 2011, the Company expects to receive a payment related to a foreign research and development credit. A portion of this payment was previously been recorded as an unrecognized tax benefit. Reversal of this unrecognized tax benefit will result in a \$500,000 to \$800,000 income tax benefit, which will favorably affect the effective tax rate.

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**9. Related Party Transactions**

In connection with a June 2003 distribution to stockholders of our former parent of all outstanding shares of common stock of Mindspeed, a warrant was issued to acquire approximately 6.1 million shares of common stock at a price of \$16.74 per share, as adjusted, exercisable through June 27, 2013, representing approximately 14% of the Company's outstanding common stock on a fully diluted basis. The warrant may be transferred or sold in whole or part at any time. For the six months ended April 2, 2010, rent and operating expenses paid to the warrant holder were approximately \$987,000. On June 26, 2010, the Company's sublease of its corporate headquarters in Newport Beach, California from the warrant holder expired.

**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 1, 2010.

**Overview**

Mindspeed Technologies, Inc. designs, develops and sells semiconductor solutions for communications applications in the wireline and wireless network infrastructure, which includes enterprise networks, broadband access networks (fixed and mobile) and metropolitan and wide area networks. We have organized our solutions for these interrelated and rapidly converging networks into three product families: communications convergence processing (formerly known as multiservice access), high-performance analog and wide area networking (WAN) communications. Our communications convergence processing products include ultra-low-power, multi-core digital signal processor (DSP) system-on-chip (SoC) products for the fixed and mobile (3G/4G) carrier infrastructure and residential and enterprise platforms. Our high-performance analog products include high-density crosspoint switches, optical drivers, equalization and signal-conditioning solutions that solve difficult switching, timing and synchronization challenges in next-generation optical networking, enterprise storage and broadcast video transmission applications. Our WAN communications portfolio helps optimize today's circuit-switched networks that furnish much of the Internet's underlying long-distance infrastructure.

Our products are used in a variety of network infrastructure equipment, including:

*Communications Convergence Processing* triple-play edge and metro trunking gateways for Voice-over-Internet protocol (VoIP) platforms; broadband customer premises equipment (CPE) gateways and other equipment that carriers use to deliver voice, data and video services to residential subscribers; Internet protocol (IP) private branch exchange (PBX) equipment and security appliances used in the enterprise and 3G/4G mobile base stations in the carrier infrastructure;

*High-Performance Analog* next-generation fiber access network equipment (including passive optical networking, or PON, systems); storage and server systems supporting high-speed PCI Express and Serial Attached SCSI (SAS) protocols; and production switches, routers and other systems that are driving the migration to 3G high-definition (HD) transmission; and

*WAN Communications* circuit-switched networking equipment that implements asynchronous transfer mode (ATM) and T1/E1 and T3/E3 communications protocols.

Our customers include Alcatel-Lucent, Cisco Systems, Inc., Huawei Technologies Co. Ltd., Hitachi Ltd., LM Ericsson Telephone Company, Nokia Siemens Networks 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/4G wireless infrastructure build-out; the adoption of higher speed interconnectivity solutions; and the migration of broadcast video to high definition.

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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 55% of our revenue for the first six months of fiscal 2011 and approximately 48% of our revenue for the first six months of fiscal 2010. Our revenue is well diversified globally, with 75% of revenue in the first six months of fiscal 2011 coming from outside of the Americas. We believe a substantial 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, China Unicom and China Mobile. In the first six months of fiscal 2011, 35% 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 \$28.4 million on research and development in the first six months of fiscal 2011 and \$24.8 million in the first six months of fiscal 2010. 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, high-performance analog applications such as optical networking and broadcast-video transmission, and wireless infrastructure solutions for base station processing. We have developed and maintain a broad intellectual property portfolio, and we may 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 their other customers 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.

On March 11, 2011, the northeast coast of Japan experienced a severe earthquake followed by a tsunami, with continuing aftershocks. These geological events have caused significant damage in the region, including severe damage to nuclear power plants, and have impacted Japan's power and other infrastructure, as well as its economy. Certain of our suppliers located outside Japan integrate components or use materials manufactured in Japan in the production of its products. Due to cross dependencies, supply chain disruptions stemming from the occurrences in Japan could negatively impact the demand for our products, including, for example, if our customers are unable to obtain sufficient supply of other components required for their end products. We continue to monitor the effect of the events in Japan on end demand patterns and inventory levels throughout the supply chain. While we recognize that the crisis in Japan has impacted our supply chain, we have secured certain product commitments from our suppliers and therefore we do not currently believe these events will have a material impact on our operations in the fiscal third quarter of 2011. Beyond the fiscal third quarter of 2011, uncertainty exists with respect to the availability of electrical power, the damage to nuclear power plants and the impact to other infrastructure. Thus, there is a risk that we could in the future experience delays or other constraints in obtaining key components and products and/or price increases related to such components and products that could materially adversely affect our financial condition and operating results.

In order to achieve sustained profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase our revenue. 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

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ability to achieve revenue growth will depend, in part, 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 has generally led to pricing pressure and loss of market share. These factors have caused substantial fluctuations in our revenue and our results of operations in the past, and we may experience cyclical fluctuations in our business in the future.

**Critical Accounting Policies and Estimates**

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, inventories, stock-based compensation, deferred income taxes and uncertain tax positions, and impairment of long-lived assets. These policies are described in further detail in our Annual Report on Form 10-K for the fiscal year ended October 1, 2010. Except as described below, there have been no significant changes in our critical accounting policies and estimates during the fiscal quarter ended April 1, 2011 as compared to what was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended October 1, 2010.

*Revenue Recognition* Our revenue consists principally of sales of semiconductor devices and, to a lesser extent, support and maintenance contracts, development agreements and the sale and license of intellectual property. We recognize revenue when the following fundamental criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the price to the customer is fixed or determinable; and (iv) collection of the sales price is probable. 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.

Our semiconductor products either do not contain software that is more than incidental to the functionality of the product, or the software functions together with non-software deliverables to deliver the essential functionality of the product. Accordingly, we account for revenue in accordance with the provisions of Accounting Standards Codification 605, Revenue Recognition, or ASC 605, and all related interpretations. Additionally, we provide unspecified software upgrades and enhancements through our support and maintenance contracts for certain of our semiconductor products. Support and maintenance services revenue is deferred and recognized ratably over the period during which the services are to be performed.

We recognize revenue 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 revenue 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  
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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 goods sold 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. See Note 2 to our Consolidated Condensed Financial Statements for detail of this account balance.

We recognize revenue 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.

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

**Recent Accounting Pronouncements**

In September 2009, the Emerging Issues Task Force reached a consensus on Accounting Standards Update, or ASU, 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements, or ASU 2009-13 and ASU 2009-14, Software (Topic 985) Certain Revenue Arrangements That Include Software Elements, or ASU 2009-14. ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (i) vendor specific objective evidence (VSOE) of fair value; or (ii) third-party evidence (TPE) before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that have already been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. These new updates are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We adopted these provisions effective October 2, 2010, and it did not have a material impact on our consolidated condensed financial statements.

**Table of Contents****Results of Operations****Net Revenue**

The following table summarizes our net revenue:

(\$ in millions)	Three Months Ended			Six Months Ended		
	April 1, 2011	Change	April 2, 2010	April 1, 2011	Change	April 2, 2010
Communications convergence processing products	\$ 15.6	(4)%	\$ 16.2	\$ 32.2	7%	\$ 30.1
High-performance analog products	14.9	10%	13.5	29.1	16%	25.1
WAN communications products	8.1	(24)%	10.6	15.3	(31)%	22.1
Intellectual property				2.5		
Net revenue	\$ 38.6	(4)%	\$ 40.3	\$ 79.1	2%	\$ 77.3

The 4% decrease in our net revenue for the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 reflects lower sales volumes for our communications convergence processing products and WAN communications products, partially offset by an increase in demand for our high-performance analog products. Net revenue from our communications convergence processing products decreased \$0.6 million, or 4%, in the second quarter of fiscal 2011 when compared to the second quarter of fiscal 2010 due to a decrease in revenue from shipments of products for fiber-to-the-building access deployments. This decrease was partially offset by an increase in shipments of 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 revenue from high-performance analog products increased \$1.4 million, or 10%, in the second quarter of fiscal 2011 when compared to the second quarter of fiscal 2010, due to an increased demand for physical media devices, which are used in equipment for fiber-to-the-premise deployments. Net revenue from WAN communications products decreased \$2.5 million, or 24%, in the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 due to a slowdown in demand at several large customers, particularly in ATM-based systems. WAN communications products represent a legacy business for us, as we have shifted almost all of our research and development investment into our two growth businesses of communications convergence processing products and high-performance analog products.

The 2% increase in net revenue for the first six months of fiscal 2011 compared to the first six months of fiscal 2010 is due to higher sales volume for our communications convergence processing products and high-performance analog products, as well as the sale of intellectual property, partially offset by a decrease in demand for our WAN communications products. Net revenue from communications convergence processing products increased \$2.1 million, or 7%, in the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to an increase in shipments of 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 high-performance analog products increased \$4.0 million, or 16%, in the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to increased demand for both physical media devices, which are primarily used in equipment for fiber-to-the-premise deployments, and our video products. Net revenue from WAN communications products decreased \$6.8 million, or 31%, in the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to a slowdown in demand at several large customers, particularly in ATM-based systems. Net revenue from intellectual property licensing and sales increased \$2.5 million in the first six months of fiscal 2011 compared to the first six months of fiscal 2010, due to the timing of intellectual property sales. We have developed and maintain a broad intellectual property portfolio, and we may periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our patents.

**Table of Contents****Gross Margin**

(\$ in millions)	Three Months Ended			Six Months Ended		
	April 1, 2011	Change	April 2, 2010	April 1, 2011	Change	April 2, 2010
Gross margin	\$ 24.3	(6)%	\$ 25.9	\$ 50.5	2%	\$ 49.5
Percent of net revenue	63%		64%	64%		64%

Gross margin represents net revenue 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. Cost of goods sold primarily consisted of: purchased finished wafers; assembly and test services; royalty and other intellectual property costs; labor and overhead costs associated with product procurement; amortization of the cost of mask sets purchased; and sustaining engineering expenses pertaining to products sold.

Gross margin decreased \$1.6 million for the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 due primarily to a \$1.7 million, or 4%, decrease in net revenue. The decrease in our gross margin as a percent of net revenue for second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 was primarily due to a change in product mix.

Gross margin increased \$1.0 million for the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to the favorable impact of intellectual property sales, with no associated costs, partially offset by a reduction in gross margin as a result of a decrease in product revenue and a change in product mix.

**Research and Development**

(\$ in millions)	Three Months Ended			Six Months Ended		
	April 1, 2011	Change	April 2, 2010	April 1, 2011	Change	April 2, 2010
Research and development	\$ 14.5	19%	\$ 12.2	\$ 28.4	15%	\$ 24.8
Percent of net revenue	38%		30%	36%		32%

Research and development (R&D) expenses consisted primarily of: direct personnel costs, including stock-based compensation; photomasks; electronic design automation tools; and pre-production evaluation and test costs.

R&D expenses increased \$2.3 million for the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 due to increased investment in our next generation products in both the wireless and enterprise markets that resulted in a: \$728,000 increase in the cost of engineering tools; \$666,000 increase in contracted engineering services; and \$708,000 increase in personnel costs as a result of increased headcount.

R&D expenses increased \$3.6 million for the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to increased investment in our next generation products in both the wireless and enterprise markets that resulted in a: \$1.3 million increase in the cost of engineering tools; \$911,000 increase in contracted engineering services; and \$1.2 million increase in personnel costs as a result of increased headcount.

**Selling, General and Administrative**

(\$ in millions)	Three Months Ended			Six Months Ended		
	April 1, 2011	Change	April 2, 2010	April 1, 2011	Change	April 2, 2010
Selling, general and administrative	\$ 10.1	(3)%	\$ 10.4	\$ 20.3	2%	\$ 20.0
Percent of net revenue	26%		26%	26%		26%

Selling, general and administrative (SG&A) expenses consisted of: personnel costs, including stock-based compensation; independent sales representative commissions; and product marketing, applications engineering and other marketing costs. In addition, SG&A expenses consisted of the costs of corporate functions, including: accounting; finance; legal; human resources; information systems and communications.



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SG&A expenses decreased by approximately \$300,000 for the second quarter of fiscal 2011 compared to the second quarter of fiscal 2010 primarily due to a decrease in stock-based compensation.

SG&A expenses increased by approximately \$300,000 for the first six months of fiscal 2011 compared to the first six months of fiscal 2010 primarily due to an increase in travel costs related to increased sales activities mainly occurring in the first quarter of fiscal 2011.

**Special Charges**

We recorded no special charges in the three months ended April 1, 2011. For the six months ended April 1, 2011, special charges consisted of minor restructuring charge reversals totaling \$18,000.

Special charges in the three months ended April 2, 2010 consisted of restructuring charge reversals of \$71,000. For the six months ended April 2, 2010 special charges consisted of restructuring charges of \$789,000.

**Restructuring Charges**

We have, from time to time, and may in the future, commit to restructuring plans to help manage our costs or to help implement strategic initiatives, among other reasons.

*Mindspeed Fourth Quarter of Fiscal 2010 Restructuring Plan* In the fourth quarter of fiscal 2010, we committed to the implementation of a restructuring plan. The plan consisted primarily of a targeted headcount reduction in our WAN communications product family and selling, general and administrative functions. The restructuring plan was substantially completed during the fiscal fourth quarter of 2010. Of the \$1.3 million in charges incurred, \$966,000 related to severance costs for affected employees and \$311,000 related to abandoned technology.

Activity and liability balances related to our fourth quarter of fiscal 2010 restructuring plan from October 1, 2010 through April 1, 2011 were as follows (in thousands):

	<b>Workforce Reductions</b>	<b>Facility and Other</b>	<b>Total</b>
Restructuring balance, October 1, 2010	\$ 701	\$	\$ 701
Cash payments	(489)		(489)
Restructuring balance, April 1, 2011	\$ 212	\$	\$ 212

The remaining accrued restructuring balance principally represents employee severance benefits. We expect to pay these remaining obligations through the second quarter of fiscal 2012.

*Mindspeed Fiscal 2009 Restructuring Plans* In fiscal 2009, we implemented two restructuring plans to improve our operating structure. These restructuring plans included workforce reductions, closure of facilities and reductions in areas of selling, general and administrative and WAN communications spending.

At October 1, 2010, the total remaining accrued restructuring balance under these plans was \$20,000. During the first six months of fiscal 2011, the amounts left to be paid under these plans were paid and the remaining accrued amounts were reversed. At April 1, 2011, there was no remaining accrued restructuring balance related to these plans.

**Interest Expense**

(\$ in millions)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 1, 2011</b>	<b>April 2, 2010</b>	<b>April 1, 2011</b>	<b>April 2, 2010</b>
Interest expense	\$ (0.4)	\$ (0.4)	\$ (0.8)	\$ (1.0)

Interest expense primarily consisted of interest on our convertible senior notes. Interest expense decreased approximately \$200,000 for the first six months of fiscal 2011 compared to the first six months of fiscal 2010 due to the repayment of the remaining \$10.5 million due under our 3.75% convertible senior notes during the first quarter of fiscal 2010.

**Table of Contents****Other Income, Net**

(\$ in millions)	Three Months Ended		Six Months Ended	
	April 1, 2011	April 2, 2010	April 1, 2011	April 2, 2010
Other income, net	\$	\$ 0.2	\$	\$ 0.2

Other income, net, principally consists of interest income, foreign exchange gains and losses and other non-operating gains and losses.

Other income/(expense), net, decreased by approximately \$200,000 for the three and six months ended April 1, 2011, as compared to the three and six months ended April 2, 2010, primarily due to minor foreign exchange losses recorded in the second quarter of fiscal 2011, whereas foreign exchange gains were recorded in the second quarter of fiscal 2010.

**Income Taxes**

Our provision (benefit) for income taxes for the first three and six months of fiscal 2011 and 2010 principally consisted of income taxes incurred by our foreign subsidiaries. As a result of our history of operating losses and the uncertainty 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 quarter of fiscal 2010 and the second quarter of fiscal 2011 will not be realized. At October 2, 2010, based on the available objective evidence, we believed it was more likely than not that our deferred tax assets would not be realized. Accordingly, we continue to provide a full valuation allowance against our U.S. federal and state net deferred tax assets at April 1, 2011. Should sufficient positive objectively verifiable evidence of the realization of our net deferred tax assets exist at a future date, we would reverse any remaining valuation allowance to the extent supported by estimates of future taxable income at that time. In the first six months of fiscal 2011, we generated operating income. A substantial portion of this operating income will be offset by previously generated net operating losses, thereby reducing the effective tax rate on U.S. earnings in the current period. During April 2011, we received a payment related to a foreign research and development credit. A portion of this payment had been recorded as an unrecognized tax benefit. Reversal of this unrecognized tax benefit will result in a \$500,000 to \$800,000 income tax benefit, which will be recorded in the third quarter of fiscal 2011.

**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 April 1, 2011, our cash and cash equivalents totaled \$44.9 million. Our working capital at April 1, 2011 was \$52.2 million. As of October 1, 2010, our cash and cash equivalents totaled \$43.7 million and working capital was \$53.8 million.

In order to achieve sustained profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase revenue. We have completed a series of cost reduction actions, which have improved our operating expense structure and we will continue to perform additional actions, if necessary. In addition, from time to time, we may commit to additional restructurings to help implement strategic initiatives. These restructurings and other cost saving measures alone may not allow us to sustain the profitability we have recently achieved. Our ability to maintain, or increase, current revenue levels to sustain profitability will depend, in part, on 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 be unable to maintain, or increase, current revenue levels or sustain past and future expense reductions in subsequent periods. We may not be able to achieve sustained profitability.

We believe that our existing cash balances, along with cash expected to be generated from product sales 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



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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 \$9.5 million for the first six months of fiscal 2011 compared to cash generated by operating activities of \$6.9 million for the first six months of fiscal 2010. Operating cash flows for the first six months of fiscal 2011 reflect our net income of \$0.9 million, which includes non-cash charges (depreciation and amortization, amortization of licensed intangibles, restructuring charges, stock-based compensation expense, inventory provisions and amortization of debt discount) of \$6.3 million, and net working capital changes of approximately \$2.3 million. Operating cash flows for the first six months of fiscal 2010 reflect our net income of \$3.0 million, which includes non-cash charges (depreciation and amortization, amortization of licensed intangibles, restructuring charges, stock-based compensation expense, inventory provisions, amortization of debt discount and other) of \$7.5 million, and net working capital changes of approximately \$3.5 million.

The significant components of our approximately \$2.3 million net working capital decrease in the first six months of fiscal 2011 include a \$6.4 million decrease in accounts receivable, which is due to both the timing of sales and the timing of collections. In addition, accounts payable increased \$1.9 million in the first six months of fiscal 2011, due to the timing of inventory receipts and payments. These cash inflows were partially offset by a \$2.6 million increase in our inventory balance resulting from an acceleration of our ordering of certain raw materials in an effort to ensure supply on these items in light of the impact that the Japan natural disaster could have on production. In addition, accrued compensation and benefits decreased \$3.2 million mainly due to the fiscal 2010 management bonus that was included in this balance at the end of fiscal 2010 and paid in early fiscal 2011.

The significant components of our approximately \$3.5 million net working capital change in the first six months of fiscal 2010 include a \$7.4 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 34 days in the second quarter of fiscal 2010. In addition, in the first six months of fiscal 2010, we paid approximately \$770,000 in cash related to our restructuring initiatives. These cash outflows were partially offset by a \$2.1 million increase in our balance in deferred income on sales to distributors during the first six months of fiscal 2010 due to our distributors ordering a significant amount of inventory toward the end of our second fiscal quarter of fiscal 2010. In addition, our inventory balance decreased \$2.4 million due to our efforts to increase our inventory turns.

Cash used in investing activities of \$8.9 million for the first six months of fiscal 2011 consisted of purchases of property, plant and equipment of \$3.9 million and payments under licensed intangibles of \$5.0 million. Cash used in investing activities of \$3.0 million for the first six months of fiscal 2010 consisted of purchases of property, plant and equipment of \$2.3 million and payments under licensed intangibles of \$739,000.

Cash provided by financing activities of \$691,000 for the first six months of fiscal 2011 principally consisted of \$1.3 million in proceeds from equity compensation programs, which was partially offset by \$291,000 in payments made related to 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. Cash provided by financing activities of \$6.5 million for the first six months of fiscal 2010 principally consisted of two significant items, \$10.5 million paid in the first quarter of fiscal 2010 to retire the remaining principal amount of our 3.75% convertible senior notes, which matured in November 2009, offset by \$17.0 million in net proceeds received from the sale of approximately 2.5 million shares of our common stock in an offering that was completed in the second quarter of fiscal 2010.



**Table of Contents*****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. Under the loan and security agreement, SVB 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. In April 2010, we amended the loan and security agreement and reduced the maximum amount available under the revolving credit line from \$15.0 million to \$5.0 million. This amendment was initiated in order to reduce fees due under the agreement. 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.

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 April 1, 2011, 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. Through the end of fiscal 2009, we repurchased or exchanged \$35.5 million of aggregate principal amount of this debt. 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 our 6.50% 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. At maturity, we will be required to repay the outstanding principal amount of the notes. At April 1, 2011, \$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 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.

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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. At April 1, 2011, 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 in fiscal 2010 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.

**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 a June 2003 distribution to stockholders of our former parent Company of all outstanding shares of common stock of Mindspeed, we generally assumed responsibility for all contingent liabilities and then-current and future litigation against our former parent company or its subsidiaries related to our business. We may also be responsible for certain federal income tax liabilities under a tax allocation agreement between us and our former parent company, which provides that we will be responsible for certain taxes imposed on us, our former parent company or its stockholders. In connection with certain facility leases, we have indemnified our lessors for certain claims arising from the facility or the lease. We have also entered into certain distribution, license, supply and purchase agreements under which we have agreed to certain guarantees and have agreed to indemnify other parties. 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 condensed balance sheets.

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

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 April 1, 2011, the carrying value of our cash and cash equivalents approximated fair value.

At April 1, 2011, our debt consisted of long-term convertible senior notes. Our convertible senior notes bear interest at a fixed rate of 6.50% per annum. Consequently, our results of operations and cash flows are not subject to any significant interest rate risk relating to our convertible senior notes. The fair value of the debt could increase or decrease if interest rates decrease or increase, respectively, and that could impact our ability and cost to negotiate a

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settlement of such notes prior to maturity. 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 dependent on any outstanding borrowings. Because there were no outstanding borrowings on the credit facility as of April 1, 2011, 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. Currently, 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.

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 April 1, 2011, we held no foreign currency forward exchange contracts. Based on our overall currency rate exposure at April 1, 2011, a 10% change in currency rates would not have a material effect on our consolidated financial position, results of operations or cash flows.

## **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 April 1, 2011. Disclosure controls and procedures are defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), 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 Exchange Act is recorded, processed, summarized and reported within required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of April 1, 2011, 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, as defined in Rule 13a-15(f) of the Exchange Act, during the fiscal quarter ended April 1, 2011 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 1, 2010. 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

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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.

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

Although we recently generated net income, we have incurred significant losses in prior periods. Our net revenue and operating results have fluctuated in the past and may fluctuate in the future and we may incur losses and negative cash flows in future periods. 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;
- availability and cost of products from our suppliers;
- 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;
- shifts in our product mix and the effect of maturing products;
- 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.

***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 Semiconductor. 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.

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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 customers 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. Any unanticipated discontinuation of a wafer fabrication process on which we rely may adversely affect our revenue 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. Certain of our Asian suppliers integrate components or use materials manufactured in Japan in the production of our products. The recent earthquake and tsunami in Japan have disrupted the global supply chain for components manufactured in Japan that are incorporated in our products or included in the end user products of our customers. We continue to monitor the effect of the events in Japan on inventory levels throughout the supply chain. 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. While we recognize that the recent crisis in Japan has impacted our supply chain, we do not currently believe these events will have a material impact on our operations in the fiscal third quarter of 2011. Beyond the fiscal third quarter of 2011, there is a risk that we could in the future experience delays or other constraints in obtaining key components and products and/or price increases related to such components and products that could materially adversely affect our financial condition and operating results. 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 gross margin and our results of

operations.



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***Our operating results may be adversely impacted by worldwide economic uncertainties and specific conditions in the markets we address, including the cyclical nature of and volatility in the semiconductor industry.***

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 characterized by decreases in product demand, excess customer inventories and accelerated erosion of prices. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products. Furthermore, during challenging economic times, our customers and vendors may face issues gaining timely access to sufficient credit, which could impact their ability to make timely payments to us. As a result, we may experience growth patterns that are different than the end demand for products, particularly during periods of high volatility. 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.

We cannot predict the timing, strength or duration of any economic slowdown or the impact it will have on our customers, our vendors or us. The combination of our lengthy sales cycle coupled with challenging macroeconomic conditions could have a compound impact on our business. The impact of market volatility is not limited to revenue, but may also affect our product gross margins and other financial metrics. Any downturns in the semiconductor industry could 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 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 achieve sustained profitability;

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.

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***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 net revenue, gross margin and results of operations.***

A relatively small number of end customers and distributors have accounted for a significant portion of our net revenue in any particular period. There has been an increasing trend toward industry consolidation in our markets in recent years, particularly among major network equipment and telecommunications companies. Industry consolidation could decrease the number of significant customers for our products thereby increasing our reliance on key customers. In addition, industry consolidation has generally led, and may continue to lead, to pricing pressures and loss of market share. 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 net revenue and results of operations. 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.

***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.

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 continually evaluate expenditures for planned product development 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 revenue and results of operations may be adversely affected.

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***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 cash through operating activities in the first two quarters of fiscal 2011 and during fiscal 2010, we have used significant cash in operating activities in previous periods. Our principal sources of liquidity are our existing cash balances and cash generated from product sales and our line of credit with Silicon Valley Bank. We believe that our existing cash balances, along with cash expected to be generated from product sales 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, 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.

***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.

***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 78% of our net revenue for the first six months of fiscal 2011 and 79% of our net revenue for the first six months of fiscal 2010. China is a particularly important international market for us, as more than 35% of our revenue for the first six months of fiscal 2011 came from customers in China. In addition, we have design centers, customer support centers, and rely on

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suppliers, located outside the U.S., including foundries and assembly and test service providers located in the Asia-Pacific region. Certain of our suppliers integrate components or use materials manufactured in Japan in the production of our products. The recent earthquake and tsunami in Japan have disrupted the global supply chain for components manufactured in Japan that are incorporated in our products or included in the end user products of our customers. Due to cross dependencies, supply chain disruptions stemming from the occurrences in Japan could negatively impact the demand for our products, including, for example, if our customers are unable to obtain sufficient supply of other components required for their end products. We continue to monitor the effect of the events in Japan on end demand patterns and inventory levels throughout the supply chain.

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.

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We may in the future 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 do not enter into foreign currency forward exchange contracts for other purposes. Our financial condition and results of operations could be adversely affected by currency fluctuations.

***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.

***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.

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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 in the future 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.

***Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenue 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 revenue from new products. We may never generate the anticipated revenue if our customers cancel or change their product plans as customers may increasingly do if economic conditions continue to deteriorate.

***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 56% of our revenue for the first six months of fiscal 2011 and 48% of our revenue for the first six months of fiscal 2010.

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.

***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



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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 revenue 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.

***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.

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***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 1, 2010, we had net operating loss carryforwards of approximately \$627.1 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.

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***Substantial sales of the shares of our common stock issuable upon conversion of our convertible senior notes or exercise of our outstanding warrant and antidilution and other provisions in our outstanding warrant could adversely affect our stock price or our ability to raise additional financing in the public capital markets.***

At April 1, 2011, 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.

A warrant is outstanding to acquire approximately 6.1 million shares of our common stock at a price of \$16.74 per share, as adjusted, exercisable through June 27, 2013, representing approximately 14% 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 the warrant holder sells the warrant or if it 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.

The warrant 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. The 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.

***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.

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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 (a)</b>	<b>Average Price Paid per Share (or Unit)</b>
January 1, 2011 to January 28, 2011		\$
January 29, 2011 to February 25, 2011	3,424	7.30
February 26, 2011 to April 1, 2011	5,987	7.51
	9,411	\$ 7.43

(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.

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**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 3.1 to the Registrant's Current Report on Form 8-K dated January 27, 2011, is incorporated herein by reference (SEC File No. 000-31650).
- 4.1 Specimen Certificate for the Registrant's Common Stock, par value \$.01 per share, filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 dated April 6, 2011, is incorporated herein by reference (SEC File No. 333-173328).
- 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 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 Standstill and Voting Agreement, effective as of January 5, 2011, by and between the Registrant, Artis Capital Management, L.P., and certain other direct and beneficial holders of the Company's Common Stock, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated January 10, 2011, is incorporated herein by reference (SEC File No. 001-31650).

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- \*10.2 Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, as amended and restated, filed Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated April 8, 2011, is incorporated herein by reference (SEC File No. 001-31650).
- 10.3 Second Amendment to Lease, as of January 25, 2011, by and between 4000 MacArthur, L.P. and the Registrant.
- 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.



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**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: May 6, 2011

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

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**EXHIBIT INDEX**

- 10.3 Second Amendment to Lease, as of January 25, 2011, by and between 4000 MacArthur, L.P. and the Registrant.
- 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.

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