MINDSPEED TECHNOLOGIES, INC
Form 10-K
November 18, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2011

Commission file number: 001-31650

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code:

(949) 579-3000

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	**(Name of Each Exchange on Which Registered)**
Common Stock $0.01 par value per share (including associated Preferred Share Purchase Rights)	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 þ 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 þ

The aggregate market value of the registrant s voting and non-voting stock held by non-affiliates of the registrant as of the end of its most recently completed second fiscal quarter was approximately $262.5 million. Shares held by each officer and director and each person owning more than 10% of the outstanding voting and non-voting stock have been excluded from this calculation because such persons may be deemed to be affiliates of the registrant. This determination of potential affiliate status is not necessarily a conclusive determination for other purposes. Shares held include shares of which certain of such persons disclaim beneficial ownership.

The number of outstanding shares of the registrant s Common Stock as of October 28, 2011 was 34,496,900.

Documents Incorporated by Reference

Portions of the Registrant s Proxy Statement for the 2012 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A within 120 days after the end of the 2011 fiscal year, are incorporated by reference into Part III of this Form 10-K.

FORWARD-LOOKING STATEMENTS

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

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

the growth prospects for the network infrastructure equipment and communications semiconductors markets, including increased demand for network capacity, the upgrade and expansion of existing networks and the build-out of networks in developing countries;

our expectation that original equipment manufacturers will outsource more of their semiconductor component requirements to semiconductor suppliers;

our belief that the markets for semiconductor products addressing the enterprise, broadband access and metro service areas will grow at faster rates than the markets for network infrastructure equipment, in general, and our position to increase our share in those target areas;

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 belief that raw materials, parts and supplies required by our foundry suppliers will remain available in the foreseeable future;

our belief that the loss or termination of any single patent, license, trade secret, know-how, trademark or copyright would not materially affect our business or financial condition;

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 sufficiency of our existing sources of liquidity, 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 estimates regarding our minimum future obligations under our operating leases and our anticipated rental income;

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

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

our belief that our properties are well maintained, are in good sound operating condition and contain all the equipment and facilities to operate at present levels;

our expectations regarding the cyclical nature of the semiconductor industry; and

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

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

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

fluctuations in our operating results and future operating losses;

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

fluctuations in the price of our common stock;

successful development and introduction of new products;

pricing pressures and other competitive factors;

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

cash requirements and terms and availability of financing;

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

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;

lengthy sales cycles;

business acquisitions and investments;

order and shipment uncertainty;

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

product defects and bugs; 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 Item 1A Risk Factors and those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof and, except as required by law, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise. Mindspeed®, Mindspeed Technologies®, Comcerto® and Transcede® are registered trademarks or trademarks of Mindspeed Technologies, Inc. Other brands, names and trademarks contained in this report are the property of their respective owners.

PART I

Item 1. ***Business***

Mindspeed Technologies, Inc. (we or Mindspeed) 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, high-performance analog and wide area networking communications. Our communications convergence processing products include ultra-low-power, multi-core digital signal processor system-on-chip (SoC) solutions 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 wide area networking (WAN) communications portfolio helps optimize today s circuit-switched networks that furnish much of the Internet s underlying long-distance infrastructure.

Our products are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including:

Communications Convergence Processing triple-play access gateways for Voice-over-Internet protocol (VoIP) and data processing 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); switching and signal conditioning products supporting fiber-to-the-premise, optical transport networks (OTN), storage and server systems and broadcast video, inclusive of 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, Mitsubishi Electric Corporation, Nokia Siemens Networks and Zhongxing Telecom Equipment Corp.

We believe the breadth of our product portfolio, combined with more than three decades of experience in semiconductor hardware, software and communications systems engineering, provides us with a competitive advantage. We have proven expertise in signal, packet and transmission processing technologies, which are critical core competencies for successfully defining, designing and implementing advanced semiconductor products for next-generation network infrastructure equipment. We have cultivated and continue to initiate and foster close relationships with leading network infrastructure OEMs to understand emerging markets, technologies and standards. We focus our research and development efforts on applications in the segments of the telecommunications network which we believe offer the most attractive growth prospects. Our business is fabless, which means we outsource all of our manufacturing needs, and we do not own or operate any semiconductor manufacturing facilities. We believe being fabless allows us to minimize operating infrastructure and capital expenditures, maintain operational flexibility and focus our resources on the design, development and marketing of our products.

Mindspeed was originally incorporated in Delaware in 2001 as a wholly owned subsidiary of Conexant Systems, Inc. On June 27, 2003, Conexant completed the distribution to Conexant stockholders of all outstanding shares of common stock of Mindspeed. Prior to the distribution, Conexant transferred to us the assets and liabilities of its Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities, which were allocated to us under the distribution agreement entered into between us and Conexant. Also, prior to the distribution, Conexant contributed cash to our company in an amount such that at the time of the distribution our cash balance was $100.0 million. We issued to Conexant a warrant to purchase approximately 6.1 million shares of our common stock at a price of $16.74 per share, as adjusted, exercisable for a period of ten years after the distribution. Following the distribution, we began operations as an independent, publicly held company. Our common stock trades on the Nasdaq Global Market under the ticker symbol MSPD.

Industry Overview

Communications semiconductor products are a critical part of network infrastructure equipment. Network infrastructure OEMs require advanced communications semiconductor products such as low-power, multi-core digital signal processor (DSP) SoC solutions, as well as switching and signal timing and conditioning solutions that are highly optimized for the equipment employed by their customers. We seek to provide semiconductor products that enable network infrastructure OEMs to meet the needs of their service provider and enterprise customers in terms of system performance, functionality and time-to-market.

Addressed Markets

Our semiconductor products are primarily focused on network infrastructure equipment applications in three areas of the broadly defined communications network: enterprise networks, broadband access service areas, including wireless and wireline infrastructure networks, and metropolitan and wide area networks. The type and complexity of network infrastructure equipment used in these network areas continues to expand, driven by the need for the processing, transmission and switching of digital voice, data and video traffic over multiple communication media, at numerous transmission data rates and employing different protocols.

Enterprise networks include equipment that enables voice and data communications and access to outside networks, and is deployed primarily in the offices of commercial enterprises, including specialized commercial segments, such as broadcast video production, which have demanding network requirements. An enterprise network may be comprised of many local area networks, as well as client workstations, centralized database management systems, storage area networks (SANs) and other components. In enterprise networks, communications semiconductors facilitate the processing and transmission of voice, data and video traffic in converged IP networks that are replacing the traditional separate telephone, data and video conferencing networks. Typical network infrastructure equipment found in enterprise networks that use our products include voice and media gateways, IP private branch exchanges, SAN routers, director-class switches and emerging enterprise-class wireless base station systems for enhanced mobile enterprise service delivery. In addition, a major trend in the broadcast video segment of the enterprise networking market is the switch from analog to digital television transmission and the conversion from standard-definition television services to high-definition television (HDTV) services featuring more detailed images and digital surround sound. We offer a family of broadcast-video products optimized for high-speed HDTV routing and production switcher applications.

Broadband Access service areas of the telecommunications network refer to the last mile of a telecommunications or cable service provider s physical network (including copper, fiber optic or wireless transmission), including network infrastructure equipment that connects end-users (typically located at a business or residence) with metropolitan and wide area networks. For this portion of the network, infrastructure equipment requires semiconductors that enable reliable, high-speed connectivity capable of aggregating or disaggregating and transporting multiple forms of voice, data and video traffic. In addition, communications semiconductors must accommodate multiple transmission standards and communications protocols to provide a bridge between dissimilar access networks; for example, connecting wireless base station equipment to a wireline network, and enabling the computationally complex processing that is required in order for carriers to meet cellular data service demands with limited available spectrum. Typical network infrastructure equipment found at the edge of the broadband access service area that use our products include optical node units, optical line terminals, remote access concentrators, digital subscriber line (DSL) access multiplexers, broadband customer premises equipment gateways, mixed-media gateways, wireless base stations, digital loop carrier equipment and media converters.

Metropolitan and Wide Area Networks refer to the portion of a service provider s physical network that enables high-speed communications within a city or a larger regional area, including inexpensive mobile backhaul services for wireless communications carriers. In addition, this portion of the network provides the communications link between broadband access service areas and the fiber optic-based, wide area network. For metro equipment applications, our communications semiconductors provide transmission and processing capabilities, as well as information segmentation and classification, and routing and switching functionality, to support high-speed traffic from multiple sources employing different transmission standards and communications

protocols. These functions require signal conversion, signal processing and packet processing expertise to support the design and development of highly integrated mixed-signal devices combining analog and digital functions with communications protocols and application software. Typical network infrastructure equipment found in metro service areas that use our products includes add-drop multiplexers, switches, high-speed routers, digital cross-connect systems, optical edge devices and multiservice provisioning platforms.

The telecommunications network, including the Internet, has evolved into a complex, hybrid series of converging digital and optical networks that connect individuals and businesses globally. These new higher-bandwidth, data-centric networks integrate voice, data and video traffic, operate over both wired and wireless media, link existing voice and data networks and cross traditional enterprise, broadband access, metro and long haul service area boundaries. Network infrastructure OEMs are designing faster, more intelligent and more complex equipment to satisfy the needs of service providers as they continue to expand their network coverage and service offerings while upgrading and connecting or integrating existing networks of disparate types. In this demanding environment, we believe network infrastructure OEMs select as their strategic partners communications semiconductor suppliers who can deliver advanced products that provide increased functionality, lower total system cost and support for a variety of communications media, operating speeds and protocols.

The Mindspeed Approach

We believe the breadth of our product portfolio, combined with our expertise in low-power semiconductor hardware and software and communications systems engineering, provide us with a competitive advantage in designing and selling our products to leading network infrastructure OEMs.

We have proven expertise in signal, packet and transmission processing technologies. Signal processing involves both signal conversion and digital signal processing techniques that convert and compress voice, data and video between analog and digital representations. Packet processing involves bundling or segmenting information traffic using standard protocols such as IP or ATM and enables sharing of transmission bandwidth across a given communication medium. Transmission processing involves the transport and receipt of voice, data and video traffic across copper wire and optical fiber communications media.

These core technology competencies are critical for developing semiconductor networking solutions that enable the processing, transmission and switching of high-speed voice, data and video traffic, employing multiple communications protocols, across disparate communications networks. Our core technology competencies are the foundation for developing our:

- low-power semiconductor device architectures, including mixed-signal devices and application-specific multi-core SoC solutions that combine core central processing units, digital signal processors and programmable hardware-accelerated protocol engines plus analog signal processing capabilities;

- highly optimized signal processing algorithms and communications protocols, which we implement in semiconductor devices, including echo-cancellation, wideband voice and advanced video technologies;

- critical software drivers and application software to perform signal, packet and transmission processing tasks, plus programming tools, which customers can use to add their own proprietary value to designs based on our SoCs;

- integration, transmission and receiving of multi-gigabit serial data streams over optical and copper media to solve difficult system challenges in synchronous optical network (SONET), OTN, dense wavelength division multiplexing (DWDM) telecommunications equipment, broadcast video systems, and enterprise storage, networking and computing applications; and

- traditional transmission components for the public switched telephone network (PSTN) which continues to provide the underlying long-distance backbone for today s Internet infrastructure.

Increasing Demand for Communications Semiconductors

We believe the market for network infrastructure equipment in general, and for communications semiconductors in particular, offers attractive long-term growth prospects for several reasons:

We anticipate that demand for network capacity will continue to increase, driven by:

Internet user growth;

higher network utilization rates as carriers seek to maximize the return on the capital and operational investments in their network infrastructure; and

growing consumer and business demand for VoIP and other bandwidth-intensive services and applications, such as wireless data transfer and video/multimedia content delivery.

We believe that incumbent telecommunications carriers, integrated communication service providers and cable multiple service operators worldwide will continue to upgrade and expand legacy portions of their networks to accommodate new service offerings and to reduce operating costs. This upgrade and expansion cycle, along with the development of new, next-generation networks, requires the development of a variety of new equipment created from advanced semiconductor solutions.

In certain countries, we expect that service providers will continue the build-out of telecommunication networks, many of which were previously government owned and are now often taking the lead on new technology deployment, ahead of more established regions in terms of creating high-growth market opportunities for the latest advances.

We also believe that many technologies developed to solve high-speed optical networking challenges also apply to challenges in other portions of the network infrastructure. For instance, high-speed backplanes for DWDM equipment have sophisticated timing and signal-conditioning requirements that are similar to those required in enterprise storage and broadcast video transmission applications. In both cases, advanced silicon is a critical enabler for system designs.

Moreover, we expect that network infrastructure OEMs will outsource more of their semiconductor component requirements to semiconductor suppliers, allowing the OEMs to reduce their operating cost structure by shifting their focus and investment from internal application specific integrated circuit semiconductor design and development to more strategic systems development.

Strategy

Our objective is to grow our business profitably and to become the leading supplier of semiconductor networking solutions to leading global network infrastructure OEMs in key enterprise, broadband access and metro service area market segments. To achieve this objective, we are pursuing the following strategies:

Focus on Increasing Share in Growth Applications

We have established strong market positions for our products in the enterprise, broadband access (fixed and mobile) and metro service areas of the telecommunications network. We believe the markets for semiconductor products that address these applications will grow at faster rates than the markets for network infrastructure equipment, in general. This key attribute is expected to make the enterprise, broadband access and metro service areas the most attractive markets for the foreseeable future. We believe that our three core technology competencies, coupled with focused investments in product development, will position us to increase our share in those target areas.

Expand Strategic Relationships with Industry-Leading Global Network Infrastructure OEMs and Maximize Design Win Share

We identify and selectively establish strategic relationships with market leaders in the network infrastructure equipment industry to develop next-generation products and, in some cases, customized solutions

for their specific needs. We have an extensive history of working closely with our customers research and development groups and marketing teams to understand emerging markets, technologies and standards, and we invest our product development resources in those areas. We believe our close relationships with leading network infrastructure OEMs facilitate early adoption of our semiconductor products during development of their system-level products, enhance our ability to obtain design wins from those customers and encourage adoption of our technology throughout the industry.

In North America, we have cultivated close relationships with leading network infrastructure OEMs, including Cisco Systems, Inc. and Genband, Inc. Abroad, we have established close relationships with market leaders such as Huawei Technologies Co., Ltd., and Zhongxing Telecom Equipment Corp. in the Asia-Pacific region and Alcatel-Lucent, Nokia Siemens Networks and LM Ericsson Telephone Company in Europe.

Capitalize on the Breadth of Our Product and Intellectual Property Portfolio

We build on the breadth of our product portfolio of physical-layer devices, together with our signal and packet processing devices and communications software expertise, to increase our share of the silicon content in our customers products. We offer a range of complementary products that are optimized to work with each other and provide our customers with complete information receipt, processing and transmission functions. These complementary products allow infrastructure OEMs to source components that provide proven interoperability from a single semiconductor supplier, rather than requiring OEMs to combine and coordinate individual components from multiple vendors.

In addition, we offer highly integrated products, such as our family of Comcerto packet processors that provide our customers with a complete hardware and software solution in a single device. These integrated products perform functions typically requiring multiple discrete components and software, and combine the programmability of alternative general-purpose DSP solutions with the superior performance and power efficiency of a multi-processor solution with selected application-specific fixed-function acceleration. Our multi-core SoC expertise is also becoming increasingly important as network infrastructure equipment requires more and more computational complexity to solve difficult multi-layered signal processing challenges. To enable the integration of more and more processing cores into SoC devices, we have developed proprietary intellectual property for managing large arrays of DSPs, including task-scheduling technology that has been field-proven and steadily enhanced through several generations of triple-play edge gateways used for complex packet-processing applications.

We believe that this strategy of offering both complementary and integrated products increases product performance, speeds time-to-market and lowers the total system cost for our customers. The breadth of our product portfolio also provides a competitive advantage for serving network convergence applications such as multiprotocol wireless-to-wireline connectivity. These applications generally require a combination of processing, transmission or switching functionality to move high-speed voice and data traffic using multiple communications protocols across disparate communications networks.

Through our efforts in building a large product portfolio, we have developed and we maintain a broad intellectual property portfolio consisting of sophisticated algorithms and other specialized technology, such as the advanced echo-cancellation techniques that have been used in voice ports of carrier telecommunications equipment that our products have enabled. We periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property.

Additionally, we have aligned with key strategic partners to collaborate on advanced multi-core SoC architectures that we believe are critical for next-generation, ultra-low-power communications processing solutions. For instance, our work with ARM Holdings plc has resulted in 12 generations of power-efficiency advances, initially for carrier-class convergence processors and more recently for triple-play home-gateway platforms, as well as for our Transcede products. Power efficiency is becoming increasingly important as our customers adopt a variety of energy-efficiency initiatives, including the European Union energy-consumption guidelines for broadband equipment.

Provide Outstanding Technical Support and Customer Service

We provide broad-based technical and product design support to our customers through three dedicated teams: field application engineers, product application engineers and technical marketing personnel. We believe that comprehensive service and support are critical to shortening our customers design cycles and maintaining a long-term competitive position within the network infrastructure equipment market. Outstanding customer service and support are important competitive factors for semiconductor component suppliers like us seeking to be the preferred suppliers to leading network infrastructure OEMs.

Products

We provide network infrastructure OEMs with a broad portfolio of advanced semiconductor networking solutions. Our products can be classified into three focused product families: communications convergence processing products, high-performance analog products and WAN communications products. These three product families are found in a variety of networking equipment designed to process, transmit and switch voice, data and video traffic between, and within, the different segments of the communications network.

Communications Convergence Processing Products

Our software-configurable communications convergence processing products serve as bridges for transporting video, voice, fax and modem transmissions between circuit-switched and packet-based fixed and mobile networks, and across network boundaries. Our DSP device architecture combines the performance of a digital-signal processor core with the flexibility of a microcontroller core to support our extensive suite of voice compression techniques, echo cancellers and communications protocols. These products process and translate voice and data and perform various management and reporting functions. They compress the signals to minimize bandwidth consumption and modify or add communications protocols to accommodate transport of the signals across a variety of different networks. Supported services include video and VoIP, Voice-over-ATM (VoATM) and Voice-over-DSL services, as well as wireline-to-wireless connectivity.

Our communications convergence processing products include the eighth-generation Comcerto family for fiber-access service delivery, and our Transcede family of 3G/4G base station baseband processors that extend our proven multi-core processing expertise into the mobile infrastructure.

Our Comcerto family of packet processors includes a full range of software-compatible solutions that enable OEMs to provide scalable systems with customized features for carrier, enterprise and customer premise applications. The high-density members of this family, the Comcerto 5000, 900, 700 and 600 series processors and related software, provide a complete SoC solution for carrier-class video and Voice-over-packet (VoP) applications. All are targeted for use in media gateways designed to bridge wireless, wireline and enterprise networks.

The Comcerto 100 series broadband services processor is designed to support secure triple-play (voice, video and data) networks for residential and small office/home office markets. The Comcerto 100 series processor integrates high-performance security processing, packet processing and quality of service (QoS) capabilities for next-generation broadband customer premises equipment enabling service providers to deliver sophisticated multi-media content to their subscribers.

The Comcerto 300, 500 and 800 series solutions are designed for access and enterprise voice and data processing applications. The Comcerto 300 series is targeted at VoIP integration in lower density access platforms, such as multi-dwelling units (MDUs), digital subscriber line access multiplexer (DSLAM) equipment and multi-service access nodes (MSANs), and are widely deployed in passive optical network/fiber-to-the-building (PON/FTTB) applications. The Comcerto 500 series is a silicon PBX-on-a-chip which supports all required voice processing functionality for up to 128 channels, including encryption. The Comcerto 800 series enables a new class of office-in-a-box systems by combining a high-quality VoP subsystem with a high-performance routing and virtual private network (VPN) engine. The Comcerto 800 series integrates voice processing, packet processing and encryption functionality into a single device for the rapidly

growing market for VoP enterprise networks. This product is targeted for use in enterprise voice gateways, PBXs and integrated access devices.

The Comcerto 1000 series of low-power embedded packet processers address a wide variety of applications ranging from high-end VoIP enabled home gateways and small-to-midsized business high performance security appliances to Ethernet powered 802.11n enterprise access points. The Comcerto 1000 series of processors delivers scalability, high-performance packet handling capabilities, increased VPN and secure sockets layer (SSL) throughput and industry leading QoS hardware features.

Our Transcede family extends our multi-core processor to deliver highly integrated baseband solutions for 3G/4G base stations. Transcede is designed to meet the huge increase in base station diversity and computational complexity caused by the mobile Internet s migration from a voice- to data-centric mobile network. Transcede is designed to enable the development of a wide range of equipment, from picocells and enterprise femtocells serving a relatively small number of subscribers to microcells and macrocells serving hundreds or thousands of subscribers. Demand for this diverse set of platforms is being driven by the need for carriers to offload mobile data traffic and bridge today s 3G coverage and performance gaps, while paving the way for next-generation 4G and long-term evolution (LTE) networks.

The Transcede family includes the T4000, whose processor cores run at 600 MHz, with less than 12 watt power consumption, and the T4020, which features 750 MHz processor cores and typical power consumption less than 15 watts. These devices enable 64-user picocell on a chip, delivering three sectors of LTE processing in a single device, while still providing substantial processing headroom so manufacturers can deploy their own value-added features as part of an overall Transcede-based solution. The Transcede family also includes the Transcede 3000, which is designed for small-cell 3G and 4G base stations supporting up to 32 users. Mindspeed also offers the T4005 for 3G/4G macrocell developers who want to combine Transcede s high-performance Layer One (L1) physical-layer (PHY) processing capabilities with an existing Layer Two (L2) media access control (MAC) processing solution. All other Transcede processors combine L1 PHY and L2 MAC functionality on the same device to deliver the lowest possible system latency.

High-Performance Analog Products

Our high-performance analog transmission devices and switching products support storage area network, fiber-to-the-premise, OTN and broadcast video typically operating at data transmission rates between 155 megabits per second (Mbps) and 10 gigabits per second (Gbps). Our transmission products include laser drivers, transimpedance amplifiers, post amplifiers, clock and data recovery circuits, signal conditioners, serializers/deserializers, video reclockers, cable drivers and line equalizers. These products serve as the connection between a fiber optic or coaxial cable component interface and the remainder of the electrical subsystem in various network equipment and perform a variety of functions, including:

- converting incoming optical signals from fiber optic cables to electrical signals for processing and transport over a wireline medium and vice-versa;
- conditioning the signal to remove unwanted noise;
- combining lower speed signals from multiple parallel paths into higher speed serial paths, and vice-versa, for bandwidth economy; and
- amplifying and equalizing weaker signals as they pass through a particular system s equipment, media or network.

Our switching products include a family of high-speed crosspoint switches capable of switching traffic beyond 8 Gbps within various types of network switching equipment. These crosspoint switches direct, or transfer, a large number of high-speed data input streams, regardless of traffic type, to different connection trunks for rerouting the information to new destination points in the network. Crosspoint switches are often used to provide redundant traffic paths in networking equipment to protect against the loss of critical data from spurious network outages or failures that may occur from time to time. Target equipment applications for our switching

products include OTN systems, add-drop multiplexers, high-density IP switches and storage-area routers. In addition, we offer crosspoint switches optimized for standard and high-definition broadcast video routing and production switching applications.

WAN Communications Products

Our WAN communications products include transmission solutions and high-performance ATM/multi-protocol label switching (MPLS) network processors that facilitate the aggregation, processing and transport of voice and data traffic over copper wire or fiber optic cable to access metropolitan and long-haul networks.

Our high-performance ATM/MPLS network processors, and T1/E1, T3/E3 and SONET carrier devices are designed for use in a variety of equipment including digital loop carriers, DSL access multiplexers, add-drop multiplexers, switches, high-speed routers, digital cross-connect systems, optical edge devices, multiservice provisioning platforms, voice gateways, wireless backhaul and wireless base station controllers.

Customers

We market and sell our semiconductor networking solutions directly to leading network infrastructure OEMs. We also sell our products indirectly through electronic component distributors and third-party electronic manufacturing service providers, which manufacture products incorporating our semiconductor networking solutions for OEMs. Sales to distributors accounted for approximately 60% of our revenue for fiscal 2011. For fiscal 2011, distributor Alltek Technology Corporation accounted for 23% of our net revenue and distributor Avnet, Inc. accounted for 19% of our net revenue.

Our top direct OEM customer for fiscal 2011 was Zhongxing Telecom Equipment Corp. (ZTE), who accounted for 9% of our net revenue. Huawei Technologies Co. Ltd. was also a significant direct OEM customer and accounted for a total of 7% of our net revenue. We believe that our significant indirect network infrastructure OEM customers for fiscal 2011 also included Mitsubishi Electric Corporation, Oki Electric Industry Co., Ltd and Alcatel-Lucent.

Our customer base is widely dispersed geographically. Revenue derived from customers located in the Americas region was 21%, in the Europe region was 8% and in the Asia-Pacific region was 71% of our total revenue for fiscal 2011. We believe a portion of the products we sell to OEMs and third-party manufacturing service providers in the Asia-Pacific region is ultimately shipped to end-markets in the Americas and Europe. See Item 8 Financial Statements and Supplementary Data, including Note 3 and Note 17 of Notes to Consolidated Financial Statements for additional information on customers and geographic areas.

Sales, Marketing and Technical Support

We have a worldwide sales, marketing and technical support organization that is currently comprised of 87 employees located in three domestic and eight international sales locations. Our marketing, sales and field applications engineering teams, augmented by 12 electronic component distributors and three sales representative organizations, focus on marketing and selling semiconductor networking solutions to worldwide network infrastructure OEMs.

We maintain close working relationships with our customers throughout their lengthy product development cycle. Our customers may need six months or longer to test and evaluate our products and an additional six months or longer to begin volume production of network infrastructure equipment that incorporates our products. During this process, we provide broad-based technical and product design support to our customers through our field application engineers, product application engineers and technical marketing personnel. We believe that providing comprehensive product service and support is critical to shortening our customers design cycles and maintaining a competitive position in the network infrastructure equipment market.

Operations and Manufacturing

We are a fabless company, which means we do not own or operate foundries for wafer fabrication or facilities for device assembly and final test of our products. Instead, we outsource wafer fabrication, assembly

and testing of our semiconductor products to independent, third-party contractors. We use mainstream digital complementary metal-oxide semiconductor (CMOS) process technology for the majority of our products; we rely on specialty processes for the remainder of our products. Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) is our principal foundry supplier of CMOS wafers and die and produces some of our specialty process products. We use several other suppliers for wafers used in older products. We believe that the raw materials, parts and supplies required by our foundry suppliers are generally available at present and will remain available in the foreseeable future.

Semiconductor wafers are usually shipped to third-party contractors for device assembly and packaging where the wafers are cut into individual die, packaged and tested before final shipment to customers. We use Amkor Technology, Inc., Advanced Semiconductor Engineering, Inc. (ASE) and other third-party contractors, located in the Asia-Pacific region, Europe and California, to satisfy a variety of assembly and packaging technology and product testing requirements associated with the back-end portion of the manufacturing process.

We qualify each of our foundry and back-end process providers. This qualification process consists of a detailed technical review of process performance, design rules, process models, tools and support, as well as analysis of the subcontractor s quality system and manufacturing capability. We also participate in quality and reliability monitoring through each stage of the production cycle by reviewing electrical and parametric data from our wafer foundry and back-end providers. We closely monitor wafer foundry production for overall quality, reliability and yield levels.

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 United States (U.S.) and international suppliers that are both larger and smaller than us in terms of resources and market share. We expect intense competition to continue.

Our principal competitors are Cavium Networks Inc., Freescale Semiconductor, Inc., Gennum Corporation, Maxim Integrated Products, Inc., PMC-Sierra, Inc., Texas Instruments Inc. and Vitesse Semiconductor Corporation.

We believe that the principal competitive factors for semiconductor suppliers in each of our served markets are:

- time-to-market;
- product quality, reliability and performance;
- customer support;
- price and total system cost;
- new product innovation;
- compliance with industry standards;
- design wins;
- market acceptance of our, or our competitors products;
- production efficiencies; and

general economic conditions.

While we believe that we compete favorably with respect to each of these factors, many of our current and potential competitors have certain advantages over us, including:

stronger financial position and liquidity;

longer, or stronger, presence in key markets;

greater name recognition;

more secure supply chain;

lower cost alternatives to our products;

access to larger customer bases; and

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

As a result, these competitors may be able to devote greater resources to the development, promotion and sale of their products than we can. Our competitors may also be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be more able to respond to the cyclical fluctuations or downturns that affect the semiconductor industry from time to time. If we are not successful in assuring our customers of our financial stability, our OEM customers may choose semiconductor suppliers whom they believe have a stronger financial position or liquidity, which may materially adversely affect our business.

Backlog

Our sales are made primarily pursuant to standard purchase orders for delivery of products. Because industry practice allows customers to cancel orders with limited advance notice to us prior to shipment, we believe that backlog as of any particular date is not a reliable indicator of our future revenue levels.

Research and Development

We have significant research, development, engineering and product design capabilities. We currently have 363 employees engaged in research and development activities. On research and development activities, we spent approximately $59.2 million in fiscal 2011, $51.4 million in fiscal 2010 and $50.7 million in fiscal 2009. We perform research and product development activities at our headquarters in Newport Beach, California and at 13 design centers. In order to enhance the cost-effectiveness of our operations, we have increasingly sought to shift portions of our research and development operations to regions with lower cost structures than that available in the United States. Our design centers are strategically located to take advantage of key technical and engineering talent. Our success depends to a substantial degree upon our ability to timely develop and introduce 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. In addition, we actively collaborate with technology leaders to define and develop next-generation technologies.

Intellectual Property

Our success and future revenue growth depend, in part, on the intellectual property that we own and develop, including patents, licenses, trade secrets, know-how, trademarks and copyrights, and on our ability to protect our intellectual property. We continuously review our patent portfolio to maximize its value to us, abandoning or selling inapplicable or less useful patents and filing new patents important to our product roadmap. Our patent portfolio may be used to avoid, defend or settle any potential litigation with respect to various technologies contained in our products. The portfolio may also provide negotiating leverage in attempts to cross-license patents or technologies with third parties. We may also seek to leverage our patent portfolio by licensing or selling our patents or other intellectual property. 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. In connection with our participation in the development of various industry standards, we may be required to reasonably license certain of our patents to other parties, including competitors that develop products based upon the adopted industry standards. We have also entered into agreements with certain of our customers and granted these customers the right to use our proprietary technology in the event that we file for bankruptcy protection or take other equivalent actions. While

in the aggregate our intellectual property is important to our operations, we do not believe that any single patent, license, trade secret, know-how, trademark or copyright is considered of such importance that its loss or termination would materially affect our business or financial condition.

Employees

We currently have 541 full-time employees, approximately 378 of whom are engineers. Our employees are not covered by any collective bargaining agreements and we have not experienced a work stoppage in the past eight years since our inception. We believe our future success will depend in large part on our ability to continue to attract, motivate, develop and retain highly skilled and dedicated technical, marketing and management personnel.

Cyclicality

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. From time to time, these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry, and in our business in particular.

In addition, our operating results are subject to substantial quarterly and annual fluctuations due to a number of factors, such as demand for network infrastructure equipment, the timing of receipt, reduction or cancellation of significant orders, fluctuations in the levels of component inventories held by our customers, the gain or loss of significant customers, market acceptance of our products and our customers products, our ability to timely develop, introduce and market new products and technologies, the availability and cost of products from our suppliers, new product and technology introductions by competitors, intellectual property disputes and the timing and extent of product development costs.

Available Information

We maintain an Internet website at www.mindspeed.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, and other information related to our company, are available free of charge on this site as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission (SEC). Our Code of Business Conduct and Ethics, Guidelines on Corporate Governance and Board Committee Charters are also available on our website. We will provide reasonable quantities of paper copies of filings free of charge upon request. In addition, we will provide a copy of the Board Committee Charters to stockholders upon request. No portion of our website or the information contained in or connected to the website is incorporated into this Annual Report on Form 10-K.

Item 1A. ***Risk Factors***

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

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 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.

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

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 timely develop, introduce, market and support new products and technologies;

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 ou