MINDSPEED TECHNOLOGIES, INC
Form 10-Q
February 09, 2010

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

FORM 10-Q

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

For the quarterly period ended January 1, 2010

OR

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

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

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

Indicate by check mark whether the Registrant 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 o No o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of outstanding shares of the Registrant s Common Stock as of January 29, 2010 was 29,122,100.

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FORWARD-LOOKING STATEMENTS

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

- 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 belief that our diverse portfolio of semiconductor solutions has positioned us to capitalize on some of the most significant trends in telecommunications spending;
- our plans to make substantial investments in research and development and participate in the formulation of industry standards;
- our belief that we can maximize our return on our research and development spending by focusing our investment in what we believe are key growth markets;
- our ability to achieve design wins and convert design wins into revenue;
- the continuation of intense price and product competition, and the resulting declining average selling prices for our products;
- the impact of changes in customer purchasing activities, inventory levels and inventory management practices;
- the challenges of shifting any operations or labor offshore, including the likelihood of competition in offshore markets for qualified personnel;
- our ability to achieve revenue growth, regain and sustain profitability and positive cash flows from operations;
- our plans to reduce operating expenses, the amount and timing of any such expense reductions, and its effects on cash flow;
- our anticipation that we will not pay a dividend in the foreseeable future;
- the dependence of our operating results on our ability to develop and introduce new products and enhancements to existing products on a timely basis;
- the continuation of a trend toward industry consolidation and the effect it could have on our operating results;

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- the sufficiency of our existing sources of liquidity and expected sources of cash to repay the remaining $15.0 million in senior convertible debt and fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for the next 12 months;
- the circumstances under which we may need to seek additional financing, our ability to obtain any such financing and any consideration of acquisition opportunities;
- our expectation that our provision for income taxes for fiscal 2010 will principally consist of income taxes related to our foreign operations;
- our expectations with respect to our recognition of income tax benefits in the future;
- our restructuring plans, including timing, expected workforce reductions, the closure of the Dubai facility, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments to complete the actions, the source of funds for such payments, the impact on our liquidity and the resulting decreases in our research and development and selling, general and administrative expenses, and the amounts of future charges to complete our restructuring plans;
- our plans with respect to future actions to reduce operating expenses and/or increase revenues;
- our beliefs regarding the effect of the disposition of pending or asserted legal matters and the possibility of future legal matters;
- our acquisition strategy, the means of financing such a strategy, and the impact of any past or future acquisitions, including the impact on revenue, margin and profitability;
- our plans relating to our use of stock-based compensation, the effectiveness of our incentive compensation programs and the expected amounts of stock-based compensation expense in future periods;
- our belief that the financial stability of suppliers is an important consideration in our customers purchasing decisions;
- the effects of a downturn in the semiconductor industry and the general economy at large, including the impact of slower economic activity, an increase in bankruptcy filings, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, recent international conflicts and terrorist and military activity and the impact of natural disasters and public health emergencies on our revenue and results of operation;
- the impact of reductions, delays and cancellation of orders from key customers given our dependence on a relatively small number of end customers and distributors for a significant portion of our revenue and our lack of long term purchase commitments;
- the impact of volatility in the stock market on the market price of our common stock;
- the impact on our business if we fail to comply with the minimum listing requirements for continued quotation on the Nasdaq Global Market;
- the effect of changes in the amount of research coverage of our common stock, changes in earnings estimates or buy/sell recommendations by analysts and changes in investor perception of us and the industry in which we operate;
- the effect of shifts in our product mix and the effect of maturing products;
- the continued availability and costs of products from our suppliers;

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- the value of our intellectual property, and our ability to continue recognizing patent-related revenues from the sale or licensing of our intellectual property and our plans to pursue our current intellectual property strategy;
- market demand for our new and existing products and our ability to increase our revenues;
- our intentions with respect to inventories that were previously written down and the effects on future demand and market conditions on inventory write-downs;
- our beliefs regarding the end-markets for sales of products to original equipment manufacturers and third-party manufacturing service providers in the Asia-Pacific region;
- our intention to continue to expand our international business activities, including expansion of design and operations centers abroad;
- our expectations regarding fluctuations in our growth patterns; 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:

- cash requirements and terms and availability of financing;
- future operating losses;
- worldwide political and economic uncertainties and specific conditions in the markets we address;
- fluctuations in the price of our common stock and our operating results;
- loss of or diminished demand from one or more key customers or distributors;
- our ability to attract and retain qualified personnel;
- constraints in the supply of wafers and other product components from our third-party manufacturers;
- pricing pressures and other competitive factors;
- successful development and introduction of new products;
- doing business internationally and our ability to successfully and cost effectively establish and manage operations in foreign jurisdictions;
- industry consolidation;
- order and shipment uncertainty;
- our ability to obtain design wins and develop revenues from them;
- lengthy sales cycles;
- the expense of and our ability to defend our intellectual property against infringement claims by others;
- 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.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	January 1, 2010	October 2, 2009 As Adjusted - Note 5
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,481	$ 20,891
Receivables, net of allowance for doubtful accounts of $144 at both January 1, 2010 and October 2, 2009	12,743	7,662
Inventories	9,395	10,902
Deferred tax assets current	1,528	1,574
Prepaid expenses and other current assets	2,801	2,529
Total current assets	37,948	43,558
Property, plant and equipment, net	11,639	11,018
License agreements, net	6,824	6,505
Other assets	1,291	1,382
Total assets	$ 57,702	$ 62,463
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 7,673	$ 6,338
Accrued compensation and benefits	5,862	5,788
Accrued income tax	413	525
Deferred income on sales to distributors	5,063	2,604
Deferred revenue	796	1,106
Restructuring	925	448
Convertible senior notes short term		10,349
Other current liabilities	2,457	2,177
Total current liabilities	23,189	29,335
Convertible senior notes long term	13,513	13,415
Other liabilities	1,408	823
Total liabilities	38,110	43,573
Commitments and contingencies (Note 6)		
Stockholders Equity		
Preferred stock, $0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
	291	288

Common stock, $0.01 par value, 100,000 shares authorized; 29,056 (January 1, 2010) and 28,756 (October 2, 2009) issued and outstanding shares		
Additional paid-in capital	297,283	296,333
Accumulated deficit	(263,023)	(262,863)
Accumulated other comprehensive loss	(14,959)	(14,868)
Total stockholders equity	19,592	18,890
Total liabilities and stockholders equity	$ 57,702	$ 62,463

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended	
	January 1, 2010	January 2, 2009 As Adjusted - Note 5
Net revenues:		
Products	$ 37,026	$ 27,731
Intellectual Property		3,000
Total net revenues	37,026	30,731
Cost of goods sold	13,463	9,749
Gross margin	23,563	20,982
Operating expenses:		
Research and development	12,588	13,344
Selling, general and administrative	9,634	11,123
Special charges	860	2,305
Total operating expenses	23,082	26,772
Operating income (loss)	481	(5,790)
Interest expense	(630)	(913)
Other income, net	5	1,042
Loss before income taxes	(144)	(5,661)
Provision for income taxes	16	90
Net loss	$ (160)	$ (5,751)
Net loss per share, basic and diluted	$ (0.01)	$ (0.25)
Weighted-average number of shares used in per share computation	28,500	23,407

See accompanying notes to consolidated condensed financial statements.

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

	Three months ended January 1, 2010	Three months ended January 2, 2009 As Adjusted - Note 5
Cash Flows From Operating Activities		
Net loss	$ (160)	$ (5,751)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities, net of effects of acquisitions:		
Depreciation and amortization	1,431	1,650
Special charges	860	2,305
Stock-based compensation	940	967
Inventory provisions	963	486
Gain on debt extinguishment		(1,121)
Amortization of debt discount on convertible senior notes	249	446
Other non-cash items, net	197	176
Changes in assets and liabilities:		
Receivables	(5,097)	5,837
Inventories	544	(2,701)
Accounts payable	714	(3,900)
Deferred revenue	2,459	(743)
Restructuring	(395)	(956)
Accrued expenses and other current liabilities	(365)	(175)
Other	(359)	213
Net cash provided by / (used in) operating activities	1,981	(3,267)
Cash Flows From Investing Activities		
Capital expenditures	(808)	(2,175)
Net cash used in investing activities	(808)	(2,175)
Cash Flows From Financing Activities		
Extinguishment of convertible debt	(10,500)	(17,320)
Payments made on capital lease obligations	(151)	
Borrowings under line of credit	7,000	
Payments made on borrowings under line of credit	(7,000)	
Debt issuance costs		(244)
Exercise of stock options and warrants	44	
Net cash used in financing activities	(10,607)	(17,564)

Effect of foreign currency exchange rates on cash		24		3
Net decrease in cash and cash equivalents		(9,410)		(23,003)
Cash and cash equivalents at beginning of period		20,891		43,033
Cash and cash equivalents at end of period	$	11,481	$	20,030

See accompanying notes to consolidated condensed financial statements.

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

1. Basis of Presentation and Significant Accounting Policies

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, broadband access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 18,066,689 outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. Prior to the Distribution, Conexant transferred to Mindspeed the assets and liabilities of the Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to Mindspeed under the Distribution Agreement entered into between Conexant and Mindspeed. Also prior to the Distribution, Conexant contributed to Mindspeed cash in an amount such that at the time of the distribution Mindspeed s cash balance was $100.0 million. Mindspeed issued to Conexant a warrant to purchase approximately 6.1 million shares of Mindspeed common stock at a price of $16.74 per share (adjusted to reflect a change in the number of shares and exercise price, which resulted from the offering of common stock that the Company completed in fourth quarter fiscal 2009), exercisable for a period beginning one year and ending ten years after the Distribution. Following the Distribution, Mindspeed began operations as an independent, publicly held company.

In order to regain and sustain profitability and positive cash flows from operations, the Company may need to further reduce operating expenses and/or increase revenues. The Company has completed a series of cost reduction actions which have improved its operating cost structure, and will continue to assess the need to perform additional actions, when necessary. These expense reductions alone may not allow the Company to return to the profitability it achieved in the fourth quarter of fiscal 2008. The Company s ability to achieve the necessary revenue growth to return to profitability will depend on increased demand for network infrastructure equipment that incorporates its products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises, the level of which may decrease due to general economic conditions and uncertainty, over which the Company has no control. The Company may not be successful in achieving the necessary revenue growth or it may be unable to sustain past and future expense reductions in subsequent periods. The Company may not be able to regain or sustain profitability.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from product sales and the sale or licensing of intellectual property and its existing line of credit with Silicon Valley Bank, will be sufficient to fund its operations (including its 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, the Company repaid the $10.5 million outstanding balance of its 3.75% convertible senior notes, and has no other principal payments on currently outstanding debt due in the next 12 months. From time to time, the Company may acquire its 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 the Company may determine appropriate. The Company will need to continue a focused program of capital expenditures to meet its research and development and corporate requirements. The Company may also consider acquisition opportunities to extend its technology portfolio and design expertise and to expand its product offerings. In order to fund capital expenditures, increase its working capital or complete any acquisitions, the Company may seek to obtain additional debt or equity financing. The Company may also need to seek to obtain additional debt or equity financing if it experiences downturns or cyclical fluctuations in its business that are more severe or longer than anticipated or if it fails to achieve anticipated revenue and expense levels. However, the Company cannot assure you that such financing will be available on favorable terms, or at all particularly in light of recent economic conditions in the capital markets.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and special charges (Note 7), necessary to present fairly the Company s financial position, results of operations and cash flows in accordance with generally accepted accounting principles (GAAP) in the United States of America. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended October 2, 2009. The Company has evaluated the impact of subsequent events on these interim consolidated financial statements through February 9, 2010.

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In June 2009, the Financial Accounting Standards Board, or FASB, established the Accounting Standards Codification, ASC or Codification, as the source of authoritative GAAP recognized by the FASB. The Codification is effective in the first interim and annual periods ending after September 15, 2009 and had no effect on the Company s consolidated financial statements.

Fiscal Periods The Company s interim fiscal quarters end on the thirteenth Friday of each quarter. The first quarter of fiscal 2010 and 2009 ended on January 1, 2010 and January 2, 2009, respectively.

Recent Accounting Standards On October 3, 2009, the Company adopted ASC 470-20, for the accounting of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlements), formerly FASB Staff Position APB 14-1. This standard required retrospective adjustments to prior period financial statements to conform with the current accounting treatment. Accordingly, the Company s prior period financial statements have been adjusted. ASC 470-20 requires that convertible debt instruments that may be settled in cash be separated into a debt component and an equity component. The value assigned to the debt component as of the issuance date is the estimated fair value of a similar debt instrument without the conversion feature. The difference between the proceeds obtained for the instruments and the estimated fair value assigned to the debt component represents the equity component. See Note 5 for additional information on the adoption of this accounting standard.

On October 3, 2009, the Company adopted ASC 260-10-45-61A, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This authoritative guidance provides that before the completion of an award s requisite service period, all outstanding awards that contain rights to nonforfeitable dividends in undistributed earnings with common stock are participating securities and shall be included in the computation of earnings per share. The Company determined that a limited number of its instruments granted in share-based payment transactions contained rights to nonforfeitable dividends in undistributed earnings. During the first quarter of fiscal 2010, the Company amended the related instruments plan documents to eliminate this provision and therefore no longer has any instruments subject to this authoritative guidance. The Company has determined that there is no impact to its presentation of earnings per share in any historical periods by including the limited number of applicable instruments prior to this plan amendment.

In September 2006, the FASB issued provisions under ASC 820-10, Fair Value Measurements and Disclosures, in order to increase consistency and comparability in fair value measurements by defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. In February 2008, the FASB released additional guidance under ASC 820-10, which delayed the effective date of the September 2006 provisions for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Consistent with the February 2008 updates, the Company elected to defer the adoption of the September 2006 provisions for nonfinancial assets and liabilities measured at fair value on a non-recurring basis until October 3, 2009. The Company adopted ASC 820-10 for non-financial assets and liabilities on October 3, 2009. This adoption did not have a material impact on the Company s consolidated financial statements.

Income Taxes The provision for income taxes for the three months ended January 1, 2010 and January 2, 2009 principally consists of income taxes incurred by the Company s foreign subsidiaries. In the three months of fiscal 2010, there has been no change in the balance of unrecognized tax benefits. The Company does not expect that the unrecognized tax benefit will change significantly within the next 12 months.

Concentrations Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents consist of demand deposits and money market funds maintained with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with high credit quality financial institutions and therefore have minimal credit risk. The Company s trade accounts receivable primarily are derived from sales to manufacturers of network infrastructure equipment and electronic component distributors. Management believes that credit risks on trade accounts receivable are moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers financial condition.

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

	Three months ended	
	January 1, 2010	January 2, 2009
Customer A	16%	18%
Customer B	11%	13%
Customer C	11%	9%

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

	January 1, 2010	October 2, 2009
Customer A	8%	19%
Customer B	2%	10%
Customer D	22%	4%
Customer E	18%	0%
Customer F	10%	6%
Customer G	4%	10%

Supplemental Cash Flow Information Interest paid for the three months ended January 1, 2010 and January 2, 2009 was $231,000 and $842,000, respectively. Income taxes paid, net of refunds received, for the three months ended January 1, 2010 and January 2, 2009 were $12,000 and $311,000, respectively. Non-cash investing activities in the first quarter of fiscal 2010 consisted of the purchase of $723,000 of property and equipment from suppliers on account, the license of $99,000 of intellectual property on account, and the purchase of $761,000 of equipment through capital leasing arrangements. Non-cash investing activities in the first three months of fiscal 2009 consisted of the purchase of $75,000 of property and equipment from suppliers on account, as well as the license of $2.7 million of intellectual property on account.

2. Supplemental Financial Statement Data

Inventories

Inventories consist of the following (in thousands):

	January 1, 2010	October 2, 2009
Work-in-process	$ 3,513	$ 4,124
Finished goods	5,882	6,778
Total inventories	$ 9,395	$ 10,902

During the three months ended January 1, 2010 and January 2, 2009, the Company s gross margin included a benefit of approximately $492,000 and $630,000, respectively, from the sale of inventory that had been written down to a zero cost basis during fiscal 2001. As of January 1, 2010, the Company continued to hold inventories with an original cost of $3.3 million, which were written down to a zero cost basis during fiscal 2001.

Deferred Income on Shipments to Distributors

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

	January 1, 2010	October 2, 2009
Deferred revenue on shipments to distributors	$ 5,592	$ 2,984
Deferred cost of inventory on shipments to distributors	(588)	(422)
Reserves	59	42

Deferred income on sales to distributors	$	5,063	$	2,604

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Comprehensive Loss
Comprehensive loss is as follows (in thousands):

	Three months ended	
	January 1, 2010	January 2, 2009 As Adjusted - Note 5
Net loss	$ (160)	$ (5,751)
Foreign currency translation adjustments, net of tax	(92)	(341)
Comprehensive loss	$ (252)	$ (6,092)

The balance of accumulated other comprehensive loss at January 1, 2010 and January 2, 2009 consists of accumulated foreign currency translation adjustments.

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

	Three months ended	
	January 1, 2010	January 2, 2009
Multiservice access DSP products	$ 13,955	$ 10,789
High-performance analog products	11,580	10,519
WAN communications products	11,491	6,423
Intellectual property		3,000
Total net revenues	$ 37,026	$ 30,731

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

	Three months ended	
	January 1, 2010	January 2, 2009
Americas	$ 8,618	$ 12,319
Asia-Pacific	26,056	14,294
Europe, Middle East and Africa	2,352	4,118
Total net revenues	$ 37,026	$ 30,731

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.

3. Fair Value Measurements

On October 4, 2008, the Company adopted certain provisions under ASC 820, Fair Value Measurements and Disclosures, for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that we recognize or disclose at fair value on a recurring basis (at least annually). As of the date of adoption, these included cash equivalents and convertible senior notes.

ASC 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

Level 1 uses unadjusted quoted prices that are available in active markets for identical assets or liabilities. The Company s Level 1 assets include investments in money market funds.

Level 2 uses inputs other than quoted prices included in Level 1 that are either directly or indirectly observable through correlation with market data. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs to valuation models or other pricing methodologies that do not require significant judgment because the inputs used in the model, such as interest rates and volatility, can be corroborated by readily observable market data. The Company s Level 2 liabilities include convertible senior notes.

Level 3 uses one or more significant inputs that are unobservable and supported by little or no market activity, and reflect the use of significant management judgment. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques and significant management judgment or estimation. The Company does not have any assets or liabilities that are valued using inputs identified under a Level 3 hierarchy.

The following table represents financial assets that the Company measured at fair value in accordance with ASC 825, Financial Instruments. The Company has classified these assets and liabilities in accordance with the fair value hierarchy set forth in ASC 820 (in thousands):

January 1, 2010	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value as of January 1, 2010
Assets:			
Cash equivalents	$ 11,481		$ 11,481
Liabilities:			
Senior convertible debt		$ 18,716	$ 18,716

October 2, 2009	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value as of October 2, 2009
Assets:			
Cash equivalents	$ 20,891		$ 20,891
Liabilities:			
Senior convertible debt		$ 25,096	$ 25,096

The following table sets forth the carrying amount and estimated fair values of financial assets and liabilities (in thousands).

	January 1, 2010		October 2, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash equivalents	$ 11,481	$ 11,481	$ 20,891	$ 20,891
Liabilities:				
Senior convertible debt	$ 13,513	$ 18,716	$ 25,486	$ 25,096

4. Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of ASC 718, Compensation Stock Compensation. ASC 718 requires that the Company account for all stock-based compensation using a fair-value method and recognize the fair value of each award as an expense over the service period.

Stock-based compensation awards generally vest over time and require continued service to the Company and, in some cases, require the achievement of specified performance conditions. The amount of compensation expense recognized is based upon the number of awards that are ultimately expected to vest. The Company estimates forfeiture rates of 10% to 12.5% depending on the characteristics of the award.

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

The fair value of stock options awarded during the three months ended January 1, 2010 and January 2, 2009 was estimated at the date of grant using the Black-Scholes option-pricing model. The following table summarizes the weighted-average assumptions used and the resulting fair value of options granted:

	Three months ended	
	January 1, 2010	January 2, 2009
Weighted-average fair value of options granted	$ 2.48	$ 0.61
Weighted-average assumptions:		
Expected option life	2.6 years	2.9 years
Risk-free interest rate	1.2%	1.4%
Expected volatility	96%	76%
Dividend yield		

The expected option term was estimated based upon historical experience and management s expectation of exercise behavior. The expected volatility of the Company s stock price is based upon the historical daily changes in the price of the Company s common stock. The risk-free interest rate is based upon the current yield on U.S. Treasury securities having a term similar to the expected option term. Dividend yield is estimated at zero because the Company does not anticipate paying dividends in the foreseeable future.

Stock-based compensation expense related to employee stock options and restricted stock under ASC 718 was allocated as follows (in thousands):

	Three months ended	
	January 1, 2010	January 2, 2009
Cost of goods sold	$ 32	$ 35
Research and development	307	340
Selling, general and administrative	601	592
Total stock-based compensation expense	$ 940	$ 967

Stock Compensation Plans

The Company has two principal stock incentive plans: the 2003 Long-Term Incentives Plan and the Directors Stock Plan. The 2003 Long-Term Incentives Plan provides for the grant of stock options, restricted stock, restricted stock units and other stock-based awards to officers and employees of the Company. The Directors Stock Plan provides for the grant of stock options, restricted stock units and other stock-based awards to the Company s non-employee directors. On March 10, 2009, the stockholders of the Company approved a plan amendment, which included an increase in the authorized number of shares reserved for issuance under the 2003 Long-Term Incentives Plan to approximately 6.7 million shares. As of January 1, 2010, an aggregate of 1.5 million shares of the Company s common stock were available for issuance under these plans.

The Company also has a 2003 Stock Option Plan, under which stock options were issued in connection with the Distribution. In the Distribution, each holder of a Conexant stock option (other than options held by persons in certain foreign locations) received an option to purchase a number of shares of Mindspeed common stock. The number of shares subject to, and the exercise prices of, the outstanding Conexant options and the Mindspeed options were adjusted so that the aggregate intrinsic value of the options was equal to the intrinsic value of the Conexant option immediately prior to the Distribution and the ratio of the exercise price per share to the market value per share of each option was the same immediately before and after the Distribution. As a result of such option adjustments, Mindspeed issued options to purchase an aggregate of approximately six million shares of its common stock to holders of

Conexant stock options (including Mindspeed employees) under the 2003 Stock Option Plan. There are no shares available for new stock option awards under the 2003 Stock Option Plan. However, any shares subject to the unexercised portion of any terminated, forfeited or cancelled option are available for future option grants only in connection with an offer to exchange outstanding options for new options.

Prior to February 2007, the Company maintained employee stock purchase plans for its domestic and foreign employees. Under ASC 718, the plans were non-compensatory and the Company has recorded no compensation expense in connection therewith. The employee stock purchase plans were terminated by the Company s board of directors effective February 28, 2007.

From time to time, the Company may issue, and has previously issued stock based awards outside of these plans pursuant to stand-alone agreements and in accordance with NASDAQ Listing Rule 5635(c).

Stock Option Awards

Prior to fiscal 2006, stock-based compensation consisted principally of stock options. Eligible employees received grants of stock options at the time of hire; the Company also made broad-based stock option grants covering substantially all employees annually. Stock option awards have exercise prices not less than the market price of the common stock at the grant date and a contractual term of eight or ten years, and are subject to time-based vesting (generally over four years). On April 10, 2009, the Company offered current eligible employees of Mindspeed and its subsidiaries the right to exchange certain unexercised options to purchase shares of the Company s common stock. The offer period on the exchange program ended on May 15, 2009, at which time the Company exchanged 754,000 previously issued stock options for 250,000 new stock options with an exercise price of $1.70, the market price of the Company s common stock on that date. The Company has chosen to account for this transaction under the bifurcated approach whereby the remaining unamortized expense of the exchanged awards is recognized over the original award period. The Company recorded an insignificant amount of incremental compensation expense in conjunction with this exchange.

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 2, 2009	3,128	$ 6.48	4.9 years
Granted	408	4.36	
Exercised	(17)	2.65	
Forfeited or expired	(58)	10.34	
Outstanding at January 1, 2010	3,461	6.19	5.1 years
Exercisable at end of period	1,471	$ 10.56	2.7 years

As of January 1, 2010, there was unrecognized compensation expense of $2.6 million related to unvested stock options, which the Company expects to recognize over a weighted-average period of 1.4 years. The aggregate intrinsic value of both options outstanding and options exercisable as of January 1, 2010 was $4.0 million and $243,000, respectively.

Restricted Stock Awards

The Company s stock incentive plans also provide for awards of restricted shares of common stock and other stock-based incentive awards and from time to time the Company has used restricted stock awards for incentive or retention purposes. Restricted stock awards have time-based vesting and/or performance conditions and are generally subject to forfeiture if employment terminates prior to the end of the service period or if the prescribed performance criteria are not met. Restricted stock awards are valued at the grant date based upon the market price of the Company s common stock and the fair value of each award is charged to expense over the service period.

Many of the Company s restricted stock awards are intended to provide performance emphasis and incentive compensation through vesting tied to each employee s performance against individual goals, as well as to improvements in the Company s operating performance. The actual amounts of expense will depend on the number of awards that ultimately vest upon the satisfaction of the related performance and service conditions.

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The fair value of each award is charged to expense over the service period. The following table summarizes restricted stock award activity (shares in thousands):

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested shares at October 2, 2009	371	$ 4.50
Granted	286	4.38
Vested	(93)	4.90
Forfeited	(1)	4.64
Nonvested shares at January 1, 2010	563	$ 4.05

The total fair value of shares vested during the three months ended January 1, 2010 was $416,000. As of January 1, 2010 there was unrecognized compensation expense of $1.5 million related to unvested restricted stock awards, which the Company expects to recognize over a weighted-average period of less than one year.

5. Revolving Credit Facility and Convertible Senior Notes

Revolving Credit Facility

At January 1, 2010, the Company had no outstanding borrowings under the revolving credit facility.

3.75% Convertible Senior Notes due 2009

In December 2004, the Company sold $46.0 million aggregate principal amount of 3.75% convertible senior notes due 2009 for net proceeds (after discounts and commissions) of approximately $43.9 million. The notes were senior unsecured obligations of the Company, ranking equal in right of payment with all future unsecured indebtedness. The convertible senior notes had an interest rate of 3.75%, payable semiannually in arrears each May 18 and November 18.

The notes were convertible, at the option of the holder, at any time prior to maturity into shares of the Company s common stock. If the notes had been converted, the Company had the option to elect to deliver cash in lieu of shares of its common stock or a combination of cash and shares of common stock. Effective May 13, 2005, the conversion price of the notes was adjusted to $11.55 per share of common stock, which was equal to a conversion rate of approximately 86.58 shares of common stock per $1,000 principal amount of notes. Prior to this adjustment, the conversion price applicable to the notes was $14.05 per share of common stock, which was equal to approximately 71.17 shares of common stock per $1,000 principal amount of notes. The adjustment was made pursuant to the terms of the indenture governing the notes. The conversion price was subject to further adjustment under the terms of the indenture to reflect stock dividends, stock splits, issuances of rights to purchase shares of common stock and certain other events.

In July 2008, $15.0 million of the 3.75% convertible senior notes were exchanged as discussed below. In October 2008, the Company repurchased $20.5 million aggregate principal amount of the notes due in November 2009, for $17.3 million in cash. The repurchases occurred in two separate transactions on October 16 and October 23, 2008. During the first quarter of fiscal 2010, the 3.75% convertible senior notes matured and the remaining balance of $10.5 million was repaid.

6.50% Convertible Senior Notes due 2013

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its 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 exchanges 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.

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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 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.

For financial accounting purposes, the Company s contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is an embedded derivative. As of January 1, 2010, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

Impact of Adoption of New Accounting Standard

ASC 470-20, the new accounting standard for convertible debt that may be settled in cash upon conversion, changed the accounting for the Company s convertible notes and the related debt issuance costs. Prior to the issuance of this accounting standard, the Company reported the 3.75% convertible senior notes at their principal amount of $46.0 million, less an original issuance discount of $2.1 million, in long-term debt and capitalized debt issuance costs amounting to approximately $400,000. Upon adoption of the new accounting standard as of October 3, 2009, the Company adjusted the accounting for these convertible notes and the related deferred financing costs for all prior periods since their initial issuance, as described in Note 1. The Company determined that the estimated fair value of debt instruments similar to its 3.75% convertible senior notes, without the conversion feature, was $28.4 million at the time of issuance. The resulting $17.6 million discount on the debt was amortized through interest expense over the period from December 2004 through November 2009, which represented the expected life of the debt. The equity component, recorded as additional paid-in capital, was $15.6 million as of the date of issuance, which represents the difference between the proceeds from issuance of the 3.75% senior convertible notes and the fair value of the debt as of the date of issuance. Additionally, the Company reclassified approximately $146,000 of the deferred financing costs to equity as equity issuance costs, which will not be amortized to the statement of operations.

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its 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. Prior to the issuance of this accounting standard, the Company reported the 6.50% convertible senior 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 the new accounting standard as of October 3, 2009, the Company also adjusted the accounting for these convertible notes and the related deferred financing costs for all prior periods since their initial issuance. The Company determined that the estimated fair value of debt instruments similar to its 6.50% convertible senior notes, without the conversion feature, was $13.0 million at the time of issuance. The resulting $2.0 million discount on the debt will be amortized through interest expense over the period from August 2008 through August 2013, which represents the expected life of the debt. In conjunction with the exchange, the Company recorded a gain of approximately $200,000 representing the difference between the fair value of the debt component of the newly issued instrument and the book value of the old debt instrument, less unamortized issuance costs. The carrying amount of the equity component upon this exchange transaction was $2.0 million, however, there was no net charge to additional paid-in capital.

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In October 2008, the Company repurchased $20.5 million aggregate principal amount of its 3.75% convertible senior notes due in November 2009, for cash of $17.3 million. The repurchases occurred in two separate transactions on October 16 and October 23, 2008. In accordance with ASC 470-20, the Company recorded a gain of $1.1 million related to these repurchases. The gain was calculated as the difference between the fair value of the liability component of the notes immediately before settlement, and the book value of the notes net of unamortized debt issuance costs. To measure the fair value of the repurchased notes as of the settlement dates, the Company calculated an implied interest rate of approximately 17% using Level 2 observable inputs. This rate was applied to the repurchased portion of the notes using the same present value technique used in the valuation performed as of the issuance date. No value was allocated to the equity component of the instrument at the time of these extinguishments.
The October 2, 2009 condensed consolidated balance sheet and the consolidated condensed statement of operations and consolidated condensed statement of cash flows for the three months ended January 2, 2009 have been adjusted for the change in accounting principle as follows:

Consolidated Balance Sheet October 2, 2009 (in thousands)	**As Previously Reported**	**Adjustment**	**As Adjusted**
Other assets long term	$ 1,479	$ (97)	$ 1,382
Total assets	62,560	(97)	62,463
Convertible senior notes short term	10,486	(137)	10,349
Total current liabilities	29,472	(137)	29,335
Convertible senior notes long term	15,000	(1,585)	13,415
Total liabilities	45,295	(1,722)	43,573
Additional paid-in capital	280,919	15,414	296,333
Accumulated deficit	(249,074)	(13,789)	(262,863)
Total stockholders equity	17,265	1,625	18,890
Total liabilities and stockholders equity	$ 62,560	$ (97)	$ 62,463

Consolidated Condensed Statement of Operations Three months ended January 2, 2009 (in thousands)	**As Previously Reported**	**Adjustment**	**As Adjusted**
Interest expense	$ 469	$ 444	$ 913
Other income, net	2,801	(1,759)	1,042
Loss before income taxes	(3,458)	(2,203)	(5,661)
Net loss	$ (3,548)	$ (2,203)	$ (5,751)
Net loss per share, basic and diluted	$ (0.15)	$ (0.10)	$ (0.25)
Weighted average number of shares used in per share calculation	23,407	23,407	23,407

Consolidated Condensed Statement of Cash Flows Three months ended January 2, 2009 (in thousands)	**As Previously Reported**	**Adjustment**	**As Adjusted**
Cash flows from operating activities:			
Net loss	$ (3,548)	$ (2,203)	$ (5,751)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on debt extinguishment	(2,880)	1,759	(1,121)
Amortization of debt discount		446	446
Other non-cash items, net*	178	(2)	176

Net cash used in operating activities	$	(3,267)	$	(3,267)

* Includes the amortization of debt issuance costs

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

		January 1, 2010		October 2, 2009
3.75% convertible senior notes				
Principal value of the liability component	$		$	10,500
Unamortized value of the liability component				151
Net carrying value of the liability component	$		$	10,349
6.50% convertible senior notes				
Principal value of the liability component	$	15,000	$	15,000
Unamortized value of the liability component		1,487		1,585
Net carrying value of the liability component	$	13,513	$	13,415

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

	Three months ended			
		January 1, 2010		January 2, 2009
3.75% convertible senior notes				
Interest expense coupon	$	48	$	137
Interest expense debt discount amortization		151		351
Total	$	199	$	494
Effective interest rate on the liability component for the period		14.68%		13.62%
6.50% convertible senior notes				
Interest expense coupon	$	244	$	244
Interest expense debt discount amortization		98		95
Total	$	342	$	339
Effective interest rate on the liability component for the period		9.12%		9.04%

6. Commitments and Contingencies

Various lawsuits, claims and proceedings have been or may be instituted or asserted against Conexant or Mindspeed, including those pertaining to product liability, intellectual property, environmental, safety and health and employment matters. In connection with the Distribution, Mindspeed assumed responsibility for all contingent liabilities and current and future litigation against Conexant or its subsidiaries to the extent such matters relate to Mindspeed.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to 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. Based on its evaluation of matters which are pending or asserted, 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.

7. Special Charges

Special charges consists of restructuring charges totaling $860,000 in the first quarter of fiscal 2010 and $2.3 million in the first quarter of fiscal 2009.

Restructuring Charges

Mindspeed First Quarter Fiscal 2010 Restructuring Plan In the first quarter of fiscal 2010, the Company announced the implementation of cost reduction measures consisting of a facilities consolidation and a targeted headcount reduction. During the first quarter of fiscal 2010, the Company incurred special charges of $860,000 in connection with this restructuring, primarily related to contractual obligations on vacated space at its Newport Beach, California headquarters. The Company does not expect to incur any significant additional expenses related to this plan in future periods.

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Activity and liability balances related to the Company s first quarter of fiscal 2010 restructuring plan through January 1, 2010 are as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Charged to costs and expenses	$ 287	$ 573	$ 860
Cash payments	(70)	(195)	(265)
Restructuring balance, January 1, 2010	$ 217	$ 378	$ 595

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2010.

Mindspeed Second Quarter Fiscal 2009 Restructuring Plan In the second quarter of fiscal 2009, the Company announced the implementation of cost reduction measures with most of the savings expected to be derived from focused reductions in the areas of sales, general and administrative and wide area networking communication spending, including the closure of its Dubai facility. During fiscal 2009, the Company incurred special charges of $1.1 million in connection with this restructuring, primarily related to severance costs for affected employees. This restructuring plan is complete and the Company does not expect to incur significant additional expenses related to this restructuring plan in future periods.

Activity and liability balances related to the Company s second quarter fiscal 2009 restructuring plan through January 1, 2010 are as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Restructuring balance, October 2, 2009	$ 78	$	$ 78
Cash payments	(19)		(19)
Restructuring balance, January 1, 2010	$ 59	$	$ 59

The remaining accrued restructuring balance principally represents employee severance benefits. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2010.

Mindspeed First Quarter Fiscal 2009 Restructuring Plan During the first quarter of fiscal 2009, the Company implemented a restructuring plan under which it reduced its workforce by approximately 6%. In connection with this reduction in workforce, the Company recorded a charge of $2.4 million for severance benefits payable to the affected employees. In December 2008, the Company vacated approximately 70% of its Massachusetts facility and recorded a charge related to contractual obligations on this space of approximately $400,000. This restructuring plan is complete and the Company does not expect to incur significant additional expenses related to this restructuring plan in future periods.

Activity and liability balances related to the Company s first quarter fiscal 2009 restructuring plan through January 1, 2010 are as follows (in thousands):

	Workforce Reductions	Facility and Other	Total
Restructuring balance, October 2, 2009	$ 287	$ 86	$ 373
Cash payments	(60)	(48)	(108)
Restructuring balance, January 1, 2010	$ 227	$ 38	$ 265

The remaining accrued restructuring balance principally represents obligations under non-cancelable leases, employee severance benefits and other contractual commitments. The Company expects to pay these obligations over their respective terms, which expire at various dates through fiscal 2011.

Mindspeed Restructuring Plans In fiscal 2006 and 2007, the Company implemented a number of cost reduction initiatives to improve its operating cost structure. These cost reduction initiatives included workforce reductions, significant reductions in capital spending and the consolidation of certain facilities. Activity under these initiatives was minimal in fiscal 2009 and the first quarter of fiscal 2010. The remaining accrued restructuring balance related to these plans is $6,000 at January 1, 2010.

8. Related Party Transactions

The Company leases its headquarters and principal design center in Newport Beach, California from Conexant. For the three months ended January 1, 2010 and January 2, 2009 rent and operating expenses paid to Conexant were $1.5 million and $1.3 million, respectively.

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 2, 2009.

Overview

Mindspeed Technologies, Inc. (we or Mindspeed) designs, develops and sells semiconductor solutions for communications applications in the wireline and wireless network infrastructure, which includes today s separate, but interrelated and converging, enterprise, broadband access, metropolitan and wide area networks. Our products are classified into three focused product families: multiservice access; high-performance analog; and wide area networking. Our multiservice access digital signal processor (DSP) products include ultra-low-power multi-core DSP system-on-a-chip products for carrier-class triple-play edge gateways, metro trunking gateways and voice-over-IP (VoIP) and multi-play service platforms in the carrier infrastructure. Our multiservice access products are also used in broadband customer premises equipment (CPE) gateways and other equipment that carriers are deploying in order to deliver voice, data and video services to residential subscribers. Our high-performance analog products include high-density crosspoint switches, optical drivers and other devices, plus timing, equalization and signal-conditioning solutions for next-generation fiber access networks, including Ethernet passive optical networking (EPON) equipment. Our high-performance analog technology also helps address switching, timing and signal-conditioning challenges being used in enterprise storage equipment, and is helping to drive the broadcast-video network transition to 3G high-definition transmission. Our wide area networking (WAN) communications products include a broad portfolio for legacy requirements in the existing circuit-switched network, as well as emerging 3G wireless backhaul applications.

Our products are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including voice and media gateways, high-speed routers, switches, access multiplexers, cross-connect systems, add-drop multiplexers, digital loop carrier equipment, IP private branch exchanges, optical modules, broadcast video systems and wireless basestation equipment. Service providers use this equipment for:

- packet processing in high-speed multiservice access applications, including advanced VoIP and triple-play (voice, data and video) service delivery;
- high-speed analog transmission and switching for next-generation optical networking, enterprise storage and broadcast video transmission applications, with difficult switching, timing and synchronization requirements; and
- WAN communications over the public switched telephone network, which furnishes much of the Internet s underlying long-distance infrastructure.

Our customers include Alcatel-Lucent, Cisco Systems, Inc., Huawei Technologies Co. Ltd., LM Ericsson Telephone Company, Nokia Siemens Networks, Nortel Networks, Inc. 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 wireless infrastructure build-out; 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 44% of our revenues for the first quarter of fiscal 2010 and 49% of our revenues for the first quarter of fiscal 2009. Our revenue is diversified globally, with 77% of revenue in the first quarter of fiscal 2010 coming from outside of the Americas. 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. 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 and China Unicom. In the first quarter of fiscal 2010, 29% 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 $12.6 million on research and development in the first quarter of fiscal 2010 and $13.3 million in the first quarter of fiscal 2009. 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, plu