

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

February 07, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2011

OR

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

Commission file number: 001-31650

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State of incorporation)

01-0616769
(I.R.S. Employer

Identification No.)

4000 MacArthur Boulevard, East Tower

Newport Beach, California
(Address of principal executive offices)

92660-3095
(Zip code)

Registrant's telephone number, including area code:

(949) 579-3000

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

The number of outstanding shares of the Registrant's Common Stock as of January 27, 2012 was 34,892,382.

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FORWARD-LOOKING STATEMENTS

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

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

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

our belief that our diverse portfolio of semiconductor solutions has positioned us to capitalize on some of the most significant trends in telecommunications spending;

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

our plans to make substantial investments in research and development and participate in the formulation of industry standards;

our belief that we can maximize our return on our research and development spending by focusing our investment in what we believe are key growth markets;

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

the sufficiency of our cash balances, along with cash expected from product sales, to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements, including interest payments on debt obligations, for the next 12 months;

our 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 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;

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our acquisition of picoChip Inc. and its wholly owned subsidiaries;

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;

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

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

our ability to attract and retain qualified personnel;

business acquisitions and investments;

lengthy sales cycles;

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

	December 30, 2011	September 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 42,761	\$ 45,227
Receivables, net of allowance for doubtful accounts of \$376 at both December 30, 2011 and September 30, 2011	13,951	13,393
Inventories	11,089	14,216
Prepaid expenses and other current assets	2,077	3,067
Total current assets	69,878	75,903
Property, plant and equipment, net	15,192	15,369
Licensed and purchased intangibles, net	19,069	17,357
Other assets	2,179	1,982
Total assets	\$ 106,318	\$ 110,611
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 5,933	\$ 5,532
Accrued compensation and benefits	4,772	7,292
Accrued income taxes	754	690
Deferred income on sales to distributors	5,354	5,346
Deferred revenue	696	653
Restructuring	416	944
Other current liabilities	6,201	5,100
Total current liabilities	24,126	25,557
Convertible senior notes long term	14,319	14,216
Other liabilities	1,292	1,426
Total liabilities	39,737	41,199
Commitments and contingencies (Note 6)		
Stockholders Equity		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding		
Common stock, \$0.01 par value, 100,000 shares authorized; 34,869 (December 30, 2011) and 34,515 (September 30, 2011) issued and outstanding shares	348	345
Additional paid-in capital	329,737	326,863
Accumulated deficit	(263,354)	(257,756)
Accumulated other comprehensive loss	(150)	(40)

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Total stockholders' equity	66,581	69,412
Total liabilities and stockholders' equity	\$ 106,318	\$ 110,611

See accompanying notes to consolidated condensed financial statements.

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	Three Months Ended	
	December 30, 2011	December 31, 2010
Net revenue:		
Products	\$ 33,842	\$ 38,043
Intellectual property	90	2,500
Total net revenue	33,932	40,543
Cost of goods sold	14,219	14,281
Gross margin	19,713	26,262
Operating expenses:		
Research and development	15,008	13,923
Selling, general and administrative	10,130	10,193
Total operating expenses	25,138	24,116
Operating (loss)/income	(5,425)	2,146
Interest expense	(387)	(398)
Other income, net	302	150
(Loss)/income before income taxes	(5,510)	1,898
Provision for income taxes	88	199
Net (loss)/income	\$ (5,598)	\$ 1,699
Net (loss)/income per share:		
Basic	\$ (0.17)	\$ 0.05
Diluted	\$ (0.17)	\$ 0.05
Weighted-average number of shares used in per share computation:		
Basic	32,900	31,908
Diluted	32,900	32,870

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended	
	December 2011	December 31, 2010
Cash Flows From Operating Activities		
Net (loss)/income	\$ (5,598)	\$ 1,699
Adjustments required to reconcile net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	1,513	1,202
Amortization of license agreements	643	574
Stock-based compensation	2,150	1,162
Inventory provision	699	27
Amortization of debt discount on convertible debt	144	121
Other non-cash items, net	(93)	(18)
Changes in assets and liabilities:		
Receivables	(590)	8,675
Inventories	2,428	989
Other assets, net	854	(324)
Accounts payable	(1,009)	(1,517)
Deferred income on sales to distributors	8	(310)
Restructuring charges	(528)	(321)
Accrued compensation and benefits	(2,481)	(3,995)
Accrued expenses and other current liabilities	1,627	(620)
Other liabilities, net	(113)	(39)
Net cash (used in)/provided by operating activities	(346)	7,305
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(1,570)	(2,237)
Payments under license agreements	(1,111)	(3,865)
Net cash used in investing activities	(2,681)	(6,102)
Cash Flows From Financing Activities		
Payments made on capital lease obligations	(173)	(107)
Repurchase of restricted stock for income tax withholding	(264)	(221)
Proceeds from equity compensation programs	992	979
Net cash provided by financing activities	555	651
Effect of foreign currency exchange rates on cash	6	19
Net (decrease)/increase in cash and cash equivalents	(2,466)	1,873
Cash and cash equivalents at beginning of period	45,227	43,685
Cash and cash equivalents at end of period	\$ 42,761	\$ 45,558

See accompanying notes to consolidated condensed financial statements.

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(unaudited)

1. Basis of Presentation and Significant Accounting Policies

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor solutions for communications applications in the wireline and wireless network infrastructure, which includes enterprise networks, broadband access networks (fixed and mobile) and metropolitan and wide area networks.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All intercompany accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and special charges (Note 7), necessary to present fairly the Company's financial position, results of operations and cash flows in accordance with GAAP. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Fiscal Periods The Company's interim fiscal quarters end on the thirteenth Friday of each quarter. The first quarter of fiscal 2012 and 2011 ended on December 30, 2011 and December 31, 2010, respectively.

Reclassifications Amounts previously reported in the first quarter of fiscal 2011 have been adjusted to reclassify \$150,000 of refundable tax credits from the provision for income taxes to other income, net.

Recent Accounting Standards There have been no accounting pronouncements since the filing of the Company's Annual Report on Form 10-K, filed on November 18, 2011, that the Company expects will have a material impact on the its consolidated condensed financial statements.

Significant Accounting Policies There were no significant changes to the Company's significant accounting policies from those disclosed in its Annual Report on Form 10-K, filed on November 18, 2011, for the fiscal year ended September 30, 2011.

2. Supplemental Financial Statement Data*Inventories*

Inventories consisted of the following:

	December 30, 2011	September 30, 2011
	(in thousands)	
Work-in-process	\$ 5,201	\$ 6,200
Finished goods	5,888	8,016
Total inventories	\$ 11,089	\$ 14,216

Table of Contents***Deferred Income on Sales to Distributors***

Deferred income on sales to distributors was as follows:

	December 30, 2011	September 30, 2011
	(in thousands)	
Deferred revenue on shipments to distributors	\$ 5,797	\$ 5,799
Deferred cost of goods sold on shipments to distributors	(492)	(503)
Reserves	49	50
Deferred income on sales to distributors	\$ 5,354	\$ 5,346

Other Liabilities

Details of other liabilities were as follows:

	December 30, 2011	September 30, 2011
	(in thousands)	
<i>Current</i>		
Deferred rent	\$ 506	\$ 617
Capital lease obligations	337	459
Accrued royalties	366	429
Accrued license fees	1,881	1,446
Other	3,111	2,149
Total other current liabilities	\$ 6,201	\$ 5,100
<i>Long-term</i>		
Capital lease obligations	\$ 60	\$ 111
Accrued license fees	305	305
Other	927	1,010
Total other liabilities	\$ 1,292	\$ 1,426

Table of Contents***Computation of Net (Loss)/ Income Per Share***

The following table presents the computation of net (loss)/income per share:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands, except per share amounts)	
Net (loss)/income per share - basic		
Net (loss)/income	\$ (5,598)	\$ 1,699
Basic weighted average common shares outstanding	32,900	31,908
Net (loss)/income per share - basic	\$ (0.17)	\$ 0.05
Basic weighted average common shares outstanding	32,900	31,908
Effect of dilutive securities:		
Dilutive stock awards		962
Diluted weighted average common shares outstanding	32,900	32,870
Net (loss)/income per share - diluted	\$ (0.17)	\$ 0.05

The following table presents the number of potentially dilutive shares of the Company's common stock excluded from the computation of diluted net (loss)/income per share as their effect would have been anti-dilutive:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Convertible senior notes	3,165	3,165
Stock awards	3,140	1,874
Employee stock purchase plan shares	27	162
Warrants	6,109	6,109
Anti-dilutive common shares	12,441	11,310

Comprehensive (Loss)/Income

Comprehensive (loss)/income was as follows:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Net (loss)/income	\$ (5,598)	\$ 1,699
Foreign currency translation adjustments, net of tax	(110)	(76)
Comprehensive (loss)/income	\$ (5,708)	\$ 1,623

Table of Contents**Net Revenue by Product Line**

Net revenue by product line was as follows:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Communications convergence processing products	\$ 14,989	\$ 16,625
High-performance analog products	14,344	14,104
WAN communications products	4,509	7,314
Intellectual property	90	2,500
Total net revenue	\$ 33,932	\$ 40,543

Net Revenue by Geographic Area

Revenue by geographic area, based upon country of destination, was as follows:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Americas	\$ 5,516	\$ 12,031
Asia-Pacific	26,558	25,172
Europe, Middle East and Africa	1,858	3,340
Total net revenue	\$ 33,932	\$ 40,543

The Company believes a substantial portion of the products sold to original equipment manufacturers (OEMs) and third-party manufacturing service providers in the Asia-Pacific region are ultimately shipped to end-markets in the Americas and Europe.

Supplemental Cash Flow Information

Non-cash investing activities consisted of the following:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Purchase of property and equipment on account	\$ 264	\$ 202
License of intellectual property on account	4,428	3,756

Customer Concentrations

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

Three Months Ended

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	December 30, 2011	December 31 2010
Customer A	21%	18%
Customer B	22%	16%

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

	December 30, 2011	September 30, 2011
Customer A	20%	4%
Customer B	19%	28%

3. Fair Value Measurements

The following table represents financial assets measured at fair value:

	December 30, 2011		September 30, 2011	
	Quoted Prices in Active markets for Identical Instruments (Level 1)	Total Fair Value	Quoted Prices in Active markets for Identical Instruments (Level 1)	Total Fair Value
	(in thousands)			
Assets:				
Money market fund	\$ 10,520	\$ 10,520	\$ 10,517	\$ 10,517
Total cash equivalents	\$ 10,520	\$ 10,520	\$ 10,517	\$ 10,517

4. Stock-Based Compensation

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

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

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Cost of goods sold	\$ (43)	\$ 43
Research and development	652	308
Selling, general and administrative	1,541	811
Total stock-based compensation	\$ 2,150	\$ 1,162

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

	Three Months Ended	
	December 30, 2011	December 31, 2010
Weighted-average assumptions:		
Expected option life	3.5 years	2.8 years
Risk-free interest rate	0.6%	0.5%
Expected volatility	91%	101%
Dividend yield		
Weighted-average grant date fair value per share	\$ 3.26	\$ 3.96

Stock Option Awards

The following tables summarize stock option activity:

	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at September 30, 2011	2,588	\$ 6.93	5.4 years	
Granted				
Exercised	(99)	2.79		
Forfeited or expired	(94)	6.24		
Outstanding at December 30, 2011	2,395	7.12	5.0 years	\$ 2,323
Exercisable at December 30, 2011	1,398	\$ 7.63	3.8 years	\$ 1,621

Vesting Condition	Remaining Unrecognized Compensation Cost (in thousands)	Remaining Years to Vest
Service-based	\$ 3,993	1.3

Table of Contents*Stock Awards*

The following tables summarize stock award activity:

	Number of Shares (in thousands)	Weighted- Average Grant Date Fair Value	Fair Value of Shares Vested (in thousands)
Nonvested shares at September 30, 2011	2,054	\$ 7.74	
Granted	199	5.71	
Vested	(153)	7.02	\$ 855
Forfeited	(48)	8.00	
Nonvested shares at December 30, 2011	2,052	\$ 7.59	

Vesting Condition	Remaining Unrecognized Compensation Cost (in thousands)	Remaining Years to Vest
Service-based	\$ 11,526	2.6
Market based	568	0.7
Total stock awards	\$ 12,094	

5. Convertible Senior Notes

On July 30, 2008, the Company entered into separate exchange agreements with certain holders of its previously outstanding 3.75% convertible senior notes, pursuant to which holders of an aggregate of \$15.0 million of the notes agreed to exchange their notes for \$15.0 million in aggregate principal amount of a new series of 6.50% convertible senior notes due 2013 (the Exchange Offer). The Exchange Offer closed on August 1, 2008. The Company paid at the closing an aggregate of approximately \$100,000 in accrued and unpaid interest on the 3.75% convertible senior notes that were exchanged for the 6.50% convertible senior notes, as well as approximately \$900,000 in transaction fees.

The 6.50% convertible senior notes are convertible at the option of the holders, at any time on or prior to maturity, into shares of the Company's common stock at a conversion rate initially equal to approximately \$4.74 per share of common stock, which is subject to adjustment in certain circumstances. Upon conversion of the notes, the Company generally has the right to deliver to the holders thereof, at the Company's option: (i) cash; (ii) shares of the Company's common stock; or (iii) a combination thereof. The initial conversion price of the 6.50% convertible senior notes will be adjusted to reflect stock dividends, stock splits, issuances of rights to purchase shares of the Company's common stock, and upon other events. If the Company undergoes certain fundamental changes prior to maturity of the notes, the holders thereof will have the right, at their option, to require us to repurchase for cash some or all of their 6.50% convertible senior notes at a repurchase price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date, or convert the notes into shares of its common stock and, under certain circumstances, receive additional shares of its common stock in the amount provided in the indenture.

The Company's contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is considered an embedded derivative. As of December 30, 2011, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

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

	December 30, 2011	September 30, 2011
	(in thousands)	
Principal value of the liability component	\$ 15,000	\$ 15,000
Unamortized value of debt issuance costs	(681)	(784)
Net carrying value of the liability component	\$ 14,319	\$ 14,216

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

	December 30, 2011	December 31, 2010
	Three Months Ended (in thousands)	
Interest expense - coupon	\$ 245	\$ 244
Interest expense - debt discount amortization	102	98
Total	\$ 347	\$ 342
Effective interest rate on the liability for the period	9.25%	9.12%

6. Commitments and Contingencies

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company, including those pertaining to product liability, intellectual property, environmental, safety and health and employment matters. As is common in the industry, the Company currently has in effect a number of agreements in which it has agreed to defend, indemnify and hold harmless certain of its suppliers and customers from damages and costs which may arise from the infringement by the Company's products of third-party patents, trademarks or other proprietary rights. The Company has not incurred significant costs to defend lawsuits or settle claims related to these indemnification agreements.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be determined unfavorably against the Company. Many intellectual property disputes have a risk of injunctive relief, and there can be no assurance that the Company will be able to license a third party's intellectual property. Injunctive relief could have a material adverse effect on the financial condition or results of operations of the Company. Unless specifically noted below, during the period presented we have not: recorded any accrual for loss contingencies associated with the legal proceedings described below; determined that an unfavorable outcome is probable or reasonably possible; or determined that the amount or range of any possible loss is reasonably estimable. Based on its evaluation of matters which are pending or asserted, while there can be no assurance, management of the Company believes the disposition of such matters will not have a material adverse effect on the financial condition or results of operations of the Company.

In June 2011, the Company was notified by a customer, with whom there is an indemnification agreement, that it had settled an outstanding patent infringement claim against the customer that it asserts relates to products purchased from the Company. The customer requested that the Company contribute approximately \$1.3 million to the settlement, representing its estimate of the Company's pro rata share of the settlement and related legal fees. The Company has notified the customer that it believes the indemnification agreement does not apply to the contribution sought by the customer, and the Company intends to vigorously defend this position.

7. Special Charges

There were no special charges in the first quarter of fiscal 2012. Special charges consisted of restructuring charge reversals totaling \$18,000 in the first quarter of fiscal 2011.

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

Fourth Quarter of Fiscal 2011 Restructuring Plan In the fourth quarter of fiscal 2011, the Company implemented a restructuring plan, which consisted primarily of a targeted headcount reduction in the selling, general and administrative functions and wide area networking (WAN) business unit. The Company incurred \$1.1 million of charges related to severance costs for the affected employees during the fourth quarter of fiscal 2011. The restructuring plan was substantially completed during the fourth quarter of fiscal 2011.

Activity and liability balances related to the Company's fourth quarter of fiscal 2011 restructuring plan from September 30, 2011 through December 30, 2011 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 902
Cash payments	(521)
Restructuring balance, December 30, 2011	\$ 381

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

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

Activity and liability balances related to the Company's fourth quarter of fiscal 2010 restructuring plan from September 30, 2011 through December 30, 2011 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 42
Cash payments	(7)
Restructuring balance, December 30, 2011	\$ 35

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

8. Income Taxes

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

9. Related Party Transactions

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In June 2011, the Company entered into an agreement to license certain intellectual property from a related party. The licensor is a related party because one of the Company's directors also serves as a director of the licensor and one of the Company's members of management serves on the licensor's technical advisory board. Pursuant to terms

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of the license agreement, the Company will pay an aggregate of \$6.0 million upon the completion of certain milestones, including the delivery of licensed intellectual property. In addition, the Company is obligated to pay royalties not to exceed an additional \$2.5 million for products sold that include the licensed intellectual property. As of the fiscal quarter ended December 30, 2011, the Company has paid \$1.8 million in related license fees.

10. Subsequent Events

On February 6, 2012, the Company completed the acquisition of picoChip Inc. and its wholly owned subsidiaries (picoChip). This acquisition adds integrated system-on-chip (SoC) solutions for small cell base stations for next generation mobile broadband communications infrastructure. Pursuant to the terms of the acquisition agreement, all of picoChip's outstanding shares were converted into the right to receive consideration consisting of cash and shares of the Company's common stock. The Company paid approximately \$26.7 million (less certain deductions) and issued an aggregate of 5.2 million shares of Mindspeed's authorized common stock, par value \$0.01 per share, to the stockholders of picoChip. The Company may also become obligated to make additional earn-out payments, contingent on the achievement of milestones relating to, among other things: (i) revenue associated with sales of certain picoChip products for the period beginning on the closing of the acquisition and ending on December 31, 2012; and (ii) product and business development milestones. The maximum amount payable upon achievement of the revenue and development milestones is \$25.0 million. Earn-out payments, if any, will be paid in the first quarter of calendar 2013, and the Company may make earn-out payments in the form of cash, stock or any combination thereof.

The Company has not made all of the remaining disclosures required by ASC 805-10-50-2, Business Combinations, as it is currently in the process of completing the purchase accounting for the acquisition.

The cash payment of the initial purchase price of picoChip was financed in part with bank debt, which was issued pursuant to a loan and security agreement dated as of February 6, 2012 between the Company and Silicon Valley Bank (SVB). Borrowings under the loan and security agreement were also used to pay costs and expenses related to the acquisition and the closing of the loan and security agreement, and may be used for working capital and other general corporate purposes.

The loan and security agreement includes: (i) a term loan facility of \$15.0 million; and (ii) a revolving credit facility of up to \$20.0 million. The obligations under the loan and security agreement are guaranteed by material subsidiaries of the Company and secured by a security interest in substantially all assets, excluding intellectual property, of the Company and such guarantors. The Company has the option to choose, with a few exceptions, whether the term loan facility and the revolving credit facility bear interest based on a base rate, which is the prime rate published in The Wall Street Journal, or a LIBOR rate, which has a floor of 0.75%. A base rate facility will bear interest ranging from the base rate plus 1.25% to base rate plus 1.75%. A LIBOR rate facility will bear interest ranging from LIBOR rate plus 3.25% to LIBOR rate plus 3.75%. Both the base rate margin and LIBOR margin vary based upon the Company's liquidity ratio. The principal on the term loan will be payable in quarterly installments beginning on March 31, 2013 and ending on the maturity date of the term loan, February 6, 2017. Quarterly principal payments of \$375,000 are due for each quarter during calendar year 2013, \$750,000 for each quarter during calendar year 2014, \$1.1 million for each quarter during calendar year 2015 and \$1.5 million for each quarter during calendar year 2016. Interest on the term loan will be paid quarterly beginning in calendar year 2012. The revolving credit facility also has a maturity date of February 6, 2017. Interest on the revolving credit facility will be paid quarterly beginning in calendar year 2012.

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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 September 30, 2011.

Overview

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

Our products are 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.

On February 6, 2012, we closed the acquisition of picoChip Inc. and its wholly owned subsidiaries, a supplier of integrated SoC solutions for 3G/4G mobile base stations in the carrier infrastructure.

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

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has us well positioned to capitalize on some of the most significant trends in telecommunications spending, including: next generation network convergence; VoIP/fiber access deployment in developing and developed markets; 3G/4G wireless infrastructure build-out; the adoption of higher speed interconnectivity solutions; and the migration of broadcast video to HD.

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 60% of our revenue for the first quarter of fiscal 2012. Our revenue is well diversified globally, with 84% of the revenue in the first quarter of fiscal 2012 coming from outside of the Americas. We believe a substantial portion of the products we sell to OEMs and third-party manufacturing service providers in the Asia-Pacific region is ultimately shipped to end markets in the Americas and Europe. We believe we are well-situated in China, where fiber deployments are being rolled out by the country's major telecommunications carriers. Through our OEM customers, we are shipping into the fiber-to-the-building (FTTB) deployments of China Telecom, China Unicom and China Mobile. Approximately 37% of our revenue for the first quarter of fiscal 2012 was derived from customers in 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 \$15.0 million on research and development in the first quarter of fiscal 2012. We seek to maximize our return on our research and development spending by focusing our research and development investment in what we believe are key growth markets, including VoIP and other high-bandwidth multiservice access applications, high-performance analog applications such as optical networking and broadcast-video transmission, and wireless infrastructure solutions for base station processing. We have developed and maintain a broad intellectual property portfolio, and we may periodically enter into strategic arrangements to leverage our portfolio by licensing or selling our intellectual property.

We are dependent upon third parties for the development, manufacturing, assembly and testing of our products. Our ability to bring new products to market, to fulfill orders and to achieve long-term revenue growth is dependent upon our ability to obtain sufficient external manufacturing capacity, including wafer fabrication capacity. Periods of upturn in the semiconductor industry may be characterized by rapid increases in demand and a shortage of capacity for wafer fabrication and assembly and test services. In such periods, we may experience longer lead times or indeterminate delivery schedules, which may adversely affect our ability to fulfill orders for our products. During periods of capacity shortages for manufacturing, assembly and testing services, our primary foundries and other suppliers may devote their limited capacity to fulfill the requirements of their other customers that are larger than we are, or who have superior contractual rights to enforce manufacture of their products, including to the exclusion of producing our products. The foundries and other suppliers on whom we rely may experience financial difficulties or suffer disruptions in their operations due to causes beyond our control, including deteriorations in general economic conditions, labor strikes, work stoppages, electrical power outages, fire, earthquake, flooding or other natural disasters. We may also incur increased manufacturing costs, including costs of finding acceptable alternative foundries or assembly and test service providers. In order to achieve sustained profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase our revenue. We have completed a series of cost reduction actions, which have improved our operating cost structure, and we will continue to perform additional actions, when necessary.

Our ability to achieve revenue growth will depend on increased demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers, the level of which may decrease due to general economic conditions and uncertainty, over which we have no control. We believe the market for network infrastructure equipment in general, and for communications semiconductors in particular, offers attractive long-term growth prospects due to increasing demand for network capacity, the continued upgrading and expansion of existing networks and the build-out of telecommunication networks in developing countries. However, the semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles and wide fluctuations in product supply and demand. In addition, there has been an increasing trend toward industry consolidation, particularly among major network equipment and telecommunications companies. Consolidation in the industry has generally led to pricing pressure and loss of market share. These factors have caused substantial fluctuations in our revenue and our results of operations in the past, and we may experience cyclical fluctuations in our business in the future.

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Critical Accounting Policies and Estimates

The accounting policies that have the greatest impact on our financial condition and results of operations and that require the most judgment are those relating to revenue recognition, inventories, stock-based compensation, deferred income taxes and uncertain tax positions, and impairment of long-lived assets. These policies are described in further detail in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. There have been no significant changes in our critical accounting policies and estimates during the fiscal quarter ended December 30, 2011 as compared to what was previously disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Recent Accounting Pronouncements

There have been no accounting pronouncements since the filing of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 that we expect will have a material impact on our consolidated condensed financial statements.

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The following table presents fiscal quarter gross margin:

	December 30, 2011	Three Months Ended		December 31, 2010	% of Net Revenue	Change \$	%
		% of Net Revenue	% of Net Revenue				
(in thousands, except percentages)							
Gross margin	\$ 19,713	58%	\$ 26,262	65%	\$ (6,549)	-24.9%	

Gross margin decreased for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 due to both a \$4.2 million, or 11%, decrease in product revenue, and a \$2.4 million decrease in intellectual property revenue. The decrease in our gross margin as a percent of net revenue for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 was driven primarily by a change in product mix, as well as a decrease in intellectual property revenue, which has little associated cost.

Research and Development

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

The following table presents details of fiscal quarter R&D expenses:

	December 30, 2011	Three Months Ended		December 31, 2010	% of Net Revenue	Change \$	%
		% of Net Revenue	% of Net Revenue				
(in thousands, except percentages)							
Personnel-related costs	\$ 8,965		\$ 8,235		\$ 730	8.9%	
Stock-based compensation	670		315		355	112.7%	
Design & development costs	2,954		3,250		(296)	-9.1%	
Facilities	1,362		1,372		(10)	-0.7%	
Depreciation	592		392		200	51.0%	
Other	465		359		106	29.5%	
Research and development	\$ 15,008	44%	\$ 13,923	34%	\$ 1,085	7.8%	

R&D expenses increased for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 due to increased investment in our next generation products in both the wireless and enterprise markets that resulted in an increase in personnel costs, including stock-based compensation, and an increase in depreciation expense resulting from an increase in R&D related capital expenditures.

Selling, General and Administrative

Our selling, general and administrative (SG&A) expenses include personnel costs, independent sales representative commissions and product marketing, applications engineering and other marketing costs. Our SG&A expenses also include costs of corporate functions, including accounting, finance, legal, human resources, information systems and communications.

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The following table presents details of fiscal quarter SG&A expenses:

	December 30,		Three Months Ended		Change	
	2011	% of Net Revenue	December 31, 2010	% of Net Revenue	\$	%
	(in thousands, except percentages)					
Personnel-related costs	\$ 5,056		\$ 6,379		\$ (1,323)	-20.7%
Stock-based compensation	1,567		821		746	90.9%
Professional fees & outside services	1,870		1,003		867	86.4%
Facilities	781		822		(41)	-5.0%
Depreciation	186		143		43	30.1%
Other	670		1,025		(355)	-34.6%
Selling, general and administrative	\$ 10,130	30%	\$ 10,193	25%	\$ (63)	-0.6%

SG&A expenses decreased for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 primarily due to a decrease in personnel-related costs mainly due to a decrease in headcount. This decrease was mostly offset by an increase in stock-based compensation due to additional stock awards granted during fiscal 2011, professional fees and outside services. The increase in professional fees and outside services in the first quarter of fiscal 2012 consisted primarily of transaction costs incurred in conjunction with our acquisition of picoChip Inc. and its wholly owned subsidiaries.

Special Charges

There were no special charges in the first quarter of fiscal 2012. Special charges consisted of restructuring charge reversals totaling \$18,000 in the first quarter of fiscal 2011.

Restructuring Charges

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

Fourth Quarter of Fiscal 2011 Restructuring Plan In the fourth quarter of fiscal 2011, we implemented a restructuring plan, which consisted primarily of a targeted headcount reduction in our selling, general and administrative functions and WAN business unit. We incurred \$1.1 million of charges related to severance costs for the affected employees during the fourth quarter of fiscal 2011. The restructuring plan was substantially completed during the fourth quarter of fiscal 2011.

Activity and liability balances related to our fourth quarter of fiscal 2011 restructuring plan from September 30, 2011 through December 30, 2011 were as follows:

	Workforce Reductions (in thousands)
Restructuring balance, September 30, 2011	\$ 902
Cash payments	(521)
Restructuring balance, December 30, 2011	\$ 381

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

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

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assets at December 30, 2011. Should sufficient positive objectively verifiable evidence of the realization of our net deferred tax assets exist at a future date, we would reverse any remaining valuation allowance to the extent supported by estimates of future taxable income at that time.

Liquidity and Capital Resources

Our principal sources of liquidity are our existing cash and cash equivalent balances and cash generated from product sales.

In order to achieve profitability and positive cash flows from operations, we may need to further reduce operating expenses and/or increase revenue. We have recently completed a series of cost reduction actions, which have improved our operating expense structure and we will continue to perform additional actions, if necessary. In addition, from time to time, we may commit to additional restructurings to help implement strategic initiatives. These restructurings and other cost saving measures alone may not allow us to achieve profitability. Our ability to increase current revenue levels to achieve profitability will depend on demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises, the level of which may decrease due to general economic conditions, and uncertainty, over which we have no control. We may be unable to increase current revenue levels or sustain past and future expense reductions in subsequent periods. We may not be able to achieve sustained profitability.

On February 6, 2012, we completed the acquisition of picoChip Inc. and its wholly owned subsidiaries. We paid approximately \$26.7 million (less certain deductions) and issued an aggregate of 5.2 million shares of our authorized common stock, par value \$0.01 per share, to the stockholders of picoChip. We may also become obligated to make additional earn-out payments, contingent on the achievement of milestones relating to, among other things: (i) revenue associated with sales of certain picoChip products for the period beginning on the closing of the acquisition and ending on December 31, 2012; and (ii) product and business development milestones. The maximum amount payable upon achievement of the revenue and development milestones is \$25.0 million. Earn-out payments, if any, will be paid in the first quarter of calendar 2013, and we may make earn-out payments in the form of cash, stock or any combination thereof.

We believe that our existing cash balances, along with cash expected to be generated from product sales will be sufficient to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements, including interest payments on debt obligations, for the next 12 months. We have no principal payments on currently outstanding debt due in the next 12 months. From time to time, we may acquire our debt securities through privately negotiated transactions, tender offers, exchange offers (for new debt or other securities), redemptions or otherwise, upon such terms and at such prices as we may determine appropriate. We will need to continue a focused program of capital expenditures to meet our research and development and corporate requirements. We may also consider acquisition opportunities to extend our technology portfolio and design expertise and to expand our product offerings. In order to fund capital expenditures, increase our working capital, re-pay debt or complete any acquisitions, we may seek to obtain additional debt or equity financing. We may also need to seek to obtain additional debt or equity financing if we experience downturns or cyclical fluctuations in our business that are more severe or longer than anticipated or if we fail to achieve anticipated revenue and expense levels. However, we cannot assure you that such financing will be available to us on favorable terms, or at all, particularly in light of recent economic conditions in the capital markets.

The following table presents details of our working capital and cash and cash equivalents:

	December 30, 2011	September 30, 2011	Change \$	%
	(in thousands, except percentages)			
Working capital	\$ 45,752	\$ 50,346	\$ (4,594)	-9.1%
Cash and cash equivalents	\$ 42,761	\$ 45,227	\$ (2,466)	-5.5%

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Cash and cash equivalents decreased as a result of cash used in our investing activities to make payments under license agreements and the purchases of property, plant and equipment. The cash used in our investing activities was mostly offset by cash provided by financing activities.

The following table presents the major components of the consolidated statements of cash flows:

	Three Months Ended	
	December 30, 2011	December 31, 2010
	(in thousands)	
Net cash (used in)/provided by:		
Net (loss)/income	\$ (5,598)	\$ 1,699
Non-cash operating expenses, net	5,056	3,068
Changes in operating assets and liabilities:		
Receivables	(590)	8,675
Inventories	2,428	989
Other assets, net	854	(324)
Accounts payable	(1,009)	(1,517)
Deferred income on sales to distributors	8	(310)
Restructuring charges	(528)	(321)
Accrued compensation and benefits	(2,481)	(3,995)
Accrued expenses and other current liabilities	1,627	(620)
Other liabilities, net	(113)	(39)
Net cash (used in)/provided by operating activities	(346)	7,305
Net cash used in investing activities	(2,681)	(6,102)
Net cash provided by financing activities	555	651
Effect of foreign exchange rate changes on cash	6	19
Net (decrease)/increase in cash and cash equivalents	\$ (2,466)	\$ 1,873

Operating Activities

Operating activities used cash for the first quarter of fiscal 2012 due to our net loss, partially offset by net non-cash operating activities and net cash provided by changes in operating assets and liabilities. Significant non-cash operating expenses included stock-based compensation expense, depreciation and amortization and amortization of licensed and purchased intangibles. The changes in operating assets and liabilities that had a significant impact on cash used in operating activities included cash provided by a decrease in inventories resulting from the sale of inventory purchased in prior periods in an effort to mitigate the effect of the natural disasters in Japan and an increase in accrued expenses and other current liabilities mainly due to accrued acquisition related costs. These cash inflows were mostly offset by a decrease in accounts payable due to the timing of payments and a decrease in accrued compensation and benefits due to the payment of bonuses under our fiscal year 2011 cash bonus plan in the first quarter of fiscal 2012.

Operating activities provided cash for the first quarter of fiscal 2011 due to our net income, net non-cash operating activities and net cash provided by changes in operating assets and liabilities. Significant non-cash operating expenses included stock-based compensation expense, depreciation and amortization and amortization of licensed and purchased intangibles. The changes in operating assets and liabilities that had a significant impact on cash provided by operating activities include a decrease in accounts receivable due to the timing of sales and the timing of collections, partially offset by a decrease in accrued compensation and benefits.

Investing Activities

Investing activities used cash for the first quarter of fiscal 2012 due to payments under licensed and purchased intangibles of \$1.1 million and the purchase of property, plant and equipment of \$1.6 million.

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Investing activities used cash for the first quarter of fiscal 2011 due to the purchase of property, plant and equipment of \$2.2 million and payments under licensed and purchased intangibles of \$3.9 million.

Financing Activities

Financing activities provided cash for the first quarter of fiscal 2012 due to \$1.0 million in proceeds from equity compensation programs, partially offset by \$264,000 in payments made related to shares of our common stock withheld from, or delivered by, employees in order to satisfy applicable tax withholding obligations in connection with the vesting of restricted stock and \$173,000 in payments made on capital lease obligations.

Financing activities provided cash for the first quarter of fiscal 2011 primarily due \$1.0 million in proceeds from equity compensation programs, partially offset by \$221,000 in payments made related to shares of our common stock withheld from, or delivered by, employees in order to satisfy applicable tax withholding obligations in connection with the vesting of restricted stock and \$107,000 in payments made on capital lease obligations.

Convertible Senior Notes and Loan and Security Agreement

6.50% Convertible Senior Notes due 2013

We issued our 6.50% convertible senior notes due in August 2013 pursuant to an indenture, dated as of August 1, 2008, between us and Wells Fargo Bank, N.A., as trustee. At maturity, we will be required to repay the outstanding principal amount of the notes. At December 30, 2011, \$15.0 million in aggregate principal amount of our 6.50% convertible senior notes were outstanding.

The 6.50% convertible senior notes are convertible at the option of the holders, at any time on or prior to maturity, into shares of our common stock at a conversion rate equal to approximately \$4.74 per share of common stock, which is subject to adjustment in certain circumstances. Upon conversion of the notes, we generally have the right to deliver to the holders thereof, at our option: (i) cash; (ii) shares of our common stock; or (iii) a combination thereof. The initial conversion price of the notes will be adjusted to reflect stock dividends, stock splits, issuances of rights to purchase shares of our common stock, and upon other events. If we undergo certain fundamental changes prior to maturity of the notes, the holders thereof will have the right, at their option, to require us to repurchase for cash some or all of their 6.50% convertible senior notes at a repurchase price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest (including additional interest, if any) to, but not including, the repurchase date, or convert the notes into shares of our common stock and, under certain circumstances, receive additional shares of our common stock in the amount provided in the indenture.

For financial accounting purposes, our contingent obligation to issue additional shares or make additional cash payment upon conversion following a fundamental change is an embedded derivative. At December 30, 2011, the liability under the fundamental change adjustment has been recorded at its estimated fair value and is not significant.

If there is an event of default under the 6.50% convertible senior notes, the principal of and premium, if any, on all the notes and the interest accrued thereon may be declared immediately due and payable, subject to certain conditions set forth in the indenture. An event of default under the indenture will occur if we: (i) are delinquent in making certain payments due under the notes; (ii) fail to deliver shares of common stock or cash upon conversion of the notes; (iii) fail to deliver certain required notices under the notes; (iv) fail, following notice, to cure a breach of a covenant under the notes or the indenture; (v) incur certain events of default with respect to other indebtedness; or (vi) are subject to certain bankruptcy proceedings or orders. If we fail to deliver certain SEC reports to the trustee in a timely manner as required by the indenture: (x) the interest rate applicable to the notes during the delinquency will be increased by 0.25% or 0.50%, as applicable (depending on the duration of the delinquency); and (y) if the required reports are not delivered to the trustee within 180 days after their due date under the indenture, a holder of the notes will generally have the right, subject to certain limitations, to require us to repurchase all or any portion of the notes then held by such holder.

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Loan and Security Agreement

As discussed above, in February 2012, we completed the acquisition of picoChip Inc. and its wholly owned subsidiaries and paid approximately \$26.7 million (less certain deductions) and issued an aggregate of 5.2 million shares of our authorized common stock, par value \$0.01 per share, to the stockholders of picoChip. The cash payment of the initial purchase price of picoChip was financed in part with bank debt, which was issued pursuant to a loan and security agreement dated as of February 6, 2012 between us and Silicon Valley Bank. Borrowings under the loan and security agreement were also used to pay costs and expenses related to the acquisition and the closing of the loan and security agreement, and may be used for working capital and other general corporate purposes.

The loan and security agreement includes: (i) a term loan facility of \$15.0 million; and (ii) a revolving credit facility of up to \$20.0 million. The obligations under the loan and security agreement are guaranteed by our material subsidiaries and secured by a security interest in substantially all of our assets, excluding intellectual property, and such guarantors. We have the option to choose, with a few exceptions, whether the term loan facility and revolving credit facility bear interest based on a base rate, which is the prime rate published in The Wall Street Journal, or a LIBOR rate, which has a floor of 0.75%. A base rate facility will bear interest ranging from the base rate plus 1.25% to base rate plus 1.75%. A LIBOR rate facility will bear interest ranging from LIBOR rate plus 3.25% to LIBOR rate plus 3.75%. Both the base rate margin and LIBOR margin vary based upon our liquidity ratio. The principal on the term loan will be payable in quarterly installments beginning on March 31, 2013 and ending on the maturity date of the term loan, February 6, 2017. Quarterly principal payments of \$375,000 are due for each quarter during calendar year 2013, \$750,000 for each quarter during calendar year 2014, \$1.1 million for each quarter during calendar year 2015 and \$1.5 million for each quarter during calendar year 2016. Interest on the term loan will be paid quarterly beginning in calendar year 2012. The revolving credit facility also has a maturity date of February 6, 2017. Interest on the revolving credit facility will be paid quarterly beginning in calendar year 2012.

Off-Balance Sheet Arrangements

We have made guarantees and indemnities, under which we may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. In connection with a June 2003 distribution to stockholders of our former parent company of all outstanding shares of common stock of Mindspeed, we generally assumed responsibility for all contingent liabilities and then-current and future litigation against our former parent company or its subsidiaries related to our business. In connection with certain facility leases, we have indemnified our lessors for certain claims arising from the facility or the lease. We indemnify our directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Delaware. The duration of the guarantees and indemnities varies, and in many cases is indefinite. The majority of our guarantees and indemnities do not provide for any limitation of the maximum potential future payments we could be obligated to make. We have not recorded any liability for these guarantees and indemnities in the accompanying consolidated condensed balance sheets.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not use derivative instruments for speculative or investment purposes.

Interest Rate Risk

Our cash and cash equivalents are not subject to significant interest rate risk. As of December 30, 2011, the carrying value of our cash and cash equivalents approximated fair value.

At December 30, 2011, our debt consisted of long-term convertible senior notes. Our convertible senior notes bear interest at a fixed rate of 6.50% per annum. Consequently, our results of operations and cash flows are not subject to any significant interest rate risk relating to our convertible senior notes. The fair value of the debt could increase or decrease if interest rates decrease or increase, respectively, and that could impact our ability and cost to negotiate a settlement of such notes prior to maturity.

Foreign Exchange Risk

We transact business in various foreign currencies and we face foreign exchange risk on assets and liabilities that are denominated in foreign currencies. Currently, our foreign exchange risks are not hedged; however, from time to time, we may utilize foreign currency forward exchange contracts to hedge a portion of our exposure to foreign exchange risk.

Hedging transactions are intended to offset the gains and losses we experience on foreign currency transactions with gains and losses on the forward contracts, so as to mitigate our overall risk of foreign exchange gains and losses. We do not enter into forward contracts for speculative or trading purposes. At December 30, 2011, we held no foreign currency forward exchange contracts. Based on our overall currency rate exposure at December 30, 2011, a 10% change in currency rates would not have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 30, 2011. Disclosure controls and procedures are defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within required time periods, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Based upon that evaluation, our chief executive officer and our chief financial officer have concluded that, as of December 30, 2011, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, during the fiscal quarter ended December 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

We have revised the risk factors that relate to our business, as set forth below. These risks include any material changes to and supersede the risks previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. We encourage investors to review these risk factors, as well as those contained under *Forward-Looking Statements* preceding Part I of this Quarterly Report on Form 10-Q.

Our business, financial condition and operating results can be affected by a number of factors, including those listed below, any one of which could cause our actual results to vary materially from recent results or from our 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;

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the timing of receipt, reduction or cancellation of significant orders by customers;

fluctuations in the levels of component inventories held by our customers and changes in our customers' inventory management practices;

shifts in our product mix and the effect of maturing products;

the timing and extent of product development costs;

new product and technology introductions by us or our competitors;

fluctuations in manufacturing yields; and

significant warranty claims, including those not covered by our suppliers.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly or annual operating results.

Our acquisition of picoChip Inc. and its wholly owned subsidiaries on February 6, 2012 will expose us to risks arising from the acquisition. Any failure to integrate picoChip into our operations successfully could have a material adverse effect on our financial position, results of operations and/or cash flows.

On February 6, 2012, we completed the acquisition of picoChip. The acquisition poses substantial risks and uncertainties that could have an adverse effect on our future operating results. In particular, we may not be successful in realizing anticipated synergies from the acquisition, or we may experience unanticipated costs or expenses integrating the acquired operations and technologies into our existing business and technologies. Acquisition transactions are subject to inherent risks and uncertainties, including, among others, risks associated with the successful integration of geographically separate organizations; the ability to integrate the companies' technologies; and the potential for key employee attrition. Acquisition transactions could also result in large one-time write-offs, amortization expenses related to intangible assets, limitations on our ability to use our net operating loss carryforwards, litigation or other claims in connection with the acquired company and the diversion of management's time and attention from operating our business to acquisition integration challenges. Operationally, the business of picoChip has depended on key customer and supplier relationships, and we will need to maintain those relationships. If we fail to maintain those relationships, it would have an adverse effect on our operating objectives and could have an adverse effect on our future operating results. Integration of our respective operations, including technology integration and integration of financial and administrative functions, may not proceed as we currently anticipate and could result in presently unanticipated costs or expenses (including unanticipated capital expenditures) that could have an adverse effect on our future operating results. We may also incur liability for activities of picoChip and its subsidiaries prior to the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities. In addition, we have no recent experience operating our business in the United Kingdom and lack familiarity with local laws, regulations and business practices. We cannot provide any assurances that we will achieve our business and financial objectives in connection with the acquisition of picoChip.

The cash payment of the initial purchase price for the acquisition of picoChip was financed in part with bank debt and through the issuance of shares of our common stock that resulted in dilution to our existing stockholders. We will be required to service this additional indebtedness and cannot provide assurances that picoChip's business will generate sufficient net cash flows, if any, to permit us to service the indebtedness without relying on cash flows, if any, generated by our incumbent businesses. The benefits or synergies we may expect from the acquisition of picoChip may not be realized to the extent or in the time frame we initially anticipate, which may result in an adverse effect on our stock price or our ability to raise additional financing, either in the public capital markets or through further debt financing.

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We are entirely dependent upon third parties for the manufacture of our products and are vulnerable to their capacity constraints during times of increasing demand for semiconductor products.

We are entirely dependent upon outside wafer fabrication facilities, known as foundries, for wafer fabrication services. Our principal suppliers of wafer fabrication services are TSMC and Jazz Semiconductor. We are also dependent upon third parties, including Amkor and ASE, for the assembly and testing of all of our products. Under our fabless business model, our long-term revenue growth is dependent on our ability to obtain sufficient external manufacturing capacity, including wafer production capacity. Periods of upturns in the semiconductor industry may be characterized by rapid increases in demand and a shortage of capacity for wafer fabrication and assembly and test services.

The risks associated with our reliance on third parties for manufacturing services include:

the lack of assured supply, potential shortages and higher prices;

the effects of disputes or litigation involving our third-party foundries;

increased lead times;

limited control over delivery schedules, manufacturing yields, production costs and product quality; and

the unavailability of, or delays in obtaining, products or access to key process technologies.

Our standard lead time, or the time required to manufacture our products (including wafer fabrication, assembly and testing), is typically 12 to 16 weeks. During periods of manufacturing capacity shortages, the foundries and other suppliers on whom we rely may devote their limited capacity to fulfill the production requirements of other customers that are larger or better financed than we are, or who have superior contractual rights to enforce the manufacture of their products, including to the exclusion of producing our products.

Additionally, if we are required to seek alternative foundries or assembly and test service providers, we would be subject to longer lead times, indeterminate delivery schedules and increased manufacturing costs, including costs to find and qualify acceptable suppliers. For example, if we choose to use a new foundry, the qualification process may take as long as six months over the standard lead time before we can begin shipping products from the new foundry. Such delays could negatively affect our relationships with our customers.

Wafer fabrication processes are subject to obsolescence, and foundries may discontinue a wafer fabrication process used for certain of our products. In such event, we generally offer our customers a last-time buy program to satisfy their anticipated requirements for our products. Any unanticipated discontinuation of a wafer fabrication process on which we rely may adversely affect our revenue and our customer relationships.

The foundries and other suppliers on whom we rely may experience financial difficulties or suffer disruptions in their operations due to causes beyond our control, including deteriorations in general economic conditions, labor strikes, work stoppages, electrical power outages, fire, earthquake, flooding or other natural disasters. Certain of our suppliers' manufacturing facilities are located near major earthquake fault lines in the Asia-Pacific region and in California. Due to cross dependencies, supply chain disruptions could negatively impact demand of our products, including, for example, if our customers are unable to obtain sufficient supply of other components required for their end product. In the event of a disruption of the operations of one or more of our suppliers, we may not have an alternate source immediately available. Such an event could cause significant delays in shipments until we are able to shift the products from an affected facility or supplier to another facility or supplier. The manufacturing processes we rely on are specialized and are available from a limited number of suppliers. Alternate sources of manufacturing capacity, particularly wafer production capacity, may not be available to us on a timely basis. Even if alternate manufacturing capacity is available, we may not be able to obtain it on favorable terms, or at all. Difficulties or delays in securing an adequate supply of our products on favorable terms, or at all, could impair our ability to meet our customers' requirements and have a material adverse effect on our operating results.

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In addition, the highly complex and technologically demanding nature of semiconductor manufacturing has caused foundries to experience, from time to time, lower than anticipated manufacturing yields, particularly in connection with the introduction of new products and the installation and start-up of new process technologies. Lower than anticipated manufacturing yields may affect our ability to fulfill our customers' demands for our products on a timely basis. Moreover, lower than anticipated manufacturing yields may adversely affect our gross margin and our results of operations.

The price of our common stock may fluctuate significantly.

The price of our common stock is volatile and may fluctuate significantly. There can be no assurance as to the prices at which our common stock will trade or that an active trading market in our common stock will be sustained in the future. The market price at which our common stock trades may be influenced by many factors, including:

our operating and financial performance and prospects, including our ability to achieve sustained profitability;

the depth and liquidity of the market for our common stock which can impact, among other things, the volatility of our stock price and the availability of market participants to borrow shares;

investor perception of us and the industry in which we operate;

the recently completed acquisition of picoChip may not be accretive and may cause dilution to our earnings per share;

the level of research coverage of our common stock;

changes in earnings estimates or buy/sell recommendations by analysts;

the issuance and sale of additional shares of common stock;

limitations placed on our investors by our stockholders rights agreement, which is designed to protect our net operating loss carryforwards;

general financial and other market conditions; and

domestic and international economic conditions.

In addition, public stock markets have experienced, and may in the future experience, extreme price and trading volume volatility, particularly in the technology sectors of the market. This volatility has significantly affected the market prices of securities of many technology companies for reasons frequently unrelated to or disproportionately impacted by the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock. If we do not meet the requirements for continued quotation on the Nasdaq Global Select Market (NASDAQ), our common stock could be delisted which would adversely affect the ability of investors to sell shares of our common stock and could otherwise adversely affect our business.

Our success depends on our ability to timely develop competitive new products and keep abreast of the rapid technological changes in our market.

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Our operating results will depend largely on our ability to continue to timely introduce new and enhanced semiconductor products, as well as our ability to keep abreast of rapid technological changes in our markets. Our products could become obsolete sooner than we expect because of faster than anticipated, or unanticipated, changes in one or more of the technologies related to our products. The introduction of new technology representing a substantial advance over current technology could adversely affect demand for our existing products. Currently accepted industry standards are also subject to change, which may also contribute to the obsolescence of our products. If we are unable to develop and introduce new or enhanced products in a timely manner, our business may be adversely affected.

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Successful product development and introduction depends on numerous factors, including, among others:

our ability to anticipate customer and market requirements and changes in technology and industry standards;

our ability to accurately define new products;

our ability to complete development of new products, and bring our products to market, on a timely basis;

our ability to differentiate our products from offerings of our competitors; and

overall market acceptance of our products.

We may not have sufficient resources to make the substantial investment in research and development in order to develop and bring to market new and enhanced products, particularly if we are required to take further cost reduction actions. Furthermore, we are required to continually evaluate expenditures for planned product development and to choose among alternative technologies based on our expectations of future market growth. We may be unable to timely develop and introduce new or enhanced products, our products may not satisfy customer requirements or achieve market acceptance, or we may be unable to anticipate new industry standards and technological changes. We also may not be able to respond successfully to new product announcements and introductions by competitors.

Research and development projects may experience unanticipated delays related to our internal design efforts. New product development also requires the production of photomask sets and the production and testing of sample devices. In the event we experience delays in obtaining these services from the wafer fabrication and assembly and test vendors on whom we rely, our product introductions may be delayed and our revenue and results of operations may be adversely affected.

We are subject to intense competition.

The communications semiconductor industry in general, and the markets in which we compete in particular, are intensely competitive. We compete worldwide with a number of U.S. and international semiconductor manufacturers that are both larger and smaller than we are in terms of resources and market share. We currently face significant competition in our markets and expect that intense price and product competition will continue. This competition has resulted, and is expected to continue to result, in declining average selling prices for our products.

Many of our current and potential competitors have certain advantages over us, including:

stronger financial position and liquidity;

longer, or stronger, presence in key markets;

greater name recognition;

more secure supply chain;

lower cost alternatives to our products;

access to larger customer bases; and

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

As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the development, promotion and sale of their products than we can. Moreover, we have incurred substantial operating losses and we may in the future incur losses in future periods. We believe that financial stability of suppliers is an important consideration in our customers' purchasing decisions. If our OEM customers perceive that we lack adequate financial stability, they may choose semiconductor suppliers that they believe have a stronger financial position or liquidity.

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Current and potential competitors also have established or may establish financial or strategic relationships among themselves or with our existing or potential customers, resellers or other third parties. These relationships may affect customers' purchasing decisions. Accordingly, it is possible that new competitors or alliances among competitors could emerge and rapidly acquire significant market share. We may not be able to compete successfully against current and potential competitors.

The loss of one or more key customers or distributors, or the diminished demand for our products from a key customer could significantly reduce our net revenue, gross margin and results of operations.

A relatively small number of end customers and distributors have accounted for a significant portion of our net revenue in any particular period. There has been an increasing trend toward industry consolidation in our markets in recent years, particularly among major network equipment and telecommunications companies. Industry consolidation could decrease the number of significant customers for our products thereby increasing our reliance on key customers. In addition, industry consolidation has generally led, and may continue to lead, to pricing pressures and loss of market share. We have no long-term volume purchase commitments from our key customers. One or more of our key customers or distributors may discontinue operations as a result of consolidation, financial instability, liquidation or otherwise. Reductions, delays and cancellation of orders from our key customers or the loss of one or more key customers could significantly reduce our net revenue and results of operations. We cannot assure you that our current customers will continue to place orders with us, that orders by existing customers will continue at current or historical levels or that we will be able to obtain orders from new customers.

We have substantial cash requirements to fund our operations, research and development efforts and capital expenditures. Our capital resources are limited and capital needed for our business may not be available when we need it.

Although we have recently generated cash through operating activities, we have used significant cash in operating activities in previous periods. Our principal sources of liquidity are our existing cash balances and cash generated from product sales. We believe that our existing cash balances, along with cash expected to be generated from product sales will be sufficient to fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements, including interest payments on our debt obligations, for at least the next 12 months. However, if we incur operating losses and negative cash flows in the future, we may need to further reduce our operating costs or obtain alternate sources of financing, or both. We have completed transactions that involved the issuance of equity and the issuance or incurrence of indebtedness, including credit facilities. Even after completing these transactions, we may need additional capital in the future and may not have access to additional sources of capital on favorable terms or at all. If we raise additional funds through the issuance of equity, equity-based or debt securities, such securities may have rights, preferences or privileges senior to those of our common stock and our stockholders may experience dilution of their ownership interests. In addition, there can be no assurance that we will continue to benefit from the sale or licensing of intellectual property as we have in previous periods.

We are subject to the risks of doing business internationally.

A significant part of our strategy involves our continued pursuit of growth opportunities in a number of international markets. We market, sell, design and service our products internationally. Products shipped to international destinations, primarily in the Asia-Pacific region and Europe, were approximately 84% of our net revenue for the first quarter of fiscal 2012. China is a particularly important international market for us, as approximately 37% of our revenue for the first quarter of fiscal 2012 came from customers in China. In addition, we have design centers, customer support centers, and rely on suppliers, located outside the U.S., including foundries and assembly and test service providers located in the Asia-Pacific region. We intend to continue to expand our international business activities and may open other design centers and customer support centers abroad. Our international sales and operations are subject to a number of risks inherent in selling and operating abroad which could adversely impact our international sales and could make our international operations more expensive. These include, but are not limited to, risks regarding:

currency exchange rate fluctuations;

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local economic and political conditions;

difficulties in staffing and managing foreign operations;

potential hostilities and changes in diplomatic and trade relationships;

tax laws;

natural disasters, including earthquakes or flooding;

restrictive governmental actions (such as restrictions on the transfer or repatriation of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);

changes in legal or regulatory requirements;

difficulty in obtaining distribution and support;

disruptions of capital and trading markets;

acts of terrorism;

wage inflation;

accounts receivable collection and longer payment cycles;

the laws and policies of the U.S. and other countries affecting trade, foreign investment and loans and import or export licensing requirements;

existing or future environmental laws and regulations governing, among other things, air emissions, wastewater discharges, the contents of our products, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety;

limitations on our ability under local laws to protect our intellectual property; and

cultural differences in the conduct of business.

Because most of our international sales are currently denominated in U.S. dollars, our products could become less competitive in international markets if the value of the U.S. dollar increases relative to foreign currencies. As we continue to shift a portion of our operations offshore, more

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of our expenses are incurred in currencies other than those in which we bill for the related services. An increase in the value of certain currencies, such as the Euro, Japanese yen, Ukrainian hryvnia and Indian rupee, against the U.S. dollar could increase costs of our offshore operations by increasing labor and other costs that are denominated in local currencies.

We may in the future enter into foreign currency forward exchange contracts to mitigate the risk of loss from currency exchange rate fluctuations for foreign currency commitments entered into in the ordinary course of business. We do not enter into foreign currency forward exchange contracts for other purposes. Our financial condition and results of operations could be adversely affected by currency fluctuations.

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We may be subject to claims, or we may be required to defend and indemnify customers against claims, of infringement of third-party intellectual property rights or demands that we, or our customers, license third-party technology, which could result in significant expense.

The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights. From time to time, third parties have asserted and may in the future assert patent, copyright, trademark and other intellectual property rights against technologies that are important to our business. The resolution or compromise of any litigation or other legal process to enforce such alleged third party rights, including claims arising through our contractual indemnification of our customers, or claims challenging the validity of our patents, regardless of its merit or resolution, could be costly and divert the efforts and attention of our management and technical personnel.

We may not prevail in any such litigation or other legal process or we may compromise or settle such claims because of the complex technical issues and inherent uncertainties in intellectual property disputes and the significant expense in defending such claims. If litigation or other legal process results in adverse rulings, we may be required to:

pay substantial damages for past, present and future use of the infringing technology;

cease the manufacture, use or sale of infringing products;

discontinue the use of infringing technology;

expend significant resources to develop non-infringing technology;

pay substantial damages to our customers or end users to discontinue use or replace infringing technology with non-infringing technology;

license technology from the third party claiming infringement, which license may not be available on commercially reasonable terms, or at all; or

relinquish intellectual property rights associated with one or more of our patent claims, if such claims are held invalid or otherwise unenforceable.

If we are not successful in protecting our intellectual property rights, it may harm our ability to compete.

We rely primarily on patent, copyright, trademark and trade secret laws, as well as employee and third-party nondisclosure and confidentiality agreements and other methods, to protect our proprietary technologies and processes. We may be required to engage in litigation to enforce or protect our intellectual property rights, which may require us to expend significant resources and to divert the efforts and attention of our management from our business operations; in particular:

the steps we take to prevent misappropriation or infringement of our intellectual property may not be successful;

any existing or future patents may be challenged, invalidated or circumvented; or

the measures described above may not provide meaningful protection.

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Despite the preventive measures and precautions that we take, a third party could copy or otherwise obtain and use our technology without authorization, develop similar technology independently or design around our patents. We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products, services or technology without our authorization. Also, former employees may seek employment with our business partners, customers or competitors, and the confidential nature of our proprietary information may not be maintained in the course of such future employment. Further, in some countries outside the U.S., patent protection is not available or not reliably enforced. Some countries that do allow registration of patents do not provide meaningful redress for patent violations. As a result, protecting intellectual property in those countries is difficult and competitors may sell products in those countries that have functions and features that infringe on our intellectual property.

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We may not be able to attract and retain qualified personnel necessary for the design, development, sale and support of our products. Our success could be negatively affected if key personnel leave.

Our future success depends on our ability to attract, retain and motivate qualified personnel, including executive officers and other key management, technical and support personnel. As the source of our technological and product innovations, our key technical personnel represent a significant asset. The competition for such personnel can be intense in the semiconductor industry. We may not be able to attract and retain qualified management and other personnel necessary for the design, development, sale and support of our products.

In periods of poor operating performance, we have experienced, and may experience in the future, particular difficulty attracting and retaining key personnel. If we are not successful in assuring our employees of our financial stability and our prospects for success, our employees may seek other employment, which may materially and adversely affect our business. We intend to continue to expand our international business activities including expansion of design and operations centers abroad and may have difficulty attracting and maintaining international employees. The loss of the services of one or more of our key employees, including Raouf Y. Halim, our chief executive officer, or certain key design and technical personnel, or our inability to attract, retain and motivate qualified personnel could have a material adverse effect on our ability to operate our business.

Some of our engineers are foreign nationals working in the U.S. under work visas. The visas permit qualified foreign nationals working in specialty occupations, such as certain categories of engineers, to reside in the U.S. during their employment. The number of new visas approved each year may be limited and may restrict our ability to hire additional qualified technical employees. In addition, immigration policies are subject to change, and these policies have generally become more stringent since the events of September 11, 2001. Any additional significant changes in immigration laws, rules or regulations may further restrict our ability to retain or hire technical personnel.

We may make business acquisitions or investments, which involve significant risk.

In addition to the acquisition of picoChip, we may, from time to time, make acquisitions, enter into alliances or make investments in other businesses to complement our existing product offerings, augment our market coverage or enhance our technological capabilities. However, any such transactions could result in:

issuances of equity securities dilutive to our existing stockholders;

substantial cash payments;

the incurrence of substantial debt and assumption of unknown liabilities;

large one-time write-offs;

amortization expenses related to intangible assets;

a limitation on our ability to use our net operating loss carryforwards;

the diversion of management's time and attention from operating our business to acquisition integration challenges;

adverse tax consequences; and

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the potential loss of key employees, customers and suppliers of the acquired business.

Additionally, in periods subsequent to an acquisition, we must evaluate goodwill and acquisition-related intangible assets for impairment. If such assets are found to be impaired, they will be written down to estimated fair value, with a charge against earnings.

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Integrating acquired organizations and their products and services may be expensive, time-consuming and a strain on our resources and our relationships with employees, customers and suppliers, and ultimately may not be successful. The benefits or synergies we may expect from the acquisition of complementary or supplementary businesses may not be realized to the extent or in the time frame we initially anticipate. Some of the risks that may affect our ability to successfully integrate acquired companies include those associated with:

failure to successfully further develop the acquired products or technology;

conforming the acquired company's standards, policies, processes, procedures and controls with our operations;

coordinating new product and process development, especially with respect to highly complex technologies;

loss of key employees or customers of the acquired company;

hiring additional management and other critical personnel;

in the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;

increasing the scope, geographic diversity and complexity of our operations;

consolidation of facilities, integration of the acquired company's accounting, human resource and other administrative functions and coordination of product, engineering and sales and marketing functions;

the geographic distance between the companies;

liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities; and

litigation or other claims in connection with the acquired company, including claims for terminated employees, customers, former stockholders or other third parties.

Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenue related to those products.

Our customers generally need six months or longer to test and evaluate our products and an additional six months or more to begin volume production of equipment that incorporates our products. These lengthy periods also increase the possibility that a customer may decide to cancel or change product plans, which could reduce or eliminate sales to that customer. As a result of this lengthy sales cycle, we may incur significant research and development and selling, general and administrative expenses before we generate any revenue from new products. We may never generate the anticipated revenue if our customers cancel or change their product plans as customers may increasingly do if economic conditions continue to deteriorate.

Uncertainties involving the ordering and shipment of our products could adversely affect our business.

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Our sales are typically made pursuant to individual purchase orders and we generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders until 30 days prior to shipment. In addition, we sell a substantial portion of our products through distributors, some of whom have a right to return unsold products to us. Sales to distributors accounted for approximately 60% of our revenue for the first quarter of fiscal 2012.

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Because of the significant lead times for wafer fabrication and assembly and test services, we routinely purchase inventory based on estimates of end-market demand for our customers' products. End-market demand may be subject to dramatic changes and is difficult to predict. End-market demand is highly influenced by the timing and extent of carrier capital expenditures which may decrease due to general economic conditions, and uncertainty, over which we have no control. The difficulty in predicting demand may be compounded when we sell to OEMs indirectly through distributors or contract manufacturers, or both, as our forecasts of demand are then based on estimates provided by multiple parties. In addition, our customers may change their inventory practices on short notice for any reason. The cancellation or deferral of product orders, the return of previously sold products or overproduction due to the failure of anticipated orders to materialize could result in our holding excess or obsolete inventory, which could result in write-downs of inventory. Conversely, if we fail to anticipate inventory needs we may be unable to fulfill demand for our products, resulting in a loss of potential revenue.

If network infrastructure OEMs do not design our products into their equipment, we will be unable to sell those products. Moreover, a design win from a customer does not guarantee future sales to that customer.

Our products are not sold directly to the end-user but are components of other products. As a result, we rely on network infrastructure OEMs to select our products from among alternative offerings to be designed into their equipment. We may be unable to achieve these design wins. Without design wins from OEMs, we would be unable to sell our products. Once an OEM designs another supplier's semiconductors into one of its product platforms, it is more difficult for us to achieve future design wins with that OEM's product platform because changing suppliers involves significant cost, time, effort and risk for the OEM. Achieving a design win with a customer does not ensure that we will receive significant revenue from that customer, and we may be unable to convert design wins into actual sales. Even after a design win, the customer is not obligated to purchase our products and can choose at any time to stop using our products if, for example, its own products are not commercially successful.

The complexity of our products may lead to errors, defects and bugs, which could subject us to significant costs or damages and adversely affect market acceptance of our products.

Although we, our customers and our suppliers rigorously test our products, our products are complex and may contain errors, defects or bugs when first introduced or as new versions are released. We have in the past experienced, and may in the future experience, errors, defects and bugs. If any of our products contain production defects or reliability, safety, quality or compatibility problems that are significant to our customers, our reputation may be damaged and customers may be reluctant to buy our products, which could adversely affect our ability to retain existing customers and attract new customers. In addition, these defects or bugs could interrupt or delay sales of affected products to our customers, which could adversely affect our results of operations.

If defects or bugs are discovered after commencement of commercial production of a new product, we may be required to make significant expenditures of capital and other resources to resolve the problems. This could result in significant additional development costs and the diversion of technical and other resources from our other development efforts. We could also incur significant costs to repair or replace defective products, and we could be subject to claims for damages by our customers or others against us. We could also be exposed to product liability claims or indemnification claims by our customers. These costs or damages could have a material adverse effect on our financial condition and results of operations.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

As of September 30, 2011, we had net operating loss carryforwards of approximately \$629.4 million for federal income tax purposes. Under Section 382 of the Internal Revenue Code, if a corporation undergoes an ownership change, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be significantly limited. An ownership change is generally defined as a greater than 50% change in equity ownership by value over a three-year period. In August 2009, our board of directors adopted a stockholders rights agreement that is designed to help preserve our ability to utilize fully certain tax assets primarily associated with net operating loss carryforwards under Section 382 of the Internal Revenue Code. Even with this rights agreement in place, we may experience an ownership change in the future as a result of shifts in our stock ownership, including upon the issuance of our common stock, the exercise of stock options or warrants or as a result of any conversion of our convertible notes into shares of our common stock, among other things. If we were to trigger an ownership change in the future, our ability to use any net operating loss carryforwards existing at that time could be significantly limited.

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Our results of operations could vary as a result of the methods, estimates and judgments we use in applying our accounting policies.

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on our results of operations (see Critical Accounting Policies and Estimates in Part I, Item 2 of this Quarterly Report on Form 10-Q). Such methods, estimates and judgments are, by their nature, subject to substantial risks, uncertainties and assumptions, and changes in rule making by various regulatory bodies. Factors may arise over time that lead us to change our methods, estimates and judgments. Changes in those methods, estimates and judgments could significantly affect our results of operations.

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

At December 30, 2011, we had \$15.0 million aggregate principal amount of convertible senior notes outstanding. These notes are convertible at any time, at the option of the holder, into a total of approximately 3.2 million shares of common stock. The conversion of the notes and subsequent sale of a substantial number of shares of our common stock could also adversely affect demand for, and the market price of, our common stock. Each of these transactions could adversely affect our ability to raise additional financing by issuing equity or equity-based securities in the public capital markets.

A warrant is outstanding to acquire approximately 6.1 million shares of our common stock at a price of \$16.74 per share, as adjusted, exercisable through June 27, 2013, representing approximately 13% of our outstanding common stock on a fully diluted basis. The warrant may be transferred or sold in whole or part at any time. If the warrant holder sells the warrant or if it or a transferee of the warrant exercises the warrant and sells a substantial number of shares of our common stock in the future, or if investors perceive that these sales may occur, the market price of our common stock could decline or market demand for our common stock could be sharply reduced.

The warrant contains antidilution provisions that provide for adjustment of the warrant's exercise price, and the number of shares issuable under the warrant, upon the occurrence of certain events. If we issue, or are deemed to have issued, shares of our common stock, or securities convertible into our common stock, at prices below the current market price of our common stock (as defined in the warrant) at the time of the issuance of such securities, the warrant's exercise price will be reduced and the number of shares issuable under the warrant will be increased. The amount of such adjustment if any, will be determined pursuant to a formula specified in the warrant and will depend on the number of shares issued, the offering price and the current market price of our common stock at the time of the issuance of such securities. Adjustments to the warrant pursuant to these antidilution provisions may result in significant dilution to the interests of our existing stockholders and may adversely affect the market price of our common stock. The antidilution provisions may also limit our ability to obtain additional financing on terms favorable to us.

Moreover, we may not realize any cash proceeds from the exercise of the warrant. The holder of the warrant may opt for a cashless exercise of all or part of the warrant. In a cashless exercise, the holder of the warrant would make no cash payment to us, and would receive a number of shares of our common stock having an aggregate value equal to the excess of the then-current market price of the shares of our common stock issuable upon exercise of the warrant over the exercise price of the warrant. Such an issuance of common stock would be immediately dilutive to the interests of other stockholders.

Provisions in our organizational documents and stockholders rights agreements and Delaware law will make it more difficult for someone to acquire control of us.

Our restated certificate of incorporation, our amended and restated bylaws, our stockholders rights agreements and the Delaware General Corporation Law contain several provisions that would make more difficult an acquisition of control of us in a transaction not approved by our board of directors. Our restated certificate of incorporation and amended and restated bylaws include provisions such as:

the division of our board of directors into three classes to be elected on a staggered basis, one class each year;

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the exclusive responsibility of the board of directors to fill vacancies on the board of directors;

the ability of our board of directors to issue shares of our preferred stock in one or more series without further authorization of our stockholders;

a prohibition on stockholder action by written consent;

a requirement that stockholders provide advance notice of any stockholder nominations of directors or any proposal of new business to be considered at any meeting of stockholders;

a requirement that a supermajority vote be obtained to remove a director for cause or to amend or repeal certain provisions of our restated certificate of incorporation or amended and restated bylaws;

elimination of the right of stockholders to call a special meeting of stockholders; and

a fair price provision.

Our stockholders rights agreements give our stockholders certain rights that would substantially increase the cost of acquiring us in a transaction not approved by our board of directors.

In addition to the stockholders rights agreements and the provisions in our restated certificate of incorporation and amended and restated bylaws, Section 203 of the Delaware General Corporation Law generally provides that a corporation shall not engage in any business combination with any interested stockholder during the three-year period following the time that such stockholder becomes an interested stockholder, unless a majority of the directors then in office approves either the business combination or the transaction that results in the stockholder becoming an interested stockholder or specified stockholder approval requirements are met.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Issuer Purchases of Equity Securities

	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit)
October 1, 2011 to October 28, 2011		\$
October 29, 2011 to November 25, 2011	40,553	5.61
November 26, 2011 to December 30, 2011	7,058	5.01
	47,611	\$ 5.53

- (a) Represents shares of our common stock withheld from, or delivered by, employees in order to satisfy applicable tax withholding obligations in connection with the vesting of restricted stock. These repurchases were not made pursuant to any publicly announced plan or program.

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ITEM 6. EXHIBITS

- 3.1 Restated Certificate of Incorporation of the Registrant, filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-106146), is incorporated herein by reference.
- 3.2 Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated July 1, 2008, is incorporated herein by reference (SEC File No. 001-31650).
- 3.3 Certificate of Designation of Series B Junior Participating Preferred Stock, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated August 9, 2009, is incorporated herein by reference (SEC File No. 001-31650).
- 3.4 Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 27, 2011, is incorporated herein by reference (SEC File No. 000-31650).
- 4.1 Specimen Certificate for the Registrant's Common Stock, par value \$.01 per share, filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 dated April 6, 2011, is incorporated herein by reference (SEC File No. 333-173328).
- 4.2 Rights Agreement dated as of June 26, 2003, by and between the Registrant and Mellon Investor Services LLC, as Rights Agent, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference (SEC File No. 001-31650).
- 4.3 First Amendment to Rights Agreement, dated as of December 6, 2004, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.4 to the Registrant's Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference (SEC File No. 001-31650).
- 4.4 Second Amendment to Rights Agreement, dated as of June 16, 2008, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated June 11, 2008, is incorporated herein by reference (SEC File No. 000-50499).
- 4.5 Section 382 Rights Agreement, dated as of August 9, 2009, between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 10, 2009, is incorporated herein by reference (SEC File No. 001-31650).
- 4.6 Common Stock Purchase Warrant dated June 27, 2003, issued by the Registrant to Conexant Systems, Inc., filed as Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 4.7 Registration Rights Agreement dated as of June 27, 2003 by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to the Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 4.8 Indenture, dated as of August 1, 2008, between the Registrant and Wells Fargo Bank, N.A., filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated August 4, 2008, is incorporated herein by reference (SEC File No. 001-31650).
- 4.9 Form of 6.50% Convertible Senior Notes due 2013, attached as Exhibit A to the Indenture (Exhibit 4.9 hereto), is incorporated herein by reference.

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- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - *32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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 - **101.SCH XBRL Taxonomy Extension Schema Document
 - **101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
 - **101.LAB XBRL Taxonomy Extension Label Linkbase Document
 - **101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- * In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed filed for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.
- ** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MINDSPEED TECHNOLOGIES, INC.

(Registrant)

Date: February 7, 2012

By /s/ STEPHEN N. ANANIAS
Stephen N. Ananias
Senior Vice President and

Chief Financial Officer
(principal financial and accounting officer)

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