

MINDSPEED TECHNOLOGIES, INC

Form 10-Q

February 10, 2009

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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 January 2, 2009**

**OR**

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

**Commission file number: 000-50499  
MINDSPEED TECHNOLOGIES, INC.  
(Exact name of registrant as specified in its charter)**

**Delaware**  
(State of incorporation)

**01-0616769**  
(I.R.S. Employer  
Identification No.)

**4000 MacArthur Boulevard, East Tower  
Newport Beach, California**  
(Address of principal executive offices)

**92660-3095**  
(Zip code)

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

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

Indicate by check mark whether the registrant 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  Non-accelerated filer  Smaller reporting company   
accelerated filer

(Do not check if a smaller reporting company)

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

The number of outstanding shares of the Registrant's Common Stock as of January 30, 2009 was 23,858,825.

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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains statements relating to Mindspeed Technologies, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are subject to the safe harbor created by those sections. All statements included in this Quarterly Report on Form 10-Q, other than those that are purely historical, are forward-looking statements. Words such as expect, believe, anticipate, outlook, could, target, project, intend, plan, seek, estimate, and continue, as well as variations of such words and similar expressions, also identify forward-looking statements.

Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding:

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

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

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

our ability to achieve design wins and convert wins into revenue;

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

the impact of changes in customer purchasing activities, inventory levels and inventory management practices;

the importance of attracting and retaining highly skilled, dedicated personnel;

the challenges of shifting any operations or labor offshore, including the likelihood of competition in offshore markets for qualified personnel;

our ability to achieve revenue growth, regain and sustain profitability and positive cash flows from operations;

our plans to reduce operating expenses, the amount and timing of any such expense reductions, and its effects on cash flow;

our anticipation that we will not pay a dividend in the foreseeable future;

the dependence of our operating results on our ability to develop and introduce new products and enhancements to existing products on a timely basis;

the continuation of a trend toward industry consolidation and the effect it could have on our operating results;

our belief that we are benefiting from the increased deployment of internet protocol-based networks both in new network buildouts worldwide and the replacement of circuit-switched networks;

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the sufficiency of our existing sources of liquidity and expected sources of cash to repay the remaining 10.5 million in senior convertible debt and fund our operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for the next 12 months;

the circumstances under which we may need to seek additional financing, our ability to obtain any such financing and any consideration of acquisition opportunities;

our expectation that our provision for income taxes for fiscal 2009 will principally consist of income taxes related to our foreign operations;

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

our restructuring plans, including timing, expected workforce reductions, the freezing of merit salary increases, the closure of the Dubai facility, the expected cost savings under our restructuring plans and the uses of those savings, the timing and amount of payments to complete the actions, the source of funds for such payments, the impact on our liquidity and the resulting decreases in our research and development and selling, general and administrative expenses, and the amounts of future charges to complete our restructuring plans;

our beliefs regarding the effect of the disposition of pending or asserted legal matters;

our acquisition strategy, the means of financing such a strategy, and the impact of any past or future acquisitions, including the impact on revenue, margin and profitability;

our plans relating to our use of stock-based compensation, the effectiveness of our incentive compensation programs and the expected amounts of stock-based compensation expense in future periods;

our belief that the financial stability of suppliers is an important consideration in our customers' purchasing decisions;

the effects of a downturn in the semiconductor industry and the general economy at large, including the impact of slower economic activity, an increase in bankruptcy filings, concerns about inflation and deflation, increased energy costs, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns in the wired and wireless communications markets, recent international conflicts and terrorist and military activity and the impact of natural disasters and public health emergencies on our revenue and results of operation;

the impact of reductions, delays and cancellation of orders from key customers given our dependence on a relatively small number of end customers and distributors for a significant portion of our revenue and our lack of long term purchase commitments;

the impact of volatility in the stock market on the market price of our common stock;

the impact on our business if we fail to comply with the minimum listing requirements for continued quotation on the Nasdaq Global Market LLC;

the effect of changes in the amount of research coverage of our common stock, changes in earnings estimates or buy/sell recommendations by analysts and changes in investor perception of us and the industry in which we operate;

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

the continued availability and costs of products from our suppliers;

the value of our intellectual property, and our ability to continue recognizing patent-related revenues from the sale or licensing of our intellectual property;

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market demand for our new and existing products and our ability to increase our revenues;

our intentions with respect to inventories that were previously written down;

our intention to continue to expand our international business activities, including expansion of design and operations centers abroad;

competition and the principal competitive factors for semiconductor suppliers, including time to market, product quality, reliability and performance, customer support, price and total system cost, new product innovation and compliance with industry standards; and

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

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

cash requirements and terms and availability of financing;

future operating losses;

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

fluctuations in the price of our common stock and our operating results;

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

our ability to attract and retain qualified personnel;

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

doing business internationally;

pricing pressures and other competitive factors;

successful development and introduction of new products;

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

industry consolidation;

order and shipment uncertainty;

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

lengthy sales cycles;

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

product defects and bugs;

possible future impairments because our stock market capitalization is lower than our stockholders' equity; and business acquisitions and investments.

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The forward-looking statements in this report are subject to additional risks and uncertainties, including those set forth in Part II, Item 1A under the heading 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 per share amounts)**

	<b>January 2, 2009</b>	<b>October 3, 2008</b>
	<b>(In thousands, except share amounts)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 20,030	\$ 43,033
Receivables, net of allowance for doubtful accounts of \$331 and \$342 at January 2, 2009 and October 3, 2008, respectively	8,573	14,398
Inventories	18,402	16,187
Other current assets	3,056	3,138
<b>Total current assets</b>	<b>50,061</b>	<b>76,756</b>
Property, plant and equipment, net	12,788	12,600
Intangible assets, net	2,325	2,480
Goodwill	2,429	2,429
License agreements, net	5,987	3,347
Other assets	2,916	2,992
<b>Total assets</b>	<b>\$ 76,506</b>	<b>\$ 100,604</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 9,802	\$ 11,265
Deferred income on sales to distributors	4,126	4,869
Accrued compensation and benefits	5,723	6,778
Accrued income tax	176	412
Restructuring	1,056	8
Convertible senior notes short term	10,407	
Other current liabilities	4,268	3,147
<b>Total current liabilities</b>	<b>35,558</b>	<b>26,479</b>
Convertible senior notes long term	15,000	45,648
Other liabilities	929	519
<b>Total liabilities</b>	<b>51,487</b>	<b>72,646</b>
Commitments and contingencies		
<b>Stockholders Equity</b>		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding	239	239

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Common stock, \$0.01 par value, 100,000 shares authorized; 23,867  
(January 2, 2009) and 23,852 (October 3, 2008) issued shares

Additional paid-in capital	270,437	269,487
Accumulated deficit	(230,591)	(227,043)
Accumulated other comprehensive loss	(15,066)	(14,725)
Total stockholders' equity	25,019	27,958
Total liabilities and stockholders' equity	\$ 76,506	\$ 100,604

See accompanying notes to consolidated condensed financial statements.

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

	<b>Three months ended</b>	
	<b>January</b>	<b>December</b>
	<b>2,</b>	<b>28,</b>
	<b>2009</b>	<b>2007</b>
Net revenues:		
Products	\$ 27,731	\$ 32,651
Intellectual Property	3,000	2,650
Total net revenues	30,731	35,301
Cost of goods sold	9,749	10,342
Gross margin	20,982	24,959
Operating expenses:		
Research and development	13,344	13,718
Selling, general and administrative	11,123	11,506
Special charges	2,305	81
Total operating expenses	26,772	25,305
Operating loss	(5,790)	(346)
Interest expense	(469)	(562)
Other income, net	2,801	161
Loss before income taxes	(3,458)	(747)
Provision for income taxes	90	82
Net loss	\$ (3,548)	\$ (829)
Net loss per share, basic and diluted	\$ (0.15)	\$ (0.04)
Weighted-average number of shares used in per share computation	23,407	22,755

See accompanying notes to consolidated condensed financial statements.

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

	<b>January 2, 2009</b>	<b>December 28, 2007</b>
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (3,548)	\$ (829)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities, net of effects of acquisitions:		
Depreciation and amortization	1,650	1,610
Stock-based compensation	967	1,654
Inventory provisions	486	(347)
Gain on debt extinguishment	(2,880)	
Other non-cash items, net	178	128
Changes in assets and liabilities, net of effects of acquisitions:		
Receivables	5,837	1,087
Inventories	(2,701)	2,576
Accounts payable	(3,900)	(627)
Deferred revenue	(743)	(271)
Accrued expenses and other current liabilities	873	52
Other	514	(245)
Net cash (used in) / provided by operating activities	(3,267)	4,788
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(2,175)	(2,013)
Acquisition of assets, net of cash acquired		(1,155)
Net cash used in investing activities	(2,175)	(3,168)
<b>Cash Flows From Financing Activities</b>		
Extinguishment of convertible debt	(17,320)	
Debt issuance costs	(244)	
Exercise of stock options and warrants		101
Net cash (used in) / provided by financing activities	(17,564)	101
Effect of foreign currency exchange rates on cash	3	(3)
Net (decrease) / increase in cash and cash equivalents	(23,003)	1,718
Cash and cash equivalents at beginning of period	43,033	25,796
Cash and cash equivalents at end of period	\$ 20,030	\$ 27,514

See accompanying notes to consolidated condensed financial statements.

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

**1. Basis of Presentation and Significant Accounting Policies**

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, broadband access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant stockholder received one fifth of one share of Mindspeed common stock (including an associated preferred share purchase right) for every three shares of Conexant common stock held and cash for any fractional share of Mindspeed common stock. Following the Distribution, Mindspeed began operations as an independent, publicly held company.

Prior to the Distribution, Conexant transferred to Mindspeed the assets and liabilities of the Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to Mindspeed under the Distribution Agreement entered into between Conexant and Mindspeed. Also prior to the Distribution, Conexant contributed to Mindspeed cash in an amount such that at the time of the Distribution Mindspeed's cash balance was \$100 million. Mindspeed issued to Conexant a warrant to purchase six million shares of Mindspeed common stock at a price of \$17.04 per share, exercisable for a period beginning one year and ending ten years after the Distribution. In connection with the Distribution, Mindspeed and Conexant also entered into a Credit Agreement (terminated December 2004), an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

*Basis of Presentation* The consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and the special charges (Note 7), necessary to present fairly the Company's financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States of America. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2008.

*Reverse Stock Split* In May 2008, the Company's Board of Directors approved a one-for-five reverse stock split following approval by the Company's stockholders on April 7, 2008. The reverse stock split was effected June 30, 2008. All share and per share amounts have been retroactively adjusted to reflect the reverse stock split. There was no net effect on total stockholders' equity as a result of the reverse stock split.

*Liquidity* In order to regain and sustain profitability and positive cash flows from operations, the Company may need to further reduce operating expenses and/or maintain increased revenues. In fiscal 2009, the Company initiated a series of cost reduction actions designed to improve its operating cost structure. These expense reductions alone may not allow the Company to return to the profitability it achieved in the fourth quarter of fiscal 2008. The Company's ability to achieve the necessary revenue growth to return to profitability will depend on increased demand for network infrastructure equipment that incorporates its products, which in turn depends primarily on the level of capital spending by communications service providers and enterprises the level of which may decrease due to general economic conditions, and uncertainty, over which the Company has no control. The Company may not be successful in achieving the necessary revenue growth or it may be unable to sustain past and future expense reductions in subsequent periods. The Company may not be able to regain or sustain profitability.

The Company believes that its existing sources of liquidity, along with cash expected to be generated from product sales and the sale or licensing of intellectual property, will be sufficient to fund its operations, research and development efforts, anticipated capital expenditures, working capital and other financing requirements for at least the next 12 months, including the repayment of the remaining \$10.5 million aggregate principal amount of senior

convertible debt due in November 2009. From time to time, the Company may acquire its debt securities through privately negotiated transactions, tender offers, exchange offers (for new debt or other securities), redemptions or otherwise, upon such terms and at such prices as the Company may determine appropriate. The Company will need to continue a focused program of capital expenditures to meet its research and development and corporate requirements. The Company may also consider acquisition



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opportunities to extend its technology portfolio and design expertise and to expand its product offerings. In order to fund capital expenditures, increase its working capital or complete any acquisitions, the Company may seek to obtain additional debt or equity financing. The Company may also need to seek to obtain additional debt or equity financing if it experiences downturns or cyclical fluctuations in its business that are more severe or longer than anticipated or if it fails to achieve anticipated revenue and expense levels. However, the Company cannot assure you that such financing will be available on favorable terms, or at all, particularly in light of recent economic conditions in the capital markets.

*Fiscal Periods* Our interim fiscal quarters end on the thirteenth Friday of each quarter. The first quarter of fiscal 2009 and 2008 ended on January 2, 2009 and December 28, 2007, respectively.

*Reclassifications* Certain reclassifications have been made to first quarter fiscal 2008 financial statements to conform to the first quarter fiscal 2009 presentation.

*Recent Accounting Standards* In September 2006 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value. This standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position ( FSP ) No. 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies the application of SFAS No. 157 in a market that is not active. On October 4, 2008, the Company adopted the provisions of SFAS No. 157 for financial assets and liabilities recognized or disclosed at fair value on a recurring and non-recurring basis and the provisions FSP No. 157-3. Consistent with the provisions of FSP No. 157-2, the Company elected to defer the adoption of SFAS No. 157 for non-financial assets and liabilities measured at fair value on a non-recurring basis until October 3, 2009. The Company is in the process of evaluating these portions of the standard and therefore has not yet determined the impact that the adoption will have on its consolidated financial statements.

In February 2007 the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. The standard's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The standard requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company's choice to use fair value on its earnings. It also requires a company to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new standard does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157, Fair Value Measurements, and SFAS No. 107, Disclosures about Fair Value of Financial Instruments. On October 4, 2008 the Company adopted SFAS No. 159 but did not elect the fair value option for any additional financial assets or liabilities that it held at that date.

In June 2007, the FASB ratified Emerging Issues Task Force consensus on EITF Issue No. 07-3, "Accounting for Non-refundable Advanced Payments for Goods or Services to be Used in Future Research and Development Activities." EITF Issue No. 07-3 requires that these payments be deferred and capitalized and expensed as goods are delivered or as the related services are performed. On October 4, 2009 the Company adopted EITF 07-3. The adoption did not have a material impact on the Company's financial condition or results of operations.

*Income Taxes* The provision for income taxes for the three months ended January 2, 2009 and December 28, 2007 principally consists of income taxes incurred by the Company's foreign subsidiaries. In the three months of fiscal 2009, there has been no change in the balance of unrecognized tax benefits. The Company does not expect that the

unrecognized tax benefit will change significantly within the next 12 months.

*Supplemental Cash Flow Information* Interest paid for the three months ended January 2, 2009 and December 28, 2007 was \$842,000 and \$862,500, respectively. Income taxes paid, net of refunds received, for the three months ended January 2, 2009 and December 28, 2007 were \$311,000 and \$(42,000), respectively. Non-cash investing activities in the first three months of fiscal 2009 consisted of the purchase of \$75,000 of property and equipment from suppliers on account as well as the license of \$2,672,000 of intellectual property on account. Non-cash investing activities in the first quarter of fiscal 2008 consisted of the purchase of \$425,000 of property and equipment from suppliers on account. Assets acquired consisted of amounts paid during the first quarter of fiscal 2008 on accounts payable and accrued liabilities created through the acquisition of certain assets of Ample Communications, Inc., which occurred in the fourth quarter of fiscal 2007.

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Inventories consist of the following (in thousands):

	<b>January 2, 2009</b>	<b>October 3, 2008</b>
Work-in-process	\$ 7,547	\$ 8,620
Finished goods	10,855	7,567
Total inventories	\$ 18,402	\$ 16,187

During the three months ended January 2, 2009 and December 28, 2007, the Company sold inventories with an original cost of approximately \$0.6 million and \$0.5 million, respectively, that had been written down to a zero cost basis during fiscal 2001.

***Deferred Income on Shipments to Distributors***

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

	<b>January 2, 2009</b>	<b>October 3, 2008</b>
Deferred revenue on shipments to distributors	\$ 4,593	\$ 5,387
Deferred cost of inventory on shipments to distributors	(519)	(576)
Reserves	52	58
Deferred income on sales to distributors	\$ 4,126	\$ 4,869

***Comprehensive Loss***

Comprehensive loss is as follows (in thousands):

	<b>Three months ended</b>	
	<b>January 2, 2009</b>	<b>December 28, 2007</b>
Net loss	\$ (3,548)	\$ (829)
Foreign currency translation adjustments, net of tax	(341)	109
Comprehensive loss	\$ (3,889)	\$ (720)

The balance of accumulated other comprehensive loss at January 2, 2009 and December 28, 2007 consists of accumulated foreign currency translation adjustments.

***Revenues by Product Line***

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

	<b>Three months ended</b>	
	<b>January 2, 2009</b>	<b>December 28, 2007</b>
Multiservice access DSP products	\$ 10,789	\$ 8,092
High-performance analog products	10,519	10,574
WAN communications products	6,423	13,985

Intellectual property	3,000		2,650
Total net revenues	\$ 30,731	\$	35,301

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

	<b>Three months ended</b>	
	<b>January</b>	<b>December</b>
	<b>2,</b>	<b>28,</b>
	<b>2009</b>	<b>2007</b>
Americas	\$ 12,319	\$ 13,626
Asia-Pacific	14,294	17,671
Europe, Middle East and Africa	4,118	4,004
<b>Total net revenues</b>	<b>\$ 30,731</b>	<b>\$ 35,301</b>

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.

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

	<b>Three months ended</b>	
	<b>January</b>	<b>December</b>
	<b>2,</b>	<b>28,</b>
	<b>2009</b>	<b>2007</b>
Customer A	18%	16%
Customer B	13%	17%

**3. Fair Value Measurements**

As discussed in Note 1, Recent Accounting Standards, on October 3, 2008, we adopted SFAS No. 157, Fair Value Measurements, for financial assets and financial liabilities and for non-financial assets and non-financial liabilities that we recognize or disclose at fair value on a recurring basis (at least annually). As of the date of adoption, these included cash equivalents and convertible senior notes. Consistent with the provisions of FSP No. 157-2, we elected to defer the provisions of SFAS No. 157 that relate to non-financial assets and non-financial liabilities that we do not recognize or disclose at fair value on a recurring basis.

SFAS No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.