



Mindspeed Technologies™

➤ Notice of 2004 Annual Meeting and Proxy Statement
2003 Annual Report on Form 10-K



About Mindspeed Technologies™

Headquartered in Newport Beach, Calif., Mindspeed Technologies, Inc. designs, develops and sells semiconductor networking solutions for communications applications in enterprise, access, metropolitan and wide area networks.

The company's four key product families include high-performance analog transmission and switching solutions, multiservice access products designed to support voice and data services across wireline and wireless networks, T/E carrier physical-layer and link-layer devices, and ATM/MPLS network processors.

Mindspeed's products are used in a wide variety of network infrastructure equipment including voice and media gateways, high-speed routers, switches, access multiplexers, cross-connect systems, add-drop multiplexers, and digital loop carrier equipment.

To learn more, visit us at www.mindspeed.com.

Dear Shareholder,

Fiscal 2003 was a year of transformation for Mindspeed Technologies. It began as the third year of the worst downturn in the history of the semiconductor industry. The year ended with increasing indicators of a market recovery, and Mindspeed completing its first full quarter as a public company.

We completed our long-awaited spin-off to shareholders of Conexant Systems on June 27th and our common stock initially began trading on the American Stock Exchange. Investors responded very positively to our transformation into an independent public company. After the close of fiscal 2003, we transferred the listing of our shares to the NASDAQ National Market, the premier stock market for technology companies. Our common stock began trading on the NASDAQ National Market on December 15th under the symbol MSPD.



Throughout the industry downturn, we have sharpened our focus on market segments where we have leadership positions and funded new product development programs where we saw the opportunity for the highest revenue growth. As a result, Mindspeed is better positioned today from a product focus, market position, and execution perspective than we have ever been in our history with the following key strengths:

- Focus on key metro and access market applications, which are expected to grow faster than the overall telecom infrastructure equipment market
- An established presence in adjacent enterprise and storage market segments
- A broad product portfolio, with significant share capture of new product design cycles at tier-one OEMs worldwide

During the year, we experienced strong growth from new products, we further diversified our revenue base from both an application and geographical perspective, and we secured a number of significant design wins with tier-one customers across our broad product portfolio.

Mindspeed is strongly positioned in growing market segments with competitive product offerings including voice-over-Internet Protocol (VoIP) processors, high-performance analog solutions, DS3/E3 carrier products and ATM/MPLS network processors.

From a design-win perspective, we won key designs at tier-one networking customers and a number of smaller focused companies worldwide, while expanding our presence in new market segments. A significant percentage of our total design wins during the past fiscal year were outside of our traditional wireline access and metro markets, in applications such as storage-area networking and wireless infrastructure.

Our focus on diversifying geographically resulted in strong growth in the Asia-Pacific region, which contributed 34 percent of total fiscal 2003 revenue. We have a long heritage in the Asia-Pacific region, with strong customer relationships, and we have continued to invest in our sales and technical support capabilities there during the past several years. Our strong local presence is a significant competitive advantage, and has enabled Mindspeed to benefit from the build-out of broadband networks across the region, a trend we expect to continue.



In conclusion, I am very pleased with the way the Mindspeed team executed this past fiscal year. Our highly talented workforce has put Mindspeed in an excellent position today, with the right products, strong design-win momentum, and deep tier-one OEM customer relationships in the metro, access and enterprise market segments. As we enter 2004, we are encouraged by improving customer order trends. We believe that we are in the early stages of a sustainable recovery in the telecom carrier markets worldwide, and that our focus is on segments where the recovery will be soonest and strongest.

Mindspeed is committed to accurate and timely communications with our shareholders. Following this letter is our Notice of Annual Meeting of Shareholders, Proxy Statement in connection with our 2004 annual meeting, and our Annual Report on Form 10-K, which provides financial and other information about our 2003 fiscal year. Please take advantage of the more cost-effective electronic delivery of these materials via the Internet in future years.

On behalf of the Mindspeed team, we are very excited about our future and our opportunity to build significant long-term value for our shareholders. We thank you for your continued support.

Raouf Y. Halim
Chief Executive Officer



MINDSPEED TECHNOLOGIES, INC.
4000 MacArthur Boulevard, East Tower
Newport Beach, California 92660-3095

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Dear Shareholder:

You are cordially invited to attend the 2004 Annual Meeting of Shareholders of Mindspeed Technologies, Inc. ("Mindspeed" or the "Company") which will be held on Thursday, February 26, 2004, at 10:00 a.m. Pacific Standard Time, at the Hilton Irvine/Orange County Airport Hotel, located at 18800 MacArthur Boulevard, Irvine, California 92612. The 2004 Annual Meeting is being held for the following purposes:

1. To elect two members of the Board of Directors of the Company with terms expiring at the 2007 Annual Meeting of Shareholders;
2. To ratify the appointment by the Audit Committee of the Board of Directors of the accounting firm of Deloitte & Touche LLP as independent auditors for the Company for the current fiscal year; and
3. To transact such other business as may properly come before the 2004 Annual Meeting or any adjournment thereof.

These items are fully discussed in the following pages. Only shareholders of record at the close of business on December 29, 2003 will be entitled to notice of, and to vote at, the 2004 Annual Meeting. A list of such shareholders will be available for inspection by any shareholder during normal business hours at the offices of the Company, 4000 MacArthur Boulevard, East Tower, Newport Beach, California 92660-3095, for at least ten days prior to the 2004 Annual Meeting and also at the meeting.

Shareholders are requested to complete, sign, date and return the accompanying Proxy Card as promptly as possible. A return envelope is enclosed. Submitting your proxy with the Proxy Card, via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting.

By Order of the Board of Directors



IAN J. STOCK
Secretary

January 5, 2004

**MINDSPEED TECHNOLOGIES, INC.
4000 MacArthur Boulevard, East Tower
Newport Beach, California 92660-3095**

PROXY STATEMENT

Your proxy is solicited by the Board of Directors of Mindspeed Technologies, Inc. (“Mindspeed” or the “Company”) for use in voting at the 2004 Annual Meeting of Shareholders (the “Annual Meeting”) to be held at 10:00 a.m. Pacific Standard Time on Thursday, February 26, 2004, at the Hilton Irvine/Orange County Airport Hotel, located at 18800 MacArthur Blvd., Irvine, California 92612, and at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. These proxy materials and our Annual Report on Form 10-K for our fiscal year ended September 30, 2003 are first being mailed to shareholders and made available on the Internet (www.mindspeed.com) on or about January 13, 2004.

Voting and Revocability of Proxies

When Proxy Cards are properly executed, dated and returned, the shares they represent will be voted at the Annual Meeting in accordance with the instructions of the shareholders. If no specific instructions are given, the shares will be voted **FOR** the election of the nominees for directors set forth herein and **FOR** ratification of the appointment of the independent auditors. In addition, if other matters come before the Annual Meeting, the persons named in the Proxy Card will vote in accordance with their best judgment with respect to such matters. A shareholder giving a proxy has the power to revoke it at any time prior to its exercise by voting in person at the Annual Meeting, by giving written notice of revocation to the Secretary prior to the Annual Meeting, or by giving a valid, later dated proxy.

The accompanying Proxy Card also offers shareholders the option to access materials for any future shareholder meeting electronically via the Internet. A shareholder who consents to accessing such materials electronically may revoke such consent at any time and will save the Company significant printing and postage costs. The Company will continue to distribute printed materials for future shareholder meetings to shareholders who do not consent to access such materials electronically.

Voting Electronically or by Telephone

Instead of voting by submitting the accompanying paper Proxy Card, you may vote electronically via the Internet or by telephone by following the procedures set forth on the Proxy Card.

Return of Proxy Card

Please complete, sign, date and return the accompanying Proxy Card promptly in the enclosed addressed envelope, even if you plan to attend the Annual Meeting. Postage need not be affixed to the envelope if mailed in the United States.

The immediate return of your Proxy Card will be of great assistance in preparing for the Annual Meeting and is, therefore, urgently requested. If you attend the Annual Meeting and have made arrangements to vote in person, your Proxy Card will not be used.

If you Plan to Attend the Annual Meeting in Person

If you plan to attend the Annual Meeting, please be sure to check the box on your Proxy Card indicating your desire to attend and save the admission ticket attached to your Proxy Card; or, indicate your desire to attend the meeting through Mindspeed’s telephone or Internet voting procedures.

If you plan to attend the Annual Meeting, it will be necessary for you to bring your admission ticket. In addition to your admission ticket, you may be asked to present a valid picture identification, such as a driver’s license or passport.

If your shares are not registered in your own name and you plan to attend the Annual Meeting and vote your shares in person, in addition to bringing your admission ticket, you should contact your broker or agent in whose name your shares are registered to obtain a broker’s proxy and bring it to the Annual Meeting in order to vote.

Confidentiality of Proxy Cards

It is the Company's policy to maintain the confidentiality of proxy cards, ballots and voting tabulations that identify individual shareholders except as may be necessary to meet any applicable legal requirements and, in the case of any contested proxy solicitation, as may be necessary to permit proper parties to verify the propriety of proxies presented by any person and the results of the voting. The inspectors of election and any employees associated with processing proxy cards or ballots and tabulating the vote are required to acknowledge their responsibility to comply with this policy of confidentiality.

Record Date, Quorum and Share Ownership

Only shareholders of record at the close of business on December 29, 2003 will be entitled to vote at the Annual Meeting. The presence in person or by proxy of a majority of the shares of the Company's common stock outstanding on the record date is required for a quorum. As of December 29, 2003, there were 95,650,964 issued and outstanding shares of our common stock and no outstanding shares of our preferred stock.

Expenses of Solicitation

The Company will bear the entire cost of proxy solicitation, including preparation, assembly, printing and mailing of this proxy statement, the Proxy Card, and any additional materials furnished to shareholders. Copies of proxy solicitation material will be furnished to brokerage houses, fiduciaries, and custodians holding shares in their names which are beneficially owned by others to forward to such beneficial owners. In addition, the Company may reimburse such persons for their cost of forwarding the solicitation material to such beneficial owners. Solicitation of proxies by mail may be supplemented by one or more of telephone, email, telegram, facsimile or personal solicitation by the Company's directors, officers or regular employees. No additional compensation will be paid for such services. The Company may engage the services of a professional proxy solicitation firm to aid in the solicitation of proxies from certain brokers, bank nominees and other institutional owners. The Company's costs for such services, if retained, will not be material.

Quorum; Required Vote; Abstentions and Broker Non-Votes

The presence at the Annual Meeting of the holders of a majority of the outstanding shares of common stock as of the record date is necessary to constitute a quorum. Such shareholders are counted as present at the meeting if they (1) are present in person at the Annual Meeting, or (2) have properly submitted a Proxy Card or voted by telephone or over the Internet. A plurality of the votes duly cast is required for the election of directors. The affirmative vote of a majority of the votes duly cast is required to ratify the appointment of the independent auditors.

Under the General Corporation Law of the State of Delaware, an abstaining vote and a broker "non-vote" are counted as present and entitled to vote and are, therefore, included for purposes of determining whether a quorum is present at the Annual Meeting. Abstentions have no effect on the election of directors but have the same effect as a negative vote on ratification of the appointment of the independent auditors. Broker "non-votes" are not deemed to be "votes cast." As a result, broker "non-votes" are not included in the tabulation of the voting results on the election of directors or ratification of the appointment of the independent auditors and, therefore, do not have any effect on such votes. A broker "non-vote" occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

ELECTION OF DIRECTORS (Proposal 1)

The Company's Restated Certificate of Incorporation provides that the Board of Directors shall consist of three classes of directors with overlapping three-year terms. One class of directors is to be elected each year with a term extending to the third succeeding Annual Meeting after election. The Restated Certificate of Incorporation provides that the Board shall maintain the three classes so as to be as nearly equal in number as the then total number of directors permits. The two directors in Class I will be elected at the 2004 Annual Meeting to serve for a term expiring at the Company's Annual Meeting in 2007. The three directors in Class II and the two directors in Class III are serving terms expiring at the Company's Annual Meeting of Shareholders in 2005 and 2006, respectively.

Unless marked otherwise, proxies received will be voted **FOR** the election of each of the two nominees specified in "Class I — Nominees for Directors with Terms Expiring in 2007" below, who now serve as directors with terms expiring at the 2004 Annual

Meeting. If any such nominee for the office of director is unwilling or unable to serve as a nominee for the office of director at the time of the Annual Meeting, the proxies may be voted either (1) for a substitute nominee, who shall be designated by the proxy holders or by the present Board of Directors to fill such vacancy, or (2) for the other nominee only, leaving a vacancy. Alternatively, the size of the Board may be reduced so that there is no vacancy. In the event that additional persons are nominated for election as directors, the proxy holders intend to vote all proxies received by them so as to elect as many of the nominees listed below as possible, and in such event the specific nominee to be voted for will be selected by the proxy holders. The Board of Directors has no reason to believe that either nominee will be unwilling or unable to serve if elected as a director. The nominees below have been nominated to serve until the 2007 Annual Meeting of Shareholders and until their successors are elected and qualified.

There is shown below for each nominee for director, as reported to the Company, the name, age and principal occupation for the past five years; the position, if any, with the Company; and other directorships held.

Class I — Nominees for Directors with Terms Expiring in 2007

DONALD R. BEALL
Age 65
Retired Chairman and Chief Executive
Officer of Rockwell International
Corporation

Mr. Beall has been a director of Mindspeed since June 2003. Mr. Beall is the retired Chairman and Chief Executive Officer of Rockwell International Corporation, now named Rockwell Automation, Inc., (electronic controls and communications) and was a director of Rockwell from 1978 to February 2001. Mr. Beall is Chairman of the Executive Committee, an advisor to and a director of Rockwell Collins, Inc. He is also a director of Skyworks Solutions, Inc., Conexant Systems, Inc., Jazz Semiconductor, Inc., and CT Realty. He is a former director of Amoco Corporation, ArvinMeritor, Inc., The Procter & Gamble Company, and The Times Mirror Company. He is a trustee of the California Institute of Technology, a member of various University of California-Irvine supporting organizations and an Overseer of the Hoover Institution at Stanford University. He is also an investor, director and/or advisor with several private companies and investment partnerships.

JERRE L. STEAD
Age 60
Retired Chairman and Chief Executive
Officer of Ingram Micro Inc.

Mr. Stead has been a director of Mindspeed since June 2003. In May 2000 he retired as Chairman of the Board and Chief Executive Officer of Ingram Micro Inc. (computer technology products and services), positions he had held since August 1996. Mr. Stead is Chairman of the Board of HAIC Software Technology and a director of Armstrong World Industries, Inc., Brightpoint, Inc., Conexant Systems, Inc., Mobility Electronics, Inc. and Thomas & Betts Corporation. He is Chairman of the Board of the Center of Ethics and Values at Garrett Seminary on the Northwestern University campus. Mr. Stead is also on the board of the Salk Institute and the National Board of Alzheimer's Association.

The Board of Directors recommends a vote FOR the election of each of the nominees listed above.

Information as to Continuing Directors

There is shown below for each continuing director, as reported to the Company, the name, age and principal occupation for the past five years; the position, if any, with the Company; and other directorships held.

Class II — Continuing Directors with Terms Expiring in 2005

HOSSEIN ESLAMBOLCHI

Age 46

Chief Technology Officer of AT&T Corp. and President of AT&T Labs

Dr. Eslambolchi has been a director of Mindspeed since June 2003.

Dr. Eslambolchi has been Chief Technology Officer of AT&T Corp.

(telecommunications) and President of AT&T Labs since July 2001. He is also Chief Information Officer of AT&T Business. He served as the interim President of Excite@Home Broadband Networks Services division of At Home Corporation (Internet services) from January 2001 to June 2001; Senior Vice President of AT&T's Packet and Optical Network Services from July 2000 to July 2001; Vice President, AT&T Data and Network Services from January 2000 to July 2000; and Vice President, AT&T Network Operations and AT&T Chief Compliance Officer prior thereto. Dr. Eslambolchi is a member of the Board of Advisors of The Catalyst Group, Inc. and Pacific Broadband Communications. He has served on the Compaq Computer Corporation Board of Technical Advisors and was an Advisory Council member at the Johns Hopkins University Whiting School of Engineering.

MING LOUIE

Age 57

Co-Founder, Managing Director and Director of Mobile Radius, Inc.

Mr. Louie has been a director of Mindspeed since June 2003. Mr. Louie is the co-founder, Managing Director and a director of Mobile Radius, Inc. (mobile Internet data services) and the Managing Director of Dynasty Capital Services LLC (consulting). Mr. Louie served as President, Qualcomm Greater China (wireless communications) from May 2000 to October 2001. He served as Vice President, Business Development of Globalstar Communications Limited (satellite telecommunications) prior thereto.

THOMAS A. MADDEN

Age 50

Executive Vice President and Chief Financial Officer of Ingram Micro Inc.

Mr. Madden has been a director of Mindspeed since June 2003. Mr. Madden has been Executive Vice President and Chief Financial Officer of Ingram Micro Inc. since July 2001. He served as Senior Vice President and Chief Financial Officer of ArvinMeritor, Inc. (automotive components) prior thereto.

Class III — Continuing Directors with Terms Expiring in 2006

DWIGHT W. DECKER

Age 53

Chairman of the Board and Chief Executive Officer of Conexant Systems, Inc.

Dr. Decker has been a director of Mindspeed since January 2002 and non-executive Chairman of the Board since June 2003. Dr. Decker has been Chairman of the Board and Chief Executive Officer of Conexant Systems, Inc. (semiconductors) since December 1998. He served as Senior Vice President of Rockwell and President, Rockwell Semiconductor Systems from July 1998 to December 1998; and Senior Vice President of Rockwell and President, Rockwell Semiconductor Systems and Electronic Commerce prior thereto. Dr. Decker is also the non-executive Chairman and a director of Skyworks Solutions, Inc., and a director of Pacific Mutual Holding Company and Jazz Semiconductor, Inc. He is also a director or member of numerous professional and civic organizations.

RAOUF Y. HALIM

Age 43

Chief Executive Officer and Director of Mindspeed Technologies, Inc.

Mr. Halim has been a director of Mindspeed since January 2002. Mr. Halim has been Chief Executive Officer of Mindspeed since June 2003. He was Senior Vice President and Chief Executive Officer of the Mindspeed business of Conexant from February 2002 to June 2003; Senior Vice President and General Manager, Network Access division of Conexant from January 1999 to February 2002; and Vice President and General Manager, Network Access division of Rockwell Semiconductor Systems prior thereto. Mr. Halim received an M.S. in electrical engineering from the Georgia Institute of Technology and a B.Sc. in communications and electrophysics from Alexandria University.

BOARD COMMITTEES AND MEETINGS

On June 27, 2003, Conexant Systems, Inc. completed the spin-off of the Company to Conexant shareholders. The current Board and committee structure was put in place prior to the spin-off.

The standing committees of the Board of Directors of the Company during fiscal 2003 were an Audit Committee, a Governance and Board Composition Committee, and a Compensation and Management Development Committee, each of which is comprised of independent directors under applicable law and regulations, as determined by the Board (the “Independent Directors”). The functions of each of these three committees are described below; committee charters are posted in the Corporate Governance section of the Company’s website (www.mindspeed.com). The members of the standing committees are identified in the following table, each Committee Chairman being denoted with an asterisk. The Independent Directors hold regular meetings without members of management present.

<u>Director</u>	<u>Audit</u>	<u>Governance & Board Composition</u>	<u>Compensation & Management Development</u>
D. R. Beall	X	X	X*
H. Eslambolchi		X	X
M. Louie	X	X	
T. A. Madden	X*	X	X
J. L. Stead	X	X*	X

* Chairman

The **Audit Committee** assists the Board in overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company. It is directly responsible for the appointment, compensation, retention, and oversight of the work of the registered public accounting firms engaged by the Company. It reviews the auditing accountant’s audit of the financial statements and its report thereof, the Company’s system of internal controls over financial reporting, the auditing accountant’s annual management letter, various other accounting and auditing matters and the independence of the auditing accountants. The Committee reviews and pre-approves all audit and non-audit services performed by the Company’s auditing accountants, or other accounting firms, other than as may be allowed by applicable law. It reviews and approves the appointment or change of the Company’s Director of Internal Audit. It has established procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting and auditing matters. The Audit Committee meets with management to review any issues related to matters within the scope of the Audit Committee’s duties.

Thomas A. Madden is an “audit committee financial expert,” as defined by Item 401(h) of Regulation S-K, having (A) an understanding of generally accepted accounting principles and financial statements, (B) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (C) experience preparing, auditing, analyzing or evaluating financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements (or experience actively supervising one or more persons engaged in such activities), (D) an understanding of internal controls and procedures for financial reporting and (E) an understanding of audit committee functions. Each member of the Committee can read and understand fundamental financial statements, including a corporation’s balance sheet, income statement and cash flow statement. All members of the Committee have employment experience which results in the financial sophistication of each, by being or having been a chief executive officer, chief financial officer or other similar position.

The Audit Committee acts pursuant to a written charter, which was amended by the Board of Directors as of December 29, 2003. A copy of the amended charter is attached as an Appendix A to this Proxy Statement. In the opinion of the Board of Directors, all current members of the Company’s Audit Committee are independent directors within the meaning of Section 121 of the AMEX Company Guide and of Rule 4200(a)(14) of the Rules of the National Association of Securities Dealers, Inc. Since its inception in June 2003, the Audit Committee met twice during the 2003 fiscal year.

The principal functions of the **Governance and Board Composition Committee** are: to develop and recommend to the Board of Directors for its approval a set of corporate governance guidelines, which the Committee shall review on an annual basis, or more frequently if appropriate, and recommend changes as necessary; to review, in consultation with the Chief Executive Officer

and other directors, the Board of Directors' committee structure and to recommend to the Board for its approval the directors to serve as members of each committee; to recommend, in consultation with the chairman of the Board and the Chief Executive Officer, to the Board of Directors (i) nominees to fill vacancies in membership of the Board as they occur among the directors, and (ii) prior to each annual meeting of shareholders, a slate of nominees for election as directors at such meeting; to lead the search for qualified director candidates, who may be submitted by directors, officers, employees, shareholders and others; and to prepare, not less frequently than every three years, and submit to the Board of Directors for adoption by the Board of Directors, a list of selection criteria to be used by the Committee. The Committee periodically establishes a framework for the Compensation and Management Development Committee evaluation of the Chief Executive Officer of the Company.

Under the Committee's current board selection criteria (which are posted on the Company's website at www.mindspeed.com), director candidates are selected with a view to bringing to the Board a variety of experience and backgrounds. Directors should have high level managerial experience in a relatively complex organization or be accustomed to dealing with complex problems. The Committee seeks candidates of the highest character and integrity, and who have experience at or demonstrated understanding of strategy/policy setting and a reputation for working constructively with others. In addition, candidates should have sufficient time available to devote to the Company in order to carry out their duties as directors. In fulfilling its responsibility to lead the search for qualified director candidates, the Committee consults with other directors, as well as the Chief Executive Officer and other senior executives of the Company. The Committee may also from time to time retain third party search firms to assist in identifying candidates. The Committee will consider director candidates recommended by shareholders of the Company pursuant to the Company's procedures described in "Other Matters — Shareholder Proposals or Nominations for 2005 Annual Meeting". Since its inception in June 2003, the Board Governance and Composition Committee met once during the 2003 fiscal year.

The principal functions of the **Compensation and Management Development Committee** (the "Compensation Committee") are: to recommend to the board compensation and benefits for non-employee directors; to review and approve on an annual basis the corporate goals and objectives with respect to compensation for the Chief Executive Officer in light of the evaluation framework developed by the Governance and Board Composition Committee; to determine the salaries of all executive officers and review annually the salary plan for other executives in general management positions; to review our base pay, incentive compensation, deferred compensation and all stock-based plans and to recommend changes in such plans as needed; to review annually the performance of the Chief Executive Officer and the senior executives, and assist the Board in developing and evaluating potential candidates for executive positions, including Chief Executive Officer, and to oversee the development of executive succession plans; and to prepare and publish an annual executive compensation report in the proxy statement. Since its inception in June 2003, the Compensation Committee met once and acted twice by unanimous written consent during the 2003 fiscal year.

The Board of Directors held 3 meetings and acted by unanimous written consent 5 times during the 2003 fiscal year. Each director is expected to attend each meeting of the Board and those committees on which he serves. Other than Messrs. Beall and Eslambolchi, who attended 71% and 50%, respectively, of all meetings of the Board and all committees on which each of them served, no director attended less than 75% of all the meetings of the Board and those committees on which he served in the 2003 fiscal year. The Company intends to have meetings of the Board later on the same day as the Company's annual meetings of shareholders, and when this schedule is followed it is the policy of the Board that directors are expected to attend the Company's annual meetings of shareholders. The Company has not held an annual meeting of shareholders prior to the 2004 Annual Meeting of Shareholders.

The Board of Directors has implemented a process for shareholders of the Company to send communications to the Board. Any shareholder desiring to communicate with the Board, or with specific individual directors, may do so by writing to the Secretary of the Company who has been instructed by the Board to promptly forward all such communications to the addressees indicated thereon.

DIRECTORS' COMPENSATION

For their services during the fourth quarter of fiscal 2003, the non-employee directors of the Company each received a pro-rated portion of their annual base retainer of \$30,000 per year for Board service. They each also received a pro-rated portion of the following annual retainer for service on committees of the Board: (a) an annual retainer of \$2,500 for service as a committee chairman or (b) an annual retainer of \$1,500 for service as a member of a committee. In addition, each non-employee director received (a) \$1,000 per day for each Board meeting attended in person and (b) \$500 per day for each Board meeting attended by telephone. For the quarter ending June 30, 2003, each non-employee director in office as of June 30, 2003 also received \$2,500 in

cash and the quarterly retainer for services on committees of the Board in cash. The Directors Stock Plan provides that upon initial election to the Board, each non-employee director will be granted an option to purchase 40,000 shares of the Company's common stock at an exercise price per share equal to the fair market value of the Company's common stock on the date of grant. The options become exercisable in four equal installments on each of the first, second, third and fourth anniversaries of the date the options are granted. In addition, following completion of one year of service on the Board, each non-employee director will thereafter be granted an option to purchase 20,000 shares of the Company's common stock following each Annual Meeting of Shareholders of the Company. During fiscal 2003, each non-employee director was granted an initial option to purchase 40,000 shares of the Company's common stock upon election to the Board.

Under the terms of the Company's directors' deferred compensation plan, beginning with the 2004 tax year, a director may elect to defer all or part of the cash payment of retainer fees until such time as shall be specified with interest on deferred amounts accruing quarterly at 120% of the Federal long-term rate set each month by the Secretary of the Treasury. Each director also has the alternative each year to determine whether to defer all or any portion of the cash retainer by electing to receive shares or restricted shares valued at the closing price of the Company's common stock on the date each retainer payment would otherwise be made in cash.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has furnished the following report on Audit Committee matters:

The Audit Committee acts pursuant to a written charter, which was adopted by the Board of Directors of the Company on June 6, 2003 and amended by the Board of Directors as of December 29, 2003. The Audit Committee has reviewed the audited financial statements of the Company for the fiscal year ended September 30, 2003 with management and it has discussed with Deloitte & Touche LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) relating to the conduct of the audit. The Audit Committee has also received written disclosures and a letter from Deloitte & Touche LLP regarding its independence from the Company as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), has discussed with Deloitte & Touche LLP the independence of that firm and has considered whether the provision of non-audit services by Deloitte & Touche LLP during fiscal 2003 was compatible with maintaining the independence of that firm. The Audit Committee pre-approves all audit and permitted non-audit services provided by Deloitte & Touche LLP. Based upon the above materials and discussions, the Audit Committee has approved the inclusion of these financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

Audit Committee

Thomas A. Madden, *Chairman*

Donald R. Beall

Ming Louie

Jerre L. Stead

REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation and Management Development Committee (the "Compensation Committee"), which consists entirely of Independent Directors (*see* "Board Committees and Meetings" above), has furnished the following report on executive compensation:

The Compensation Committee was constituted in June 2003 shortly prior to the June 27, 2003 spin-off of the Company from Conexant. Accordingly, substantially all the decisions affecting compensation of the Company's Chief Executive Officer and its other senior executives prior to the spin-off, as well as the various compensation plans applicable to them and other employees of the Company, were under plans, arrangements and commitments approved by Conexant shareholders or the Compensation and Management Development Committee of Conexant's Board of Directors.

Compensation Philosophy and Objectives of the Company

Beginning in June 2003, the Compensation Committee has adopted for the Company a general compensation philosophy of "pay for performance" in which total cash compensation should vary with Company performance. The Compensation Committee

believes this philosophy is appropriate for the Company as a high technology, semiconductor company. The Compensation Committee's goal is to provide base salary and opportunity for annual incentives sufficient to provide total cash compensation at market competitive levels for major U.S. high technology companies and to provide long-term incentives in the form of stock option grants to its executives at slightly above market competitive levels for major U.S. high technology companies.

Total annual compensation for the majority of the Company's employees, including its executive officers, consists of the following:

- Base salary; and
- An annual incentive compensation program that is related to growth in certain financial performance measures of the Company and/or its stock price appreciation, and based on an individual bonus target for the performance period. The annual incentive from year to year, if paid, may be delivered in cash, stock, restricted stock or stock options.

Long-term incentive compensation is realized through the grant of stock options and, in some cases, stock awards or shares of restricted stock, to executive officers as well as employees under the 2003 Long-Term Incentives Plan ("2003 LTIP").

In addition to encouraging stock ownership by granting stock options, stock grants and restricted stock, the Company further encourages all of its employees to own the Company's common stock through the Company's Employee Stock Purchase Plans (the "ESPPs"). The ESPPs allow participants to buy at a discount to the market price up to 1,000 shares of the Company's common stock every six months with up to 10% of their salary and bonuses (subject to certain limits), thereby allowing employees to profit when the value of the Company's common stock increases over time.

Setting Executive Compensation

Beginning in June 2003, in setting the base salary and individual bonus target amount for executive officers, the Compensation Committee reviews information relating to executive compensation of U.S.-based semiconductor and other high technology companies that are considered generally comparable to the Company. While there is no specific formula that is used to establish executive compensation in relation to this market data, executive officer base salary is generally set to be around the average salaries for comparable jobs in the marketplace. However, if the Company's business groups meet or exceed certain predetermined financial and non-financial goals, amounts paid under the Company's performance-based incentive compensation programs may lead to total cash compensation levels that are higher than the average salaries for comparable jobs. The Compensation Committee considers the total compensation (earned or potentially available) of the senior executives in establishing each component of compensation. In its review, the Compensation Committee considers the following: (1) industry, peer group and national surveys of other U.S. semiconductor and high technology companies; (2) reports of the independent compensation consultants who advise the Compensation Committee on the Company's compensation programs in comparison with those of other companies which the consultants believe compete with the Company for executive talent; and (3) performance judgments as to the past and expected future contributions of individual senior executives.

Based on a similar process, Conexant in 2001 instituted a 10% salary reduction for officers and other executives at the level of vice president and above, including such officers and other executives in the Mindspeed business of Conexant. As a result of the process outlined above, and in accordance with the Company's compensation philosophy that total cash compensation should vary with Company performance, for fiscal year 2003 the Company continued the 10% salary reduction for such officers and other executives. This reduction is expected to remain in effect until the Company achieves profitability as measured on a pro forma operating basis. In addition, as discussed below, a significant part of each executive officer's potential total cash compensation is dependent on the performance of the Company as measured through its performance-based incentive compensation program.

Performance-Based Compensation

The Company's annual executive incentive compensation plan is based on the overall financial performance of the Company. In any given year, that performance is measured against the specific performance criteria adopted by the Compensation Committee for use in that particular fiscal year. Performance criteria typically include revenue growth, operational profitability, and attainment of strategic business development goals. In addition, executive incentive compensation awards may be adjusted by an individual performance multiplier. The Chief Executive Officer's annual incentive plan has the same components as the executive plan. This award may also be adjusted by the Board of Directors based on individual performance. For all executives, the annual incentive award value is targeted at competitive market levels for semiconductor and other high technology companies.

Performance Based Compensation Plan for Fiscal Year 2003

Due to the Company's restructuring plans and operating losses, no performance based incentive was paid to Company executives, including the Chief Executive Officer, for fiscal 2003.

Stock Options and Restricted Stock

The Company grants stock options to aid in the attraction and retention of employees and to align the interests of employees with those of the shareholders. Stock options have value for an employee only if the price of the Company's stock increases above the fair market value on the grant date and the employee remains employed by the Company for the period required for the stock option to be exercisable, thus providing an incentive to remain in the Company's employ. In addition, stock options directly link a portion of an employee's compensation to the interests of shareholders by providing an incentive to maximize shareholder value.

The Company's 2003 LTIP may be used for making grants of incentive stock options, nonqualified stock options, restricted and unrestricted stock and stock appreciation rights to officers and other employees as a part of the Company's executive performance review process. Annual stock option grants for executives are a key element of market-competitive total compensation. In fiscal year 2003, stock options for the executive officers were granted upon recommendation of management and approval of the Compensation Committee. Individual grant amounts were based on internal factors such as relative job scope and contributions made during the past year, as well as a review of publicly available data on senior management compensation at peer and other comparable companies. In general, options are exercisable in 25% increments over a four-year period, first exercisable one year after the date of grant (*e.g.*, 25% of options granted in 2003 become exercisable on the anniversary of the date of grant in 2004).

The Company granted 4,019,963 options to eligible employees in the time period since the Company's spin-off from Conexant to September 30, 2003.

Compliance with Section 162(m)

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), places a limit of \$1,000,000 on the amount of compensation that may be deducted by the Company in any year with respect to each of the Company's five most highly paid executive officers. Certain performance-based compensation that has been approved by shareholders is not subject to the deduction limit. The 2003 LTIP is currently qualified so that awards under the plan constitute performance-based compensation not subject to the deduction limit under Section 162(m), but will cease to be so qualified if the 2003 LTIP is not approved by the Company's shareholders at or before the Company's 2005 Annual Meeting of Shareholders. It is the Committee's objective that, so long as it is consistent with its overall business, compensation and retention objectives, the Company will, to the extent reasonable, endeavor to keep executive compensation deductible by the Company for federal income tax purposes.

Company Performance and CEO Compensation

The Company's compensation program is designed to support the achievement of corporate and business objectives. This pay-for-performance program is most clearly exemplified in the compensation of the Company's Chief Executive Officer, Raouf Y. Halim.

Mr. Halim's base salary and incentive target are determined in the same manner as described above for all executive officers. In setting compensation levels for the Chief Executive Officer, the Compensation Committee considers data reflecting comparative compensation information from other companies for the prior year. Mr. Halim's salary has remained unchanged at the \$450,000 amount to which it had been reduced in fiscal year 2001 from his then salary of \$500,000.

Compensation and Management Development Committee

Donald R. Beall, *Chairman*
Hossein Eslambolchi
Thomas A. Madden
Jerre L. Stead

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of September 30, 2003 about shares of the Company's common stock that may be issued upon the exercise of options, warrants and rights granted under all of the Company's existing equity compensation plans, including the Company's 2003 LTIP, 2003 Stock Option Plan, Directors Stock Plan, 2003 Employee Stock Purchase Plan and 2003 Non-Qualified Employee Stock Purchase Plan.

	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by shareholders			
Stock plans	30,226,131	\$2.07	6,733,991
Employee stock purchase plans			1,400,000(1)
Directors stock plan	<u>240,000</u>	\$2.70	<u>160,000(2)</u>
Total	<u>30,466,131</u>		<u>8,293,991</u>

- (1) The 2003 Employee Stock Purchase Plan provides that the maximum number of shares under the plan is automatically increased on the first day of the fiscal year by an additional amount of 675,000 shares and the 2003 Non-Qualified Employee Stock Purchase Plan provides that the maximum number of shares under the plan is automatically increased on the first day of the fiscal year by an additional amount of 75,000 shares.
- (2) The Directors Stock Plan provides that the maximum number of shares under the Directors Stock Plan is automatically increased on the first day of each fiscal year by an additional amount equal to the greater of 160,000 shares or 0.18% of the shares of the Company's common stock outstanding on that date, subject to the Board of Directors being authorized and empowered to select a smaller amount.

The outstanding stock options include options held by Mindspeed employees to purchase an aggregate of 15.1 million shares of Mindspeed common stock, which are summarized in the following table (shares in thousands):

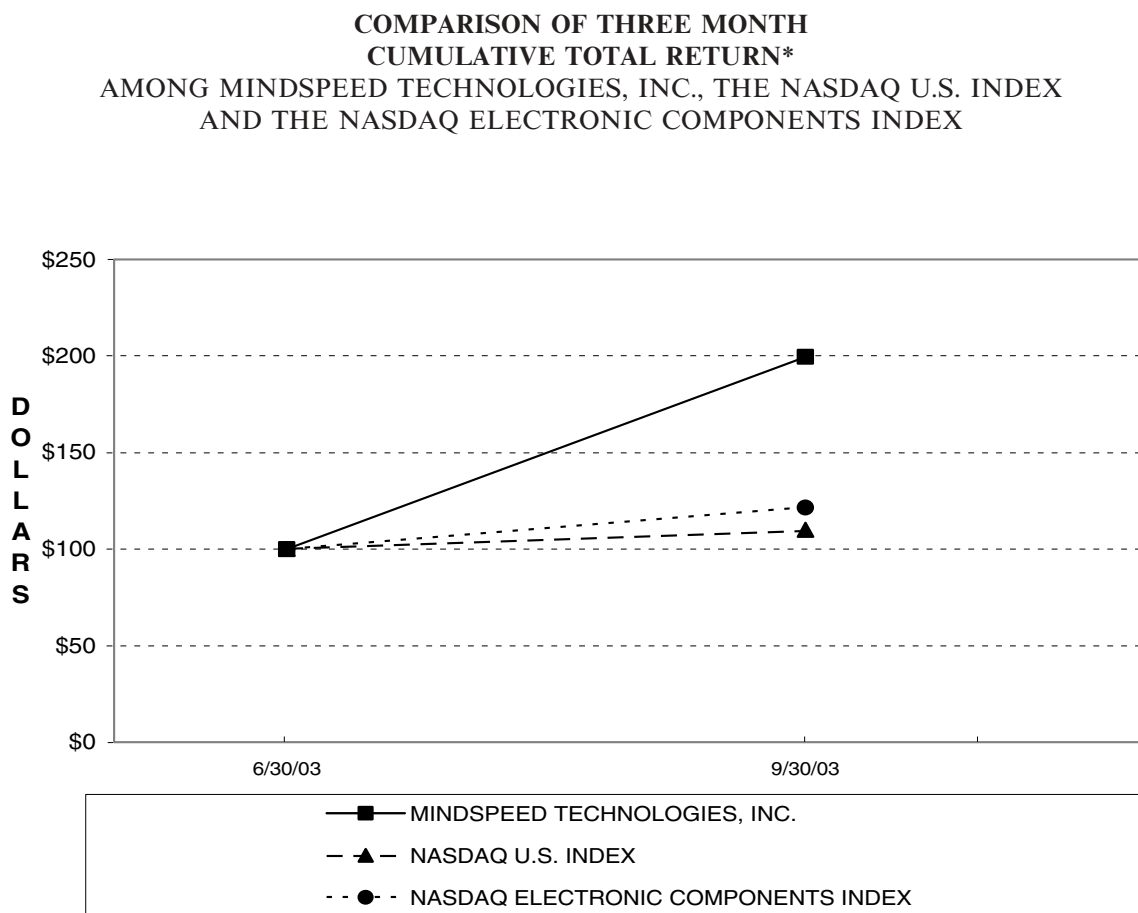
Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares	Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
\$0.14 – \$0.96	315	5.1	\$0.81	122	\$0.71
0.97 – 1.00	1,518	6.8	1.00	103	0.99
1.01 – 1.78	470	4.3	1.53	364	1.58
1.80 – 2.36	7,922	6.0	1.97	5,943	1.96
2.38 – 16.98	<u>4,842</u>	7.6	2.86	<u>465</u>	4.18
0.14 – 16.98	<u>15,067</u>	6.5	2.12	<u>6,997</u>	2.05

Equity Compensation Plans Not Approved by Shareholders

The Company's current equity compensation plans were approved by Conexant, as the sole shareholder of the Company, prior to the spin-off of the Company.

SHAREHOLDER RETURN PERFORMANCE GRAPH

Set forth below is a line graph comparing the cumulative total shareholder return on the Company's Common Stock against the cumulative total return of the Nasdaq U.S. Index and the Nasdaq Electronic Components Index. The graph assumes that \$100 was invested on June 30, 2003, the first day of public trading of the Company's common stock, in each of the Company's common stock, the Nasdaq U.S. Index and the Nasdaq Electronic Components Index and that all dividends were reinvested. No cash dividends have been paid or declared on the Company's Common Stock.



* \$100 invested on June 30, 2003 in stock or index — including reinvestment of dividends. Fiscal year ending September 30.

	Cumulative Total Return	
	June 30, 2003	September 30, 2003
	(Dollars)	
Mindspeed Technologies, Inc.	\$100.00	\$199.63
Nasdaq U.S. Index	100.00	109.97
Nasdaq Electronic Components Index	100.00	121.95

EXECUTIVE OFFICERS

Set forth below is certain information concerning the executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Raouf Y. Halim	43	Chief Executive Officer
Simon Biddiscombe	36	Senior Vice President, Chief Financial Officer and Treasurer
David W. Carroll	42	Senior Vice President, Worldwide Sales
Mojy C. Chian	46	Senior Vice President, Core Technologies
Harry H. Davoody	50	Senior Vice President and General Manager, Multiservice Access
Thomas J. Medrek	47	Senior Vice President and General Manager, Broadband Internetworking Systems
Wayne K. Nesbit	42	Senior Vice President, Operations
Daryush Shamlou	40	Senior Vice President and General Manager, Transport Systems Solutions
Thomas A. Stites	48	Senior Vice President, Communications
Ian J. Stock	51	Senior Vice President, General Counsel and Secretary
Bradley W. Yates	45	Senior Vice President and Chief Administrative Officer

There are no family relationships among the individuals expected to serve as our directors or executive officers. Set forth below are the name, office and position held with the Company and principal occupations and employment during the past five years of each of our executive officers. Biographical information on Mr. Halim is set forth previously in this Proxy Statement. See “Information as to Continuing Directors.”

Simon Biddiscombe has been our Senior Vice President, Chief Financial Officer and Treasurer since June 2003. Mr. Biddiscombe served as Vice President, Finance and Controller of the Mindspeed business of Conexant from December 2000 to June 2003. He was Senior Vice President and Chief Financial Officer from May 1999 to December 2000 and Chief Operating Officer from May 2000 to December 2000 of Wyle Electronics (distributor of semiconductor products). He also served as Manager and Senior Manager in the Silicon Valley Technology Accounting and Audit Practice of PricewaterhouseCoopers prior thereto. Mr. Biddiscombe received a B.A. (Hons) in Business Studies from the Polytechnic of Wales and is a Chartered Accountant from the United Kingdom.

David W. Carroll has been our Senior Vice President, Worldwide Sales since June 2003. Mr. Carroll served as Vice President, Worldwide Sales of the Mindspeed business of Conexant from February 2001 to June 2003. He was Vice President, Americas Sales of Conexant from January 1999 to February 2001 and Executive Director, Americas Sales of Rockwell Semiconductor Systems from August 1998 to January 1999. He also served as Area Sales Manager, United States Northwest of Rockwell Semiconductor Systems prior thereto. Mr. Carroll received an M.B.A. from the University of Southern California and a B.S. degree in mechanical engineering from San Diego State University.

Mojy C. Chian has been our Senior Vice President, Core Technologies since June 2003. Dr. Chian served as Vice President, Core Technology of the Mindspeed business of Conexant from January 2001 to June 2003. He was Vice President, Design Automation and IP Infrastructure for Conexant from January 1999 to January 2001 and Vice President, Design Automation and IP Infrastructure of Rockwell Semiconductor Systems prior thereto. Dr. Chian was previously a professor at Florida Institute of Technology, where he received a Ph.D., an M.S. and a B.S. in electrical engineering.

Harry H. Davoody has been our Senior Vice President and General Manager, Multiservice Access since June 2003. Mr. Davoody served as Vice President and General Manager, Multiservice Access of Conexant from January 2003 to June 2003. He was President and Chief Executive Officer of ST Assembly and Test Services (semiconductors) from January 2002 to June 2002. He also served as Vice President and General Manager, Digital Audio and Video Products division of Texas Instruments Incorporated (semiconductors) from June 2000 to January 2002 and as Vice President and General Manager, Mixed Signal DSP Solutions division of Texas Instruments Incorporated prior thereto. Mr. Davoody received an M.B.A. from the University of Dallas, an M.S. in electrical engineering from Southern Methodist University and a B.S. in electrical engineering from the University of Texas at Arlington.

Thomas J. Medrek has been our Senior Vice President and General Manager, Broadband Internetworking Systems since June 2003. Mr. Medrek served as Vice President and General Manager, Broadband Internetworking Systems of Conexant Systems, Inc. from February 2001 to June 2003. He was Vice President, Marketing of Broadband Internetworking Systems of Conexant from March 2000 to February 2001 and Vice President, Marketing of Maker Communications, Inc. (semiconductors) prior thereto. Mr. Medrek received an M.B.A. from Dartmouth and a B.S. in electrical engineering from Worcester Polytechnic Institute.

Wayne K. Nesbit has been our Senior Vice President, Operations since June 2003. Mr. Nesbit served as Senior Vice President, Operations of the Mindspeed business of Conexant from January 2001 to June 2003. He was Vice President and Director, Worldwide External Technology of Motorola, Inc. (semiconductors) prior thereto. Mr. Nesbit received a B.S. in electrical engineering from Texas A&M University.

Daryush Shamlou has been our Senior Vice President and General Manager, Transport Systems Solutions since June 2003. Mr. Shamlou served as Vice President and General Manager, Transport Systems Solutions of Conexant from January 2001 to June 2003. He was Vice President of the VLSI Engineering Organization of Conexant's Network Access division from January 1999 to January 2001 and Vice President of the VLSI Engineering Organization of Rockwell Semiconductor Systems' Network Access division prior thereto. Mr. Shamlou received an M.S. in electrical engineering from Georgia Institute of Technology and a B.S. in electrical engineering from the University of Tennessee at Knoxville.

Thomas A. Stites has been our Senior Vice President, Communications since June 2003. Mr. Stites served as Senior Vice President, Communications of Conexant from December 1999 to June 2003. He served as Vice President, Communications of Advanced Micro Devices (semiconductors) prior thereto. Mr. Stites received a B.A. in journalism from the University of Colorado.

Ian J. Stock has been our Senior Vice President, General Counsel and Secretary since June 2003. Mr. Stock served as Chief Corporate Counsel of Atmel Corporation (semiconductors) from October 2000 to June 2003 and Special Counsel to Wilson, Sonsini, Goodrich & Rosati (law firm) prior thereto. Mr. Stock received a B.A. in human ecology from the University of California, Berkeley and a J.D. from the Yale Law School.

Bradley W. Yates has been our Senior Vice President and Chief Administrative Officer since June 2003. Mr. Yates served as Senior Vice President, Human Resources of Conexant from January 2000 to June 2003. He was Vice President, Human Resources of Siebel Systems, Inc. (software) from September 1999 to December 1999 and Vice President, Human Resources of AT&T Wireless Services' Los Angeles Cellular partnership with Bell South Corporation prior thereto. Mr. Yates received an M.S. in strategic human resource management from the University of Dayton and a B.S. in business administration from San Diego State University.

EXECUTIVE COMPENSATION

The Company began operations independent of Conexant on June 30, 2003, and did not pay any compensation to its executive officers for services rendered in all capacities to the Company and its subsidiaries prior to that date. The information shown below reflects the annual and long-term compensation, from all sources, of the Chief Executive Officer of the Company and the other four most highly compensated executive officers of the Company at September 30, 2003 (the “Named Executive Officers”), for services rendered in all capacities to the Company or to Conexant and its subsidiaries for the fiscal years noted. In many cases, the individuals listed below served Conexant and its subsidiaries in different capacities than those in which they serve the Company.

Summary Compensation Table(1)

Name and Principal Position With the Company(2)	Fiscal Year	Annual Compensation			Restricted Stock Awards	Long-Term Compensation		All Other Compensation(5)
		Salary(3)	Bonus	Other Annual Compensation		Awards Stock Options (Shares) (4)	Payouts Long-term Incentive Payouts	
Raouf Y. Halim Chief Executive Officer	2003	467,308	—	36,714	—	478,748	—	18,692
	2002	450,000	—	21,669	—	160,929	—	18,000
	2001	422,885	250,000(6)	37,965	—	997,704	—	27,869
David W. Carroll Senior Vice President, Worldwide Sales	2003	257,020	127,280	13,708	—	144,687	—	8,758
	2002	239,971	63,432	7,663	—	51,846	—	8,076
Wayne K. Nesbit Senior Vice President, Operations	2003	301,154	—	347,507(7)	—	135,749	—	—
	2002	290,038	—	3,851(8)	—	26,786	—	—
Daryush Shamlou Senior Vice President and General Manager, Transport Systems Solutions	2003	285,577	2,000(9)	123,496(10)	—	135,749	—	9,222
	2002	261,692	1,000(9)	12,549	—	84,040	—	10,468
Harry H. Davoody Senior Vice President and General Manager, Multiservice Access	2003	236,538	150,000(11)	67,783(12)	—	189,375	—	—

- (1) In accordance with the executive compensation rules adopted by the SEC, the compensation of the Named Executive Officers is not shown for fiscal 2001, other than for Mr. Halim, because the Company was not a reporting company under the Securities Exchange Act for such years and such compensation information has not been provided in a prior filing with the SEC. Mr. Davoody joined the Company in January 2003.
- (2) The table reflects the positions held with the Company at September 30, 2003. The Named Executive Officers served Conexant and its subsidiaries in the following capacities during fiscal years 2001, 2002 and 2003 and the compensation reflected in the table for these years was paid by Conexant to the Named Executive Officers in such capacities: Mr. Halim — Senior Vice President and Chief Executive Officer, Mindspeed Technologies business of Conexant (February 2002 — June 2003) and Senior Vice President and General Manager, Network Access division of Conexant (January 1999 — February 2002); Mr. Carroll — Vice President, Worldwide Sales, Mindspeed Technologies business of Conexant; Mr. Nesbit — Senior Vice President, Operations, Mindspeed Technologies business of Conexant; Mr. Shamlou — Vice President and General Manager, Transport Systems Solutions, Conexant; and Mr. Davoody — Vice President and General Manager, Multiservice Access of Conexant.
- (3) Fiscal year 2003 included 27 pay periods, one more than the standard 26 pay period year. The Named Executive Officers have not received a salary increase and are still subject to a base salary reduction of 10% which will be in effect until the Company becomes profitable on a pro forma operating basis.
- (4) References to “stock options” relate to options for the Company’s common stock derived from adjustments to awards of options under Conexant’s stock option plans made in connection with the Company’s spin-off from Conexant, pursuant to which options awarded under the Conexant plans were adjusted in part to become options for the Company’s common stock. These options were assumed by the Company and are now covered by the Company’s 2003 Stock Option Plan. In addition, references to “stock options” for fiscal 2003 also relate to awards of options under the Company’s 2003 Long-Term Incentives Plan. Does not include (i) options for shares of Skyworks Solutions, Inc. resulting from adjustments to options

awarded under the Conexant plans outstanding at the time of the spin-off and merger of Conexant's wireless communications business with Alpha Industries, Inc. to form Skyworks Solutions, Inc. in June 2002 (the "Skyworks Transaction") or (ii) options for Conexant shares resulting from adjustments to options awarded under the Conexant plans outstanding at the time of the Company's spin-off from Conexant. In each transaction, the number of shares subject to, and the exercise prices of, such options were adjusted to preserve the aggregate intrinsic value of the options and to maintain the ratio of the exercise price to the fair market value of the underlying stock, immediately before and after the relevant transaction.

- (5) Amounts contributed or accrued for the Named Executive Officers under the Conexant and Mindspeed savings plans and the related supplemental savings plans.
- (6) Represents a bonus paid to Mr. Halim in connection with his being named Senior Vice President and Chief Executive Officer, Mindspeed Technologies.
- (7) Includes \$327,549 of income Mr. Nesbit received from forgiveness of a portion of a loan described under "Certain Relationships and Related Transactions".
- (8) Includes \$656 paid in connection with the relocation of Mr. Nesbit's residence in Southern California upon his joining the Company.
- (9) Represents an invention award paid to Mr. Shamlou in recognition of his contribution towards an invention.
- (10) Includes \$17,571 paid to Mr. Shamlou in lieu of vacation and \$85,179 of income received from forgiveness of a portion of a loan described under "Certain Relationships and Related Transactions".
- (11) Represents a sign-on bonus paid to Mr. Davoody in connection with his joining the Company.
- (12) Includes \$66,428 paid in connection with the relocation of Mr. Davoody's residence in Southern California upon his joining the Company.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has entered into change of control employment agreements ("Employment Agreements") with certain key executives, including Messrs. Halim, Biddiscombe, Carroll, Chian, Davoody, Medrek, Nesbit, Shamlou, Stites, Stock and Yates. Each Employment Agreement becomes effective upon a "change of control" of the Company. Each Employment Agreement provides for the continuing employment of the executive after the change of control on terms and conditions no less favorable than those in effect before the change of control. If the executive's employment is terminated by the Company without "cause" or if the executive terminates his or her own employment for "good reason" (each as defined in the Employment Agreement), the executive is entitled to severance benefits equal to a multiple of his or her annual compensation (including bonus) and continuation of certain benefits for two years. The multiple is three for Mr. Halim and two for the other executives. The executives are entitled to an additional payment, if necessary, to make them whole as a result of any excise tax imposed by the Code on certain change of control payments (unless the safe harbor amount above which the excise tax is imposed is not exceeded by more than 10%, in which event the payments will be reduced to avoid the excise tax).

For the purposes of the Employment Agreements, a "change of control" is defined generally as:

- the acquisition by any individual, entity or group of beneficial ownership of 20% or more of either the then outstanding shares of the Company's common stock or the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors;
- a change in the composition of a majority of the Board of Directors which is not supported by the current Board of Directors;
- a major corporate transaction, such as a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the Company's assets, which results in a change in the majority of the Board of Directors or of more than 60% of the Company's shareholders; or
- approval by the Company's shareholders of the complete liquidation or dissolution of the Company.

In March 2001, Mr. Nesbit received a loan in the amount of \$450,000 in connection with his relocation to southern California. The loan to Mr. Nesbit is forgivable over a four year period, with 50 percent of the loan having been forgiven as of January 2003 and 25 percent to be forgiven in each of January 2004 and 2005, so long as Mr. Nesbit remains an employee.

In January 2002, Mr. Shamlou received a loan in the amount of \$100,000 as a retention incentive. The loan to Mr. Shamlou is forgivable over a two year period, with 50 percent of the loan having been forgiven as of January 2003 and the remaining 50 percent to be forgiven in January 2004, so long as Mr. Shamlou remains an employee.

In connection with the spin-off of the Company from Conexant, Conexant and the Company entered into several agreements, including agreements relating to services to be provided by Conexant to the Company and by the Company to Conexant following the spin-off, the allocation of liabilities and obligations with respect to taxes, employee benefit plans and compensation arrangements, and other matters. At the time these agreements were negotiated and executed, certain of the Company's directors and executive officers also served as directors and executive officers of Conexant.

In connection with the spin-off, the company entered into a Credit Agreement with Conexant, under which the Company may borrow up to \$50 million for working capital and other general corporate purposes. The credit facility is available for a term ending on June 29, 2007. The Company may borrow under the credit facility only to restore its cash balance to \$25 million. Loans under the credit facility will accrue interest at the rate of 10 percent per annum, payable at maturity. The credit facility contains customary conditions and covenants, including restrictions on payment of dividends, consolidations, mergers, acquisitions, investments, sales of assets, incurrence of indebtedness and creation of liens and encumbrances. As of September 30, 2003, the Company had made no borrowings under the credit facility.

In connection with the credit facility, the Company issued to Conexant warrants to purchase up to 8.3 million shares of Mindspeed common stock. No shares may be acquired under the warrant until the Company makes borrowings under the credit facility. The number of shares that may be acquired under the warrants will depend on the highest level of borrowings under the credit facility, increasing on a pro rata basis up to a maximum of 8.3 million shares of Mindspeed common stock if the level of borrowings under the credit facility reaches \$50 million. The warrants will be exercisable for a period of ten years after the spin-off at a price per share equal to the lesser of \$3.408 or the fair market value of Mindspeed common stock at the time of the borrowings under the credit facility that entitle Conexant to acquire the shares. Pursuant to a registration rights agreement between the Company and Conexant, the Company has registered with the Securities and Exchange Commission the sale or resale of the warrants and the underlying shares of the Company's common stock.

In connection with the spin-off, Mindspeed issued to Conexant a warrant to purchase 30 million shares of Mindspeed common stock at a price of \$3.408 per share, exercisable for a period beginning one year and ending ten years after the spin-off. Pursuant to a registration rights agreement between the Company and Conexant, the Company has registered with the Securities and Exchange Commission the sale or resale of the warrants and the underlying shares of the Company's common stock.

On September 28, 2001, At Home Corporation and all of its wholly owned subsidiaries and certain of its foreign subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In the first half of 2001, Dr. Eslambolchi served as interim president of Excite@Home Broadband Networks Services, a division of At Home Corporation, during which time he was an AT&T employee and executive on-loan to Excite@Home Broadband Networks Services.

OPTION GRANTS IN LAST FISCAL YEAR

The following table shows further information on grants to the Named Executive Officers of stock options pursuant to Conexant and Mindspeed stock option plans during the fiscal year ended September 30, 2003, which are reflected in the Summary Compensation Table above.

Name	Options Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted (Shares)	Percentage of Total Options Granted to Mindspeed Employees in Fiscal 2003	Exercise Price (Per Share)	Expiration Date	5%	10%
Raouf Y. Halim	39,721 (1)	0.50% (2)	\$1.0030	11/5/2010	19,022	45,561
	139,027 (1)	1.76% (2)	\$1.0030	11/4/2012	87,695	222,238
	300,000 (3)	5.26% (4)	\$2.6500	8/15/2011	379,577	909,153
David W. Carroll	44,687 (1)	0.56% (2)	\$1.0030	11/5/2010	21,400	51,257
	100,000 (3)	1.75% (4)	\$2.6500	8/15/2011	126,526	303,051
Wayne K. Nesbit	35,749 (1)	0.45% (2)	\$1.0030	11/5/2010	17,120	41,005
	100,000 (3)	1.75% (4)	\$2.6500	8/15/2011	126,526	303,051
Daryush Shamlou	35,749 (1)	0.45% (2)	\$1.0030	11/5/2010	17,120	41,005
	100,000 (3)	1.75% (4)	\$2.6500	8/15/2011	126,526	303,051
Harry H. Davoody	89,375 (1)	1.13% (2)	\$0.9250	1/3/2011	39,472	94,543
	100,000 (3)	1.75% (4)	\$2.6500	8/15/2011	126,526	303,051

- (1) Includes options for the Company's common stock derived from adjustments to awards of options under Conexant's stock option plans made in connection with the Company's spin-off from Conexant, pursuant to which options awarded under the Conexant plans were adjusted in part to become options for the Company's common stock. These options were assumed by the Company and are now covered by the Company's 2003 Stock Option Plan. These options were deemed granted on November 5, 2002, except for Mr. Davoody whose options were deemed granted on January 3, 2003, and the options become exercisable in four equal installments on each of the first four anniversaries of the date of grant. Does not include options for Conexant shares resulting from adjustments to options awarded under the Conexant plans outstanding at the time of the Company's spin-off from Conexant. In the spin-off, the number of shares subject to, and the exercise prices of, such options were adjusted to preserve the aggregate intrinsic value of the options and to maintain the ratio of the exercise price to the fair market value of the underlying stock, immediately before and after the spin-off.
- (2) At the time of grant, Mindspeed was a wholly-owned subsidiary of Conexant, thus the calculation includes shares granted to both Mindspeed and Conexant employees.
- (3) Options were granted on August 15, 2003 and become exercisable in four equal installments on each of the first four anniversaries of the date of grant.
- (4) Includes shares granted to Mindspeed employees only.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Shown below is information with respect to (i) exercises by the Named Executive Officers during fiscal year 2003 of options to purchase the Company's common stock granted under the Company's 2003 LTIP or the 2003 Stock Option Plan and (ii) the unexercised options to purchase the Company's common stock granted to the Named Executive Officers in fiscal year 2003 and prior years and held by them at September 30, 2003.

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options Held at September 30, 2002(1)		Value of Unexercised In-the-Money Options at September 30, 2003(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Raouf Y. Halim	—	—	1,110,827	766,261	\$3,873,894	\$2,600,491
David W. Carroll	—	—	148,589	199,284	513,960	653,910
Wayne K. Nesbit	—	—	40,546	182,649	76,397	528,806
Daryush Shamlou	—	—	201,607	205,137	686,758	651,603
Harry H. Davoody	—	—	—	189,375	—	669,272

- (1) Includes options for the Company's common stock derived from adjustments to awards of options under Conexant's stock option plans made in connection with the Company's spin-off from Conexant, pursuant to which options awarded under the Conexant plans were adjusted in part to become options for the Company's common stock. These options were assumed by the Company and are now covered by the Company's 2003 Stock Option Plan. Does not include (i) options for shares of Skyworks Solutions, Inc. resulting from adjustments to options awarded under the Conexant plans outstanding at the time of the Skyworks Transaction or (ii) options for Conexant shares resulting from adjustments to options awarded under the Conexant plans outstanding at the time of the Company's spin-off from Conexant. In each transaction, the number of shares subject to, and the exercise prices of, such options were adjusted to preserve the aggregate intrinsic value of the options and to maintain the ratio of the exercise price to the fair market value of the underlying stock, immediately before and after the relevant transaction.
- (2) Based on the closing price of the Company's common stock on the American Stock Exchange on September 30, 2003 (\$5.37).

RETIREMENT BENEFITS

The Company does not sponsor a defined benefit pension plan for employees.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

To the Company's knowledge, the following table sets forth information regarding ownership of the Company's outstanding Common Stock on November 30, 2003 by each director and Named Executive Officer and all directors and executive officers as a

group. Except as otherwise indicated below and subject to applicable community property laws, each owner has sole voting and sole investment power with respect to the stock listed.

Beneficial Ownership as of November 30, 2003

<u>Name(1)</u>	<u>Common Stock</u>	
	<u>Shares</u>	<u>Percent of Class(2)</u>
Donald R. Beall	699,610(3,4,5)	—*
Dwight W. Decker	1,376,146(3,5)	1.45
Hossein Eslambolchi	8,854(5)	—*
Raouf Y. Halim	1,168,210(3,5)	1.23
Ming Louie	—	
Thomas A. Madden	—	
Jerre L. Stead	50,896(5,6)	—*
David W. Carroll	165,976(3,5)	—*
Harry H. Davoody	22,343(5)	—*
Wayne K. Nesbit	57,836(5)	—*
Daryush Shamlou	216,441(3,5)	—*
All of the above and other executive officers as a group (17 persons)	4,521,793(3,4,5,6)	4.76

* Less than 1%

- (1) Each person's address is the address of the Company.
- (2) For purposes of computing the percentage of outstanding shares beneficially owned by each person, shares of which such person has a right to acquire beneficial ownership within 60 days have been included in both the number of shares owned by that person and the number of shares outstanding, in accordance with Rule 13d-3(d)(1) under the Securities Exchange Act.
- (3) Includes shares held under the savings plans of the Company, Conexant and Rockwell as of November 30, 2003. Does not include the following: 1,220 and 346 share equivalents for Messrs. Decker and Shamlou, respectively, held under Conexant's and Rockwell's supplemental savings plans as of November 30, 2003. Awards under the supplemental savings plans are paid in cash.
- (4) Includes shares, as to which beneficial ownership is disclaimed, as follows: 2,058 shares held for the benefit of family members and 3,333 shares owned by the Beall Foundation, of which Mr. Beall is President and a director. Does not include 103,038 shares that may be acquired upon exercise of stock options held in Beall Trust #2, the beneficiaries of which are adult children of Mr. Beall not living in the same household and as to which trust Mr. Beall has no relationship.
- (5) Includes shares that may be acquired upon the exercise of outstanding stock options within 60 days as follows: 259,751; 1,309,952; 7,148; 1,155,514; 39,329; 163,336; 22,343; 56,180; 213,673; and 3,930,031 for Messrs. Beall, Decker, Eslambolchi, Halim, Stead, Carroll, Davoody, Nesbit, Shamlou and the group, respectively.
- (6) Includes 11,567 shares derived from shares of Conexant common stock granted to Mr. Stead as restricted stock under the Conexant Directors Stock Plan.

There are no persons known to Mindspeed to be "beneficial owners" (as that term is defined in the rules of the Securities and Exchange Commission) of 5% of any class of the Company's voting securities outstanding as of November 30, 2003.

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS (Proposal 2)

Deloitte & Touche LLP have been the Company's independent auditors for fiscal 2003 and have been selected by the Audit Committee of the Board of Directors as the Company's independent auditors for the fiscal year ending September 30, 2004.

Before the Audit Committee recommended to the full Board the appointment of Deloitte & Touche LLP, it carefully considered the qualifications of that firm, including its performance for Mindspeed, Conexant and Rockwell in prior years and its reputation for integrity and for competence in the fields of accounting and auditing.

A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she so desires. The representative will also be available to respond to appropriate questions from shareholders.

The Board of Directors recommends a vote FOR ratification of the appointment of Deloitte & Touche LLP as independent auditors for the Company for the current fiscal year. Unless a contrary choice is specified, proxies solicited by the Board of Directors will be voted FOR ratification of the appointment.

PRINCIPAL ACCOUNTANTS FEES AND SERVICES

Auditors' Fees

The aggregate fees billed by Deloitte & Touche LLP for professional services rendered for the audit of the Company's annual financial statements for fiscal 2003, for the review of the Company's quarterly financial statements for fiscal 2003 and for certain work performed in connection with the Company's spin-off from Conexant were \$484,949. This includes amounts paid by Conexant on behalf of the Company for periods prior to the Company's spin-off from Conexant.

Audit Related Fees

The aggregate fees billed by Deloitte & Touche LLP to the Company for audit related fees encompassing work performed in connection with the Company's spin-off from Conexant and other items were \$20,000.

Tax Fees

The aggregate fees billed by Deloitte & Touche LLP to the Company for professional services rendered for tax compliance, tax advice and tax planning for fiscal 2003 were \$546.

All Other Fees

There were no fees billed by Deloitte & Touche LLP to the Company for fiscal 2003 for any other services rendered to the Company.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership of, and transactions in, the Company's securities with the Securities and Exchange Commission. Such directors, executive officers and 10% shareholders are also required to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms received by it, and on written representations from certain reporting persons, the Company believes that during fiscal year 2003 its directors, executive officers and 10% shareholders timely filed all forms required to be filed under Section 16(a).

Shareholder Proposals or Nominations for 2005 Annual Meeting

Under the SEC's rules, shareholders interested in submitting a proposal for inclusion in the proxy statement for the 2005 Annual Meeting may do so by submitting the proposal in writing to the Company at 4000 MacArthur Boulevard, East Tower, Newport Beach, California 92660-3095, Attn: Ian J. Stock, Senior Vice President, General Counsel and Secretary. To be eligible for inclusion in our proxy statement, shareholder proposals must be received no later than September 2, 2004. The submission of a shareholder proposal does not guarantee that it will be included in the proxy statement.

The Company's bylaws also establish an advance notice procedure with regard to nominations of persons for election to the Board of Directors and shareholder proposals to be brought before an annual meeting of shareholders. Shareholder proposals and nominations may not be brought before the 2005 Annual Meeting unless, among other things: (1) the shareholder's submission contains certain information concerning the proposal or the nominee, as the case may be, and other information specified in the Company's bylaws, and (2) the shareholder's submission is received by the Company no earlier than October 29, 2004 and no later than November 28, 2004. Proposals or nominations not meeting these requirements will not be entertained at the 2005 Annual Meeting. Shareholders of the Company recommending candidates for consideration by the Governance and Board Composition Committee must provide the candidate's name, biographical data and qualifications. Any such recommendation should be accompanied by a written statement from the individual of his or her consent to be named as a candidate and, if nominated and elected, to serve as a director. These requirements are separate from, and in addition to, the SEC's requirements that a shareholder must meet in order to have a shareholder proposal included in the proxy statement. A copy of the full text of these bylaw provisions may be obtained on the Company's website (www.mindspeed.com) or by writing to the Company's Senior Vice President, General Counsel and Secretary at the address above.

If a shareholder submitting a proposal or nomination does not also comply with the requirements of Rule 14a-14 under the Securities Exchange Act, the Company may exercise discretionary authority under proxies the Company solicits to vote in accordance with the Company's best judgment on any such proposal or nomination.

Annual Report on Form 10-K and Financial Statements

The Company's 2003 Annual Report on Form 10-K is being mailed to the Company's shareholders together with this proxy statement. Additional exhibits to the Form 10-K not included in this mailing will be furnished upon written request and payment of a fee of ten cents per page covering the Company's costs. Written requests should be directed to the Company at 4000 MacArthur Boulevard, East Tower, Newport Beach, California 92660-3095, Attention: Investor Relations. The Company's 2003 Annual Report on Form 10-K (including exhibits thereto) and this proxy statement are also available on the Company's website (www.mindspeed.com) under the Investor Relations section.

Code of Ethics

The Company has adopted its "Standards of Business Conduct," a code of ethics that applies to all employees, including its executive officers and directors. A copy of the Standards of Business Conduct is posted on the Company's website (www.mindspeed.com). In the event that the Company makes any amendment to, or grants any waiver from, a provision of the code of ethics that requires disclosure under applicable SEC or Nasdaq rules, the Company intends to disclose such amendment or waiver and the reasons therefor on its Internet site.

Other Matters

At the date hereof, there are no other matters that the Board of Directors intends to present, or has reason to believe others will present, at the Annual Meeting. If other matters come before the Annual Meeting, the persons named in the accompanying form of proxy will vote in accordance with their best judgment with respect to such matters.

January 5, 2004

AUDIT COMMITTEE CHARTER

(Amended as of December 29, 2003)

I. Authority and Purpose

The Audit Committee has been constituted by the Board of Directors (the “Board”) to assist the Board in overseeing the accounting and financial reporting processes of the Corporation and audits of the financial statements of the Corporation. The Audit Committee shall undertake those specific duties and responsibilities listed below and such other duties as the Board shall from time to time prescribe. The Committee is expressly vested with all responsibilities and authority required by Rule 10A-3 under the Securities Exchange Act of 1934, as amended. All powers of the Committee are subject to the restrictions designated in the Corporation’s Bylaws and applicable law.

II. Membership

The Committee shall consist of no fewer than three members. Each member of the Committee shall meet as determined by the Board the independence and other requirements, including restrictions on compensation and affiliation prohibitions, of The Nasdaq Stock Market (“Nasdaq”), any other applicable laws or regulatory requirements, including Nasdaq Rules 4200(a) (15) and 4200(d) (2), and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, and the standards established by the Board from time to time. No Committee member shall have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the prior three years.

Committee members shall be elected by the Board and shall serve until their successors shall be duly elected and qualified. Committee members may be removed at any time by vote of the Board.

At least one member of the Committee shall as determined by the Board be an audit committee “financial expert,” as defined in Item 401(h) of Regulation S-K.

Each member of the Committee must be able to read and understand fundamental financial statements, including a corporation’s balance sheet, income statement and cash flow statement. In addition, at least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the individual’s financial sophistication, including but not limited to being or having been a chief executive officer, chief financial officer, other senior official with financial oversight responsibilities, or an active participant on one or more public Corporation audit committees, as the Board interprets such qualification in its business judgment.

III. Structure and Meetings.

The Committee shall conduct its business in accordance with this Charter, the Corporation’s Bylaws and any direction from the Board.

The Committee Chairperson shall be designated by the Board, or, if it does not do so, the Committee members shall elect a Chairperson by a vote of the majority of the full Committee.

The Committee will meet on at least a quarterly basis. The Committee may establish its own schedule, and if it does so, will provide such schedule to the Board in advance. The Chairperson or a majority of the members of the Committee may call meetings of the Committee upon such notice as is required for special Board meetings in accordance with the Corporation’s Bylaws. The Committee shall conduct periodic separate executive sessions with management, with the Corporation’s chief internal audit executive, and with the Corporation’s registered public accounting firm. A majority of the Committee, but not less than two members, shall constitute a quorum for the transaction of business. Unless the Committee by resolution determines otherwise, any action required or permitted to be taken by the Committee may be taken without a meeting if all members of the Committee consent thereto in writing and the writing or writings are filed with the minutes of the proceedings of the Committee. As necessary or desirable, the Chairperson of the Committee may require that any other Director, officer or employee of the Corporation, or other persons whose advice and counsel are sought by the Committee, be present at meetings of the Committee. Members of the Committee may participate in a meeting through use of conference telephone or similar communications equipment, so long as all

members participating in such meeting can hear one another, and such participation shall constitute presence in person at such meeting.

The Committee Chairperson will preside at each meeting and, in consultation with the other members of the Committee, will set the frequency and length of each meeting and the agenda of items to be addressed at each meeting. The Chairperson of the Committee shall ensure that the agenda for each meeting is circulated to each Committee member in advance of the meeting. The Chairperson of the Committee (or other member designated by the Chairperson or the Committee in the Chairperson's absence) shall regularly report to the full Board on its proceedings and any actions that it takes. The Committee will maintain written minutes of its meetings, which minutes will be maintained with the books and records of the Corporation.

IV. Duties and Responsibilities

The Committee's policies and procedures should remain flexible, in order to best react to changing conditions and to ensure that it meets its duties and responsibilities. The Audit Committee shall report to the Board and shall have the following duties and responsibilities:

1) Be directly responsible for the appointment, compensation, retention, and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between management and any such firm regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. The registered public accounting firm shall directly report to the Audit Committee.

2) Review with the registered public accounting firm and management:

- a) the registered public accounting firm's audit of the financial statements and report thereof;
- b) the scope of the audits of the books, records, accounts and financial statements of the Corporation and its subsidiaries during the course of the registered public accounting firm's annual audit of the Corporation's financial statements;
- c) critical accounting policies, alternative treatments of financial information and other material written communications between the registered public accounting firm and management;
- d) the Corporation's quarterly and annual financial statements and related notes before their release;
- e) the adequacy of the Corporation's system of internal controls over financial reporting and any recommendations of the registered public accounting firm with respect thereto;
- f) any deficiency in, or suggested improvement to, the procedures or practices employed by the Corporation as reported by the registered public accounting firm in its annual management letter;
- g) any comments the registered public accounting firm may have regarding the audit restrictions, if any, imposed on its work and the cooperation it received during the audit;
- h) the matters required to be discussed by the Committee under Statement on Auditing Standards (SAS) No. 61 (Communication with Audit Committees), as amended from time to time, which includes but is not limited to such communications concerning concepts of materiality, significant unusual transactions, accounting estimates and audit adjustments;
- i) the effect or potential effect of any material off-balance sheet structures on the Corporation's financial statements;
- j) alternative treatments of financial information within GAAP discussed with management by the Corporation's registered public accounting firm, as well as ramifications of alternative treatments, and such firm's preferred treatment;
- k) a formal written statement prepared by the registered public accounting firm delineating all relationships between the registered public accounting firm and the Corporation consistent with Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees); to actively engage in a dialogue with such firm with respect to any disclosed relationships or services that may impact the objectivity and independence of the registered public accounting firm; and to take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of such firm; and

l) any other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards

3) Review and pre-approve all audit and non-audit services performed by the Corporation's registered public accounting firm, or other accounting firms, other than as may be allowed by applicable law. The Committee may delegate to one or more designated Committee members the authority to grant the preapprovals required by the foregoing sentence. The decision of any Committee member to whom authority is delegated hereunder shall be presented to the Committee at each of its scheduled meetings. Preapproval authority may not be delegated to management.

4) Review and approve the appointment or change of the Corporation's Director of Internal Audit (however titled, the "internal auditor") and review with the internal auditor:

a) the scope of the annual internal audit plan and the results of completed internal audits; and

b) any comments the internal auditor may have on (i) major issues related to the Corporation's internal controls, financial reporting or internal audit activities, (ii) restrictions, if any, imposed thereon, (iii) management's response with respect thereto, and (iv) any material disagreements with respect thereto.

5) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting and auditing matters.

6) Review and approve or disapprove any proposed related party transactions.

7) Make a recommendation to the Board whether or not the audited financial statements should be included in the Corporation's Annual Report or Form 10-K.

8) On a quarterly basis, review and discuss with the registered public accounting firm, management (including the Corporation's Chief Executive Officer and Chief Financial Officer) and the Corporation's internal auditor, as appropriate, the following:

a) the principal executive officer and principal financial officer certifications required to be made in connection with the Corporation's periodic reports under the Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act of 2002;

b) all significant deficiencies in the design or operation of internal controls over financial reporting which could adversely affect the Corporation's ability to record, process, summarize and report financial data, including any material weaknesses in internal controls over financial reporting identified by the Corporation's registered public accounting firm;

c) any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls over financial reporting; and

d) any significant changes in internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

9) Annually, obtain a written report from management on the effectiveness of internal controls over financial reporting, including controls over financial reporting designed to prevent or mitigate financial statement fraud, and review the effectiveness of internal controls over financial reporting with management, the Corporation's internal auditor and registered public accounting firm.

10) Discuss the Corporation's policies for financial risk assessment and management, including accounting and audit related exposure, and the steps management has taken to monitor and control such exposures. The Committee shall discuss guidelines to govern the policies by which financial risk assessment and management is undertaken.

11) Meet periodically with the Chief Financial Officer, the internal auditors and the registered public accounting firm in separate executive sessions.

12) Prepare the Audit Committee report in the Corporation's proxy statement in accordance with SEC requirements.

The Committee relies on the expertise and knowledge of management, the internal auditor, and the registered public accounting firm in carrying out its oversight responsibilities. Management of the Corporation is responsible for determining that the Corporation's financial statements are fairly stated, complete, accurate and in accordance with generally accepted accounting principles. The registered public accounting firm is responsible for auditing the Corporation's financial statements. It is not the duty of the Committee to plan or conduct audits, to determine that the financial statements are complete, accurate and are in accordance with generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations of the Corporation's internal policies, procedures and controls.

Nothing contained in the Charter is intended to alter or impair the operation of the "business judgment rule" as interpreted by the courts under the Delaware General Corporation Law. Further, nothing contained in this Charter is intended to alter or impair the right of the members of the Committee to rely, in discharging their oversight role, on the records of the Corporation and on other information presented to the Committee, Board of Directors or Corporation by its officers or employees or by outside experts such as the registered public accounting firm.

V. Review and Assessment

The Committee shall annually review and assess the adequacy of this Charter and recommend any proposed changes to the Board for approval. The Committee shall also perform periodic examinations, no less than annually, of its specific duties and responsibilities as set forth in this Charter.

VI. Committee Resources

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered, without the approval of the Board, to engage and compensate independent legal, accounting and other advisors, as it determines necessary to carry out its duties. The Committee shall receive appropriate funding, as determined by the Committee, from the Corporation for payment of: (A) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation; (B) compensation to any advisor employed by the Committee; and (C) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee may form and delegate authority to subcommittees when appropriate.

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

Form 10-K

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

For the fiscal year ended September 30, 2003*

Commission file number: 1-31650

Mindspeed Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

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

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

92660-3095
(Zip code)

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

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

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Common Stock, \$0.01 par value per share (including associated Preferred Share Purchase Rights)	American Stock Exchange

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

Common Stock, \$0.01 par value per share
(including associated Preferred Share Purchase Rights)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant as of the end of its most recent fiscal year was approximately \$499.4 million. Such amount is not presented as of the end of Registrant's most recently completed second fiscal quarter since the Registrant's stock was not publicly traded at that date. Shares of voting stock held by each officer and director and by each shareowner affiliated with a director have been excluded from this calculation because such persons may be deemed to be affiliates. This determination of officer or affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the Registrant's Common Stock as of November 28, 2003 was 94,948,294.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2004 Annual Meeting of Stockholders to be held on February 26, 2004, are incorporated by reference into Part III of this Form 10-K.

* For presentation purposes of this Form 10-K, references made to the September 30, 2003 period relate to the actual fiscal year ended October 3, 2003.

** The Registrant has voluntarily applied to delist its Common Stock from listing and trading on the American Stock Exchange. As of December 15, 2003, the Registrant's Common Stock is listed and traded on the Nasdaq National Market and is no longer traded on the American Stock Exchange.

CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains statements relating to Mindspeed Technologies, Inc. (including its future results and business trends) that are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the “safe harbor” created by those sections. Actual results or events may differ materially from those projected as a result of certain risks and uncertainties. These risks and uncertainties include, but are not limited to, those set forth herein under the heading “Certain Business Risks,” as well as those detailed from time to time in our other filings with the Securities and Exchange Commission. These forward-looking statements are made only as of the date hereof, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Mindspeed Technologies™ is a trademark of Mindspeed Technologies, Inc. Other brands, names and trademarks contained in this Annual Report are the property of their respective owners.

PART I

Item 1. *Business*

Mindspeed Technologies, Inc. (“we”, “Mindspeed” or the “Company”) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, access, metropolitan and wide-area networks. Our products, ranging from physical-layer transceivers and framers to higher-layer network processors, are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including voice and media gateways, high-speed routers, switches, access multiplexers, cross-connect systems, add-drop multiplexers and digital loop carrier equipment. Service providers use this equipment for the processing, transmission and switching of high-speed voice and data traffic within different segments of the communications network.

Our products enable network infrastructure OEMs to design their system-level products with bandwidth flexibility, low power consumption, scalability, upgradeability and high reliability, which we believe allows them to achieve lower total system cost and accelerate their design and production cycles. We believe the breadth of our product portfolio, combined with more than three decades of experience in semiconductor hardware, software and communications systems engineering, provide us with a competitive advantage. We have proven expertise in signal, packet and transmission processing technologies, which are critical core competencies for successfully defining, designing and implementing advanced semiconductor products for next-generation network infrastructure equipment. Our business is fabless, which means we outsource all of our manufacturing needs and we do not own or operate any semiconductor manufacturing facilities. We believe being fabless allows us to minimize operating infrastructure and capital expenditures, maintain operational flexibility and focus our resources on the design, development and marketing of our products — the highest value-creation elements of our business model.

Spin-off from Conexant Systems, Inc.

On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution to Conexant shareholders of all outstanding shares of common stock of Mindspeed, then a wholly owned subsidiary of Conexant (the Distribution). In the Distribution, each Conexant shareholder received one share of our common stock, par value \$.01 per share (including an associated preferred share purchase right), for every three shares of Conexant common stock held and cash for any fractional share of our common stock. Following the Distribution, we began operations as an independent, publicly held company. Our common stock now trades on the Nasdaq National Market under the ticker symbol “MSPD”.

Prior to the Distribution, Conexant transferred to us the assets and liabilities of its Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to us under the Distribution Agreement entered into between us and Conexant. Also prior to the Distribution, Conexant contributed to us cash in an amount such that at the time of the Distribution our cash balance was \$100 million. We and Conexant also entered into a Credit Agreement, pursuant to which we may borrow up to \$50 million for working capital and general corporate purposes and we issued to Conexant a warrant to purchase 30 million shares of our common stock at a price of \$3.408 per share, exercisable for a period beginning one year and ending ten years after the Distribution. We and Conexant also entered into an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

Industry Overview

Background

The telecommunications industry has experienced dramatic growth in the number of Internet users, increasing from a base of approximately 20 million users in 1995 to almost 600 million users by the end of 2002. Consumers and businesses of all sizes increased their use of the Internet for e-mail, on-line shopping, video conferencing and transferring large amounts of stored data. Growth in consumer and business users and applications spurred demand for more bandwidth-intensive data services from service providers. To satisfy this growth in demand, service providers invested aggressively in high-speed, packet-based data networks.

By the end of 2000, many service providers had expanded their networks too rapidly, resulting in industry-wide bandwidth overcapacity significantly exceeding demand growth projections for the next several years. As a result, service provider annual capital spending on network infrastructure equipment, physical plant and support services

declined significantly in calendar years 2001 and 2002. Beginning in the first calendar quarter of 2001, this sharp decrease in demand for communications semiconductors significantly impacted our revenues and the revenues of our competitors.

Outlook

Despite this setback, we believe the market for network infrastructure equipment in general, and for communications semiconductors in particular, has stabilized and will return to an attractive long term growth trajectory for several reasons:

- We believe the imbalance between supply and demand has been significantly reduced in several network equipment market segments, including network access and metropolitan area networks, or metro, service areas and selected enterprise segments.
- We anticipate that demand for network capacity will increase, driven by:
 - Internet user growth;
 - higher network utilization rates; and
 - the popularity of new bandwidth-intensive applications, such as wireless data transfer and video/multimedia applications.
- We believe that incumbent service providers worldwide will continue to upgrade and expand legacy portions of their networks to accommodate new service offerings and to reduce their recurring cost of operations.
- In developing countries, we expect that service providers will continue the build-out of telecommunication networks, many of which were previously government owned.

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

Addressed Markets and Semiconductor Requirements

Semiconductors will continue to play a critical role in enabling network infrastructure OEMs to meet the needs of their service provider customers in terms of system performance, functionality and time-to-market. Network infrastructure OEMs require new, more advanced communications semiconductor products that are highly optimized for network infrastructure equipment employed by their customers, such as digital signal processors, transceivers, framers, packet and cell processors, and switching solutions.

Our semiconductor products can be incorporated in network infrastructure equipment that is deployed by service providers or businesses in the four segments of the broadly defined communications network: enterprise networks, network access service areas, metropolitan area networks, and wide-area or long-haul networks. We focus primarily on two of these network segments, network access service areas and metropolitan area networks, and continue to expand our presence in a number of enterprise, or internal business network, applications. The type and complexity of network infrastructure equipment used in these segments continues to expand, driven by the need for the processing, transmission and switching of digital voice and data traffic over multiple communication media, at numerous transmission data rates and employing different protocols.

Network Access service areas of the telecommunications network refer to the “last mile” of a service provider’s physical network, including network infrastructure equipment that connects end-users, typically located at a business or residence, with metropolitan area and wide-area networks. For this portion of the network, infrastructure equipment requires semiconductors that enable reliable, high-speed connectivity capable of aggregating or disaggregating and transporting multiple forms of voice and data traffic. In addition, communications semiconductors must accommodate multiple transmission standards and communications protocols to provide a bridge between dissimilar access networks, for example, connecting wireless base station equipment to a wireline network. Typical network infrastructure equipment found at the edge of the network access service area that use our products include remote access concentrators, digital subscriber line (DSL) access multiplexers, voice and media gateways, wireless base stations and optical line termination and media converters.

Metropolitan Area Networks, or metro, service areas of the telecommunications network refer to the portion of a service provider's physical network that enables high-speed communications within a city or a larger regional area. In addition, it provides the communications link between network access service areas and the fiber optic-based, wide-area network. For metro equipment applications, communications semiconductors provide transmission and processing capabilities, as well as information segmentation and classification, and routing and switching functionality, to support high-speed traffic from multiple sources employing different transmission standards and communications protocols. These functions require signal conversion, signal processing and packet processing expertise to support the design and development of highly integrated mixed-signal devices combining analog and digital functions with communications protocols and application software. Typical network infrastructure equipment found in metro service areas that use our products include add-drop multiplexers, switches, high-speed routers and digital cross-connect systems.

Communications Media and Data Transmission Rates. Copper wire remains the primary wireline communication medium for network access service areas and portions of metro service areas. T-carrier service is the most common digital transmission service standard employed by service providers to deliver high-speed communications for both voice and data traffic over copper wire, and is ideally suited for point-to-point communications requirements for businesses. T-1 and T-3 lines refer to different levels of North American T-carrier service that transmit data at rates of 1.5 and 45 megabits per second (Mbps) respectively. In Europe and portions of Asia, similar services are designated as E-1 and E-3 lines and transmit data at rates of 2 and 34 Mbps, respectively.

Given its superior bandwidth capability, ease of maintenance, improved data integrity and network reliability, fiber optic cable has become the communication medium of choice for wide-area networks and most metro service areas and is increasingly used for broadband network access applications. Synchronous optical network (SONET) is the digital transmission service standard employed by service providers in the Americas and portions of Asia to deliver high-speed voice and data communications and synchronous digital hierarchy (SDH) is the equivalent standard for the majority of the rest of the world. Today, high-speed SONET/ SDH-based connections operate at data transmission rates from 155 Mbps to 2.5 gigabits per second (Gbps) in metro service areas and up to 10 Gbps in long haul networks.

Communications Protocols. Regardless of the selected communications medium or data transmission rate, the movement of all voice and data traffic throughout the telecommunications network requires the use of software intensive communications protocols that govern how information is passed between network infrastructure equipment. Voice and data traffic is transported and switched using two principal types of switching techniques, circuit switching and packet switching, each employing different communications protocols.

Circuit switching, the most common technique for transporting and switching ordinary telephone calls throughout the telecommunications network today, does not use bandwidth efficiently and is not easily scalable to handle significant increases in network data traffic. In response to increased voice and data traffic, service providers accelerated their deployment of network infrastructure equipment that employs packet switching techniques to use more efficiently the available bandwidth to accommodate voice and data traffic. Packet switching transports and switches voice and data traffic that has been segmented into individual frames, cells or packets across the network and reassembles the individual frames, cells or packets at their final destination. Service providers use multiple packet switching protocols, including frame relay (for frame transfer), asynchronous transfer mode (ATM) (for cell transfer), Internet protocol (IP) (for packet transfer), and multiprotocol label switching (MPLS) (for frame, cell and/or packet transfer), in different communications applications.

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

The Mindspeed Approach

We believe the breadth of our product portfolio, combined with our expertise in semiconductor hardware, software and communications systems engineering, provide us with a competitive advantage in designing and selling our products to leading network infrastructure OEMs. We have proven expertise in signal, packet and transmission processing technologies. These three core technology competencies are critical for developing semiconductor networking solutions that enable the processing, transmission and switching of high-speed voice and data traffic, employing multiple communications protocols, across disparate communications networks using copper wire or optical fiber as the transport medium. Our three core technology competencies are the foundation for developing our:

- Semiconductor device architectures, including digital signal processors, mixed signal devices and programmable protocol engines, as well as analog signal processing capabilities;
- Highly optimized, signal processing algorithms and communications protocols, which we implement in semiconductor devices; and
- Critical software drivers and application software to perform signal, packet and transmission processing tasks.

Signal Processing

Signal processing involves both signal conversion and digital signal processing techniques that convert and compress voice and data between analog and digital representations. Our portfolio of digital signal processors and reduced instruction set controller-based (RISC-based) processors coupled with our expertise in digital signal processing algorithm development and implementation, enable our products to execute a wide range of modem modulations, echo cancellers, speech coders and communications protocols. Our portfolio of analog signal conversion devices facilitates signal transmission over copper wire across a wide range of signal amplitudes and frequencies.

Packet Processing

Packet processing involves bundling or segmenting information traffic using standard protocols and enables sharing of transmission bandwidth across a given communication medium. Packet processing segments the information to be transmitted into frames, packets or cells, adds destination and origin information and provides error detection and correction capabilities. Packet processing is also used to translate voice and data traffic between different protocols, such as between ATM and IP, and to implement sophisticated traffic management algorithms to control the amount of bandwidth that various communications links use. Our family of network processors is software-programmable and provides advanced protocol translation and traffic management capabilities for frame relay, ATM, IP and MPLS packet processing applications over a variety of communications media and data transmission rates.

Transmission Processing

Transmission processing involves the transport and receipt of voice and data traffic across copper wire and optical fiber communications media. Our portfolio of physical-layer communications devices support transmission processing over T-carrier and SONET/SDH digital transmission services, spanning data transmission rates from 1-2 Mbps to 3 Gbps. Our building-block core devices perform transmit and receive, framing, mapping, multiplexing and de-multiplexing, clock and data recovery, echo cancellation and line equalization functions, which serve as the foundation for these physical-layer and link-layer devices.

Strategy

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

Focus on Increasing Share in High-Growth, High-Margin Applications

We have established strong positions for our products in the metro and network access service areas of the telecommunications network market that have historically demonstrated solid growth. We believe there is an

improved balance between supply and demand for network infrastructure equipment and communications semiconductors in the metro and network access service areas as network infrastructure OEM inventories are closer to normal levels and areas of growth are emerging. In addition, products which serve metro and network access applications and perform packet processing, transmission processing and/or signal processing functions typically command higher average selling prices and higher margins, primarily due to their functional complexity and their software content. These two key attributes are expected to make the metro and network access service areas the most attractive market segments for the foreseeable future. We believe that our three core technology competencies, coupled with focused investments in product development, will position us to increase our share in those target areas.

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

We identify and selectively establish strategic relationships with market leaders in the network infrastructure equipment industry to develop next generation products and, in some cases, customized solutions for their specific needs. We have an extensive history of working closely with our customers' research and development and marketing teams to understand emerging markets, technologies and standards and we invest our product development resources in those areas. We believe our close relationships with leading network infrastructure OEMs facilitate early adoption of our products during development of their system-level products, enhance our ability to obtain design wins from those customers and encourage adoption of our technology throughout the industry.

In North America we have cultivated close relationships with leading network infrastructure OEMs, including Cisco Systems, Inc., Juniper Networks, Inc., Lucent Technologies, Inc., McData Corporation and Nortel Networks, Inc. In addition, we have intensified our efforts internationally, particularly in the Asia-Pacific region, and have established close relationships with market leaders such as Fujitsu Limited, Huawei Technologies Co. Ltd., LG Electronics Inc., NEC Corporation, Samsung Electronics Co., Ltd. and Zhongxing Telecom Equipment Corp. (ZTE) in the Asia-Pacific region and Alcatel Data Networks, S.A., Nokia Corporation and Siemens A.G. in Europe.

Capitalize on the Breadth of Our Product Portfolio

We build on the breadth of our product portfolio of physical-layer devices, together with our signal and packet processing devices and communications software expertise, to increase our share of the silicon content in our customers' products. We offer a range of complementary products that are optimized to work with each other and provide our customers with complete information receipt, processing and transmission functions. These complementary products allow infrastructure OEMs to source components that provide proven interoperability from a single semiconductor supplier, rather than requiring OEMs to combine and coordinate individual components from multiple vendors. In addition, we provide network infrastructure OEMs with product development roadmaps for the physical integration of discrete components, such as transceivers, framers and mappers, together with the requisite protocol stacks and application software drivers, into a single semiconductor component that performs the same functions previously requiring multiple components. We believe that this strategy of offering both complementary and integrated products increases product performance, speeds time-to-market and lowers the total system cost for our customers.

In addition, we are expanding our broad product portfolio into applications adjacent to network access and metro service areas, such as enterprise applications. This strategy allows us to address new, incremental growth opportunities by building on existing investments.

The breadth of our product portfolio also provides a competitive advantage for serving network convergence applications such as multiprotocol wireless-to-wireline connectivity. These applications generally require a combination of processing, transmission or switching functionality to move high-speed voice and data traffic employing multiple communications protocols across disparate communications networks using copper wire or optical fiber as the transport medium.

Provide Outstanding Technical Support and Customer Service

We provide broad-based technical support, including product design support, to our customers through three dedicated teams: field application engineers, product application engineers and technical marketing personnel. We believe that providing comprehensive service and support is critical to shortening our customers' design cycles,

ensuring the successful launch of their products and maintaining a long-term competitive position within the network infrastructure equipment market. Outstanding customer service and support is becoming a more critical competitive tool as leading network infrastructure OEMs reduce the number of their semiconductor component suppliers to a small preferred list.

Operate as a Fabless Company

We operate as a fabless semiconductor company and outsource all of our manufacturing needs. This allows us to focus our resources on designing, developing and marketing our products while minimizing operating infrastructure costs and capital expenditures. As a result, we maintain maximum flexibility in operations so that we can more rapidly adapt to changes in our customers' needs and our target markets.

Products

We provide network infrastructure OEMs with a broad portfolio of advanced semiconductor networking solutions, ranging from physical-layer transceivers and framers to higher-layer network processors. Our products can be classified into four focused product families: high-performance analog products, multiservice access products, T/E carrier products and ATM/MPLS network processor products. These four product families are found in a variety of networking equipment designed to process, transmit and switch voice and data traffic between, and within, the different segments of the communications network.

High-Performance Analog Products

Our high-performance analog transmission devices and switching solutions support storage, fiber-to-the-premise and Fibre Channel applications, as well as mainstream SONET/SDH and packet-over-SONET applications, typically operating at data transmission rates between 155 Mbps and 2.5 Gbps. Our transmission products include laser drivers, transimpedance amplifiers, post amplifiers, clock and data recovery circuits and serializers/deserializers. These products serve as the connection between a fiber optic cable component interface and the remainder of the electrical subsystem in various network equipment and perform a variety of functions including:

- Conversion of incoming optical signals from fiber optic cables to electrical signals for processing and transport over a wireline medium and vice-versa;
- Conditioning the signal to remove unwanted noise or errors;
- Combining lower speed signals from multiple parallel paths into higher speed serial paths, and vice-versa, for bandwidth economy; and
- Amplifying weaker signals as they pass through a particular system's equipment or network.

Our switching portfolio includes a family of high-speed crosspoint switches capable of switching traffic within various types of network switching equipment. These crosspoint switches direct, or transfer, a large number of high-speed data input streams, regardless of traffic type, to different connection trunks for rerouting the information to new destination points in the network. Crosspoint switches are often used to provide redundant traffic paths in networking equipment to protect against the loss of critical data from spurious network outages or failures that may occur from time-to-time. Target equipment applications for our switching products include add-drop multiplexers, high-density Internet protocol switches, storage-area routers and optical cross-connect systems. In addition, we recently introduced crosspoint switches optimized for broadcast video routing and production switcher applications.

Multiservice Access Products

Our software configurable multiservice access processor products serve as bridges for transporting voice and data between circuit-switched networks and packet-based networks. Our multiservice access device architecture combines the performance of a digital-signal processor core with the flexibility of a microcontroller core to support our extensive suite of modulation techniques, echo cancellers, speech coders and communications protocols. These products process and translate voice and data signals and perform various management and reporting functions that help determine the appropriate amount of bandwidth required for transporting the signals to the next destination. They compress the signals to minimize bandwidth consumption and modify or add communications protocols to accommodate transport of the signals across a variety of different services and networks. Supported services include

voice-over-packet (also commonly referred to as voice-over-IP), voice-over-ATM and voice-over-DSL services, as well as wireline to wireless connectivity.

Our foundation Universal Access processor family provides complete hardware and software solutions for receiving and transmitting modem calls from an end-user over the circuit-switched network in equipment such as remote access concentrators and small to mid-range servers. These multi-channel devices then prepare those signals for transport to a new destination over the packet-based Internet backbone.

We also offer a family of next-generation, voice-over-packet communications convergence processors. Our high-density voice-over-IP processor, known as Miro, supports the transport of traffic between and among circuit-switched and packet-switched networks across the entire range of IP and ATM protocols and modulation techniques. Miro is capable of handling more than 300 channels of both voice-over-IP and voice-over-ATM traffic and is targeted for use in digital loop carriers and voice and media gateways designed to bridge wireless, wireline and enterprise networks.

Our voice-over-packet silicon private branch exchange (PBX) processor, known as Chagall, is the industry's first semiconductor system solution to integrate voice processing, packet processing and encryption functionality into a single device for the rapidly growing voice-over-packet enterprise market for internal business networks. Chagall is targeted for use in enterprise voice gateways, packet-enabled PBXs and integrated access devices (IADs).

T/E Carrier Products

Our T/E carrier products include physical-layer and link-layer communications device solutions which enable high-speed broadband access. These solutions facilitate the aggregation and transport of voice and data traffic over copper wire from the edge of the network to metropolitan and long-haul networks.

Our T1/E1 and T3/E3 carrier devices incorporate high-speed analog, digital and mixed signal circuit technologies and include multi-port framers and line interface units (LIUs) or transceivers for 1.5 Mbps to 45 Mbps data transmission, as well as multi-channel, high-level data link channel (HDLC) protocol controllers. Framers format data for transmission and extract data at reception, while LIUs condition signals for transmission and reception over multiple media. Our multi-port T3/E3 LIUs with integrated digital jitter attenuation functionality and our integrated T3/E3 LIU, mapper, multiplexer/demultiplexer and framing solution are targeted for T/E carrier to SONET/SDH network connectivity. These highly integrated, low-power solutions are designed for use in a variety of network equipment including digital loop carriers, access multiplexers, add-drop multiplexers, central office switches, digital cross-connect systems and multiservice provisioning platforms.

Our T/E carrier products are complemented by a family of symmetric DSL (SDSL) transceivers which enable service providers to deliver Internet access at data transmission rates of 1.5 Mbps to 4.6 Mbps in both directions over copper wire, supporting telecommuting and branch office functions in North America. SDSL solutions employ advanced digital signal processing techniques that enable the delivery of dedicated high-speed data transmission over copper wires within the local loop to end-users at a lower price than traditional T/E lines. Our DSL transceiver family includes low power, single-port and multi-port DSL products utilizing the next generation DSL standard called G.shdsl. G.shdsl enables simultaneous voice and data communications at data transmission rates up to 4.6 Mbps over copper wire pairs for global DSL applications and over longer distances than SDSL-based solutions.

ATM/MPLS Network Processor Products

Our high-performance ATM/MPLS network processors are designed to offer advanced protocol translation and traffic management capabilities normally performed by complex and costly ASICs. Protocol translation occurs where different types of networks and protocols interconnect. Traffic management describes a collection of functions which are used to allocate optimally network bandwidth and allow service providers to provide differentiated services over their networks. Our software-programmable devices operate at data transmission rates from 1.5 Mbps to 2.5 Gbps.

Our network processor devices address internetworking applications, including ATM segmentation and reassembly, and a variety of traffic management functions, including traffic shaping, traffic policing and queue management, required by these applications. Segmentation and reassembly supports the interconnection of ATM and packet-based networks, such as packet over SONET, frame relay or Ethernet. Traffic shaping regulates the time and rate at which various categories of traffic can be sent onto the network. Traffic policing monitors traffic coming

into a port from the network and ensures that it conforms to predetermined policies. Queue management involves the prioritization of traffic throughout the network.

Customers

We market and sell our semiconductor networking solutions directly to leading network infrastructure OEMs. We also sell our products indirectly through electronic component distributors and third-party electronic manufacturing service providers, who manufacture products incorporating our semiconductor networking solutions for OEMs. Our top five direct OEM customers for fiscal year 2003 were Alcatel Data Networks, S.A., Cisco Systems, Inc., Fujitsu Limited, Nokia Corporation and Nortel Networks, Inc. While our direct sales to these customers accounted for a total of approximately 10% of our fiscal 2003 net revenues, we believe indirect sales to these same customers represent a significant additional portion of our net revenues. Including indirect sales, we believe that Cisco Systems, Inc. accounted for approximately 15% of our fiscal 2003 net revenues and that no other OEM customer accounted for 10% or more of our net revenues. We believe that significant indirect network infrastructure OEM customers for our products for fiscal year 2003 also included ADC Telecommunications, Inc., Huawei Technologies Co., Ltd., McData Corporation, Siemens A.G. and ZTE. Sales to distributors accounted for approximately 58% of our revenues for fiscal 2003. For fiscal 2003, distributors Avnet, Inc. and Alltek Technology Corporation accounted for 22% and 12%, respectively, of our net revenues; no other direct customer accounted for 10% or more of our net revenues. Revenues derived from customers located in the Americas, Europe, and the Asia-Pacific region were 51%, 15% and 34%, respectively, for fiscal year 2003. See Note 13 of Notes to Consolidated Financial Statements.

Sales, Marketing and Technical Support

We have a worldwide sales, marketing and technical support organization comprised of approximately 120 employees as of October 31, 2003, located in 6 domestic and 12 international sales locations. Our marketing, sales and field applications engineering teams, augmented by 19 electronic component distributors and 19 sales representative organizations, focus on marketing and selling semiconductor networking solutions to worldwide network infrastructure OEMs.

We maintain close working relationships with our customers throughout their lengthy product development cycle. Our customers may need six months or longer to test and evaluate our products and an additional six months or longer to begin volume production of network infrastructure equipment that incorporates our products. During this process, we provide broad-based technical support to our customers through our field application engineers, product application engineers and technical marketing personnel. We believe that providing comprehensive product service and support is critical to shortening our customers' design cycles and maintaining a competitive position in the network infrastructure equipment market. See "Certain Business Risks — Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenues related to those products."

Operations and Manufacturing

We are a fabless company, which means we do not own or operate foundries for wafer fabrication or facilities for device assembly and final test of our products. Instead, we outsource wafer fabrication, assembly and testing of our semiconductor products to independent, third-party contractors. We use mainstream digital complementary metal-oxide semiconductor (CMOS) process technology for the majority of our products; we rely on specialty processes for the remainder of products. Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC) is our principal foundry supplier of CMOS wafers and die. Our primary foundry supplier for specialty process requirements is Jazz Semiconductor. We use several other suppliers for wafers used in older or low-volume products.

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

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

foundry and back-end providers. We closely monitor wafer foundry production for overall quality, reliability and yield levels.

Competition

The communications semiconductor industry in general, and the markets in which we compete in particular, are intensely competitive. We compete worldwide with a number of U.S. and international suppliers that are both larger and smaller than us in terms of resources and market share. We expect intense competition to continue.

Our principal competitors are Agere Systems, Inc., Applied Micro Circuits Corporation, Centillium Communications, Inc., Exar Corporation, GlobespanVirata, Inc., Infineon Technologies A.G., Integrated Device Technology, Inc., Intel Corporation, Maxim Integrated Products, Inc., PMC-Sierra, Inc., Texas Instruments Incorporated, Transwitch Corporation and Vitesse Semiconductor Corporation.

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

- time-to-market;
- product quality, reliability and performance;
- customer support;
- price and total system cost;
- new product innovation; and
- compliance with industry standards.

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

- stronger financial position and liquidity;
- longer presence in key markets;
- greater name recognition;
- 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 recently incurred substantial operating losses and we anticipate future losses. Our OEM customers may choose semiconductor suppliers whom they believe have a stronger financial position or liquidity.

Backlog

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

Research and Development

We have significant research, development, engineering and product design capabilities. As of October 31, 2003, we had approximately 400 employees engaged in research and development activities. We perform research and product development activities at our headquarters in Newport Beach, California and at 6 design centers throughout the world. Our design centers are strategically located to take advantage of key technical and engineering talent.

Our success depends to a substantial degree upon our ability to 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. In addition, we actively collaborate with technology leaders to define and develop next-generation technologies.

We spent approximately \$106.3 million, \$167.1 million and \$196.6 million in fiscal 2003, 2002 and 2001, respectively, on research and development activities.

Intellectual Property

Our success and future revenue growth depend, in part, on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark and trade secret laws, as well as employee and third-party nondisclosure and confidentiality agreements and other methods to protect our proprietary technologies and processes. We believe that intellectual property, including patents, patent applications, licenses and trademarks are of material importance to our business. In addition to protecting our proprietary technologies and processes, we constantly strive to strengthen and enhance our intellectual property portfolio. We use the portfolio to seek licensing opportunities, to negotiate cross-licenses with others, and to avoid, defend against or settle litigation against us or our customers pursuant to indemnification obligations. In connection with our participation in the development of various industry standards, we may be required to license certain of our patents to other parties, including competitors that develop products based upon the adopted industry standards. We have also entered into agreements with certain of our customers and granted these customers the right to use our proprietary technology in the event we default in our contractual obligations, including product supply obligations, and fail to cure the default within a specified period of time. While in the aggregate our patents, patent applications, licenses and trademarks are considered important to our operations, no single one is considered of such importance that its loss or termination would materially affect our business or financial condition.

See “Certain Business Risks — We may be subject to claims of infringement of third-party intellectual property rights or demands that we license third-party technology, which could result in significant expense and reduction in our intellectual property rights.”

Employees

As of October 31, 2003, we had approximately 650 full-time employees, of whom approximately 445 were engineers. Our employees are not covered by any collective bargaining agreements and we have not experienced a work stoppage in the past five years.

We believe our future success will depend in large part on our ability to continue to attract, motivate, develop and retain highly skilled and dedicated technical, marketing and management personnel.

Cyclical

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles and wide fluctuations in product supply and demand. From time to time these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry, and in our business in particular. See “Certain Business Risks — We have recently experienced the worst downturn in the history of the highly cyclical semiconductor industry, resulting in a dramatic decline in our revenues.”

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

Certain Business Risks

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.

We are incurring substantial operating losses, we anticipate additional future losses and we must significantly increase our revenues to become profitable.

We incurred net losses of \$750.4 million (\$177.3 million, before the \$573.2 million cumulative effect of a change in accounting for goodwill) in fiscal 2003, \$668.3 million in fiscal 2002 and \$496.4 million in fiscal 2001. We face an environment of sharply diminished demand in many of the markets for our products and lower levels of capital spending by service providers who purchase equipment containing our products. We expect that we will continue to incur significant operating losses in the near term.

In order to return to profitability, we must achieve substantial revenue growth. Revenue growth will depend on renewed demand for network infrastructure equipment that incorporates our products, which in turn depends primarily on capital spending levels of communications service providers. Although we have implemented a number of expense reduction and restructuring initiatives to more closely align our cost structure with the current business environment, expense reductions alone, without revenue growth, will not return us to profitability. We cannot assure you as to whether or when we will return to profitability or whether we will be able to sustain such profitability, if achieved.

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.

For the fourth quarter and fiscal year ended September 30, 2003, our net cash “burn” (the sum of our net cash used in operating activities and net cash used in investing activities) was \$25.1 million and \$119.6 million, respectively. Prior to the Distribution, we relied on funding from Conexant together with cash generated from product sales to fund our cash requirements. Our principal sources of liquidity are our existing cash reserves (approximately \$80.1 million as of September 30, 2003) and available borrowings under a \$50 million credit facility with Conexant. We believe that our existing sources of liquidity, 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 for at least the next twelve months. However, we cannot assure you that this will be the case, and if we continue to incur operating losses and negative cash flows in the future, we may need to reduce further our operating costs or obtain alternate sources of financing, or both, to remain viable. We cannot assure you that we will have access to additional sources of capital on favorable terms or at all.

We have recently experienced the worst downturn in the history of the highly cyclical semiconductor industry, resulting in a dramatic decline in our revenues.

The semiconductor industry is highly cyclical and is characterized by constant and rapid technological change, rapid product obsolescence and price erosion, evolving technical standards, short product life cycles and wide fluctuations in product supply and demand. From time to time these and other factors, together with changes in general economic conditions, cause significant upturns and downturns in the industry, and in our business in particular. Periods of industry downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. These factors have caused substantial fluctuations in our revenues and our results of operations. We have in the past experienced these cyclical fluctuations in our business and may experience cyclical fluctuations in the future.

During the late 1990's and extending into 2000, the semiconductor industry in general, and communications applications in particular, enjoyed unprecedented growth, benefiting from the rapid expansion of the Internet and other communication services worldwide. Since fiscal 2001, we — like many of our customers and competitors — have been adversely affected by an abrupt decline in demand for many of the end-user products that incorporate our products. The impact of weakened end-customer demand has been compounded by higher than normal levels of equipment and component inventories held by many of our OEM, subcontractor and distributor customers. These conditions have represented the worst downturn in the history of the semiconductor industry, and the market for communications semiconductor products has been impacted more adversely than the industry as a whole. We cannot assure you as to whether or when market conditions will improve to the extent necessary for us to return to profitability.

We are entirely dependent upon third parties for the manufacture, assembly and test 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. 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 wafer fabrication capacity, and we may experience delays in shipments or increased manufacturing costs.

The significant risks associated with our reliance on third-party foundries are compounded at times of increasing demand for semiconductor products. They include:

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

We obtain external wafer manufacturing capacity primarily from TSMC and Jazz Semiconductor. However, these and other foundries we use may allocate their limited capacity to fulfill the production requirements of other customers that are larger and better financed than we. If we choose to use a new foundry, it typically takes several months to complete the qualification process before we can begin shipping products from the new foundry.

We are also dependent upon third parties, including Amkor, for the assembly and test of our products. Our reliance on others to assemble and test our products subjects us to many of the same risks as are described above with respect to our reliance on outside wafer fabrication facilities.

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. The unanticipated discontinuation of a wafer fabrication process on which we rely may adversely affect our revenues 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 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, Mexico and California. In the event of a disruption of the operations of one or more of our suppliers, we may not have a second manufacturing source immediately available. Such an event could cause significant delays in shipments until we could 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 wafer production capacity is available, we may not be able to obtain it on favorable terms, or at all. Difficulties or delays in securing an adequate supply of our products on favorable terms, or at all, could impair our ability to meet our customers’ requirements and have a material adverse effect on our operating results.

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

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 United States and international semiconductor manufacturers that are both larger and smaller than us 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 presence in key markets;
- greater name recognition;
- 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 recently incurred substantial operating losses and we anticipate future losses. Our OEM customers may choose semiconductor suppliers whom they believe have a stronger financial position or liquidity.

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

Our success depends on our ability to develop competitive new products in a timely manner.

Our operating results will depend largely on our ability to continue to introduce new and enhanced semiconductor products on a timely basis. 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 cannot assure you that we will 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 cannot assure you that we will be able to develop and introduce new or enhanced products in a timely manner, that our products will satisfy customer requirements or achieve market acceptance, or that we will be able to anticipate new industry standards and technological changes. We also cannot assure you that we will be able to respond successfully to new product announcements and introductions by competitors.

If we are not able to keep abreast of the rapid technological changes in our markets, our products could become obsolete.

The demand for our products can change quickly and in ways we may not anticipate because our markets generally exhibit the following characteristics:

- rapid technological developments;
- rapid changes in customer requirements;
- frequent new product introductions and enhancements;
- declining prices over the life cycle of products; and
- evolving industry standards.

Our products could become obsolete sooner than anticipated because of a faster than anticipated change in one or more of the technologies related to our products or in market demand for products based on a particular technology, particularly due to the introduction of new technology that represents a substantial advance over current technology. Currently accepted industry standards are also subject to change, which may contribute to the obsolescence of our products.

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, products as complex as ours 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, such errors, defects and bugs. If any of our products contain production defects or reliability, 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 such 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. Such costs or damages could have a material adverse effect on our financial condition and results of operations.

We may not be able to attract and retain qualified personnel necessary for the design, development and sale 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 and technical 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 cannot assure you that we will be able to attract and retain qualified management and other personnel necessary for the design, development and sale of our products.

Approximately 10% of our engineers are foreign nationals working in the United States under visas. The visas held by many of our employees permit qualified foreign nationals working in specialty occupations, such as certain categories of engineers, to reside in the United States 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 have particular difficulty attracting and retaining key personnel during periods of poor operating performance. Our recent expense reduction and restructuring initiatives, including a series of worldwide workforce reductions, have significantly reduced the number of our technical 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.

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 will be 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. Achieving a design win with a customer does not ensure that we will receive significant revenues 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.

Because of the lengthy sales cycles of many of our products, we may incur significant expenses before we generate any revenues related to those 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. This lengthy period of time required also increases 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 the related revenues for these products, and we may never generate the anticipated revenues if our customer cancels or changes its product plans.

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

Our sales are typically made pursuant to individual purchase orders and we generally do not have long-term supply arrangements with our customers. Generally, our customers may cancel orders until 30 days prior to shipment. In addition, we sell a substantial portion of our products through distributors, some of whom have a right to return unsold products to us. Sales to distributors accounted for approximately 58% of our net revenues for fiscal 2003. We routinely purchase inventory based on estimates of end-market demand for our customers' products, which is difficult to predict. This difficulty 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.

The network infrastructure markets we address have been characterized by dramatic changes in end-user demand and levels of channel inventories that reduce visibility into future demand for our products. As a result of sharply reduced demand across our product portfolio, in fiscal 2001 we recorded \$83.5 million of inventory write-downs.

We are subject to the risks of doing business internationally.

For fiscal 2003, approximately 60% of our net revenues were from customers located outside the United States, primarily in the Asia-Pacific region and Europe. In addition, we have design centers and suppliers located outside the United States, including foundries and assembly and test service providers located in the Asia-Pacific region. Our international sales and operations are subject to a number of risks inherent in selling and operating abroad. These include, but are not limited to, risks regarding:

- currency exchange rate fluctuations;
- local economic and political conditions;
- disruptions of capital and trading markets;
- restrictive governmental actions (such as restrictions on the transfer or repatriation of funds and trade protection measures, including export duties and quotas and customs duties and tariffs);
- changes in legal or regulatory requirements;
- difficulty in obtaining distribution and support;
- the laws and policies of the United States and other countries affecting trade, foreign investment and loans, and import or export licensing requirements;
- tax laws; and
- limitations on our ability under local laws to protect our intellectual property.

Because most of our international sales, other than sales to Japan (which are denominated principally in Japanese yen), 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. We cannot assure you

that the factors described above will not have a material adverse effect on our ability to increase or maintain our foreign sales.

We enter into foreign currency forward exchange contracts to minimize risk of loss from currency exchange rate fluctuations for foreign currency commitments entered into in the ordinary course of business. We have not entered into foreign currency forward exchange contracts for other purposes. Our financial condition and results of operations could be affected (adversely or favorably) by currency fluctuations.

Our operating results may be negatively affected by substantial quarterly and annual fluctuations and market downturns.

Our revenues and operating results have fluctuated in the past and may fluctuate in the future. 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 timing of receipt, reduction or cancellation of significant orders by customers;
- the gain or loss of significant customers;
- market acceptance of our products and our customers' products;
- our ability to develop, introduce and market new products and technologies on a timely basis;
- the timing and extent of product development costs;
- new product and technology introductions by competitors;
- fluctuations in manufacturing yields;
- significant warranty claims, including those not covered by our suppliers;
- availability and cost of products from our suppliers;
- intellectual property disputes; and
- the effects of competitive pricing pressures, including decreases in average selling prices of our products.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly or annual operating results. If our operating results fail to meet the expectations of analysts or investors, it could materially and adversely affect the price of our common stock.

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

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 to technologies that are important to our business and have demanded and may in the future demand that we license their patents and technology. Any litigation to determine the validity of allegations that our products infringe or may infringe these 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 cannot assure you that we would prevail in litigation given the complex technical issues and inherent uncertainties in intellectual property litigation. If litigation results in an adverse ruling we could 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 and/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. At times we incorporate the intellectual property of our customers into our designs, and we have obligations with respect to the non-use and non-disclosure of their intellectual property. In the past, we have engaged in litigation to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others, including our customers. We may engage in future litigation on similar grounds, which may require us to expend significant resources and to divert the efforts and attention of our management from our business operations. We cannot assure you that:

- the steps we take to prevent misappropriation or infringement of our intellectual property or the intellectual property of our customers will be successful;
- any existing or future patents will not be challenged, invalidated or circumvented; or
- any of the measures described above would provide meaningful protection.

Despite these preventive measures and precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, develop similar technology independently or design around our patents. If any of our patents fails to protect our technology it would make it easier for our competitors to offer similar products. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited in certain countries.

Our success may depend, in part, on our ability to successfully integrate businesses we may acquire.

We may from time to time make acquisitions, enter into alliances or make investments to complement our existing product offerings, augment our market coverage or enhance our technological capabilities. However, if we consummate such transactions, they could result in:

- issuances of equity securities dilutive to our existing shareholders;
- the incurrence of substantial debt and assumption of unknown liabilities;
- large one-time write-offs;
- amortization expenses related to intangible assets;
- the diversion of management's attention from other business concerns; and
- the potential loss of key employees from the acquired business.

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

Integrating acquired organizations and their products and services may be expensive, time-consuming and a strain on our resources and our relationships with employees and customers, and ultimately may not be successful.

We have a limited operating history as an independent company, and potential concerns about our prospects as an independent company could affect our ability to attract and retain customers and employees.

The historical financial information included in this Annual Report for periods prior to the Distribution has been derived from Conexant's consolidated financial statements and does not reflect what our financial position, results of operations and cash flows would have been if we had operated as an independent public company during

those periods. In addition, the historical information is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future.

As an independent public company, we are dependent on our own resources to operate our business and, except for the \$50 million credit facility with Conexant, we no longer have access to Conexant's resources. If we are not successful in assuring our customers and employees of our financial stability and our prospects for success as an independent company, our customers may choose other suppliers and our employees may seek other employment, which may materially adversely affect our business.

Our securities have a limited trading history, and our stock price may fluctuate significantly.

Our common stock began trading publicly on June 30, 2003. Our common stock is listed and traded on the Nasdaq National Market under the trading symbol "MSPD". There can be no assurance as to the prices at which trading in our common stock will occur in the future and the market price of our common stock may fluctuate significantly. We cannot assure you that an active trading market in our common stock will be sustained in the future. The market price at which shares of our common stock will trade will be determined by the marketplace and may be influenced by many factors, including:

- our operating and financial performance and prospects;
- the depth and liquidity of the market for our common stock;
- investor perception of us and the industry in which we operate;
- the level of research coverage of our common stock;
- changes in earnings estimates or buy/sell recommendations by analysts;
- general financial and other market conditions; and
- domestic and international economic conditions.

Because our total market capitalization is relatively small, our common stock may be or become relatively illiquid. In that event, a shareholder who wants to sell our stock may find it difficult to do so expeditiously or at a favorable price.

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.

Substantial sales of our common stock upon exercise of our warrants issued to Conexant could also depress our stock price or adversely affect our ability to raise additional financing in the public capital markets.

Conexant holds warrants that are exercisable for 30 million shares of our common stock, representing approximately 20 percent of our outstanding common stock on a fully diluted basis. Conexant also holds warrants to acquire up to approximately 8.3 million shares of our common stock to the extent we borrow under the credit facility provided by Conexant. Although the warrants will not be exercisable for lock-up periods of 12 months and 9 months, respectively, following the Distribution, when the lock-up periods expire and if the warrants are otherwise exercisable the underlying shares of our common stock may be acquired and sold. If Conexant or a transferee of the warrants exercises such warrants 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 and our ability to raise additional financing by issuing equity or equity-based securities in the public capital markets could be adversely affected.

Some of our directors and executive officers may have potential conflicts of interest because of their positions with Conexant or their ownership of Conexant common stock.

Some of our directors are Conexant directors, and our non-executive chairman of the board is chairman of the board and chief executive officer of Conexant. Several of our directors and executive officers own Conexant common stock and hold options to purchase Conexant common stock. Service as both a director of ours and as a director or

officer of Conexant, or ownership of Conexant common stock by our directors and executive officers, could create, or appear to create, potential conflicts of interest when directors and officers are faced with decisions that could have different implications for us and Conexant. For example, potential conflicts could arise in connection with decisions involving the credit facility provided to us by Conexant or the warrants to purchase our common stock issued to Conexant, or under the other agreements entered into between us and Conexant in connection with the Distribution.

Our restated certificate of incorporation includes provisions relating to the allocation of business opportunities that may be suitable for both us and Conexant based on the relationship to the companies of the individual to whom the opportunity is presented and the method by which it was presented and also includes provisions limiting challenges to the enforceability of contracts between us and Conexant.

We may have difficulty resolving any potential conflicts of interest with Conexant, and even if we do, the resolution may be less favorable than if we were dealing with an entirely unrelated third party.

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

Our restated certificate of incorporation, our amended bylaws, our rights agreement 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 bylaws include provisions such as:

- the division of our board of directors into three classes to be elected on a staggered basis, one class each year;
- the ability of our board of directors to issue shares of our preferred stock in one or more series without further authorization of our shareholders;
- a prohibition on shareholder action by written consent;
- a requirement that shareholders provide advance notice of any shareholder nominations of directors or any proposal of new business to be considered at any meeting of shareholders;
- 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 bylaws;
- elimination of the right of shareholders to call a special meeting of shareholders; and
- a fair price provision.

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

Available Information

We maintain an Internet website at <http://www.mindspeed.com>. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and other information related to our company, are available free of charge on this site. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Item 2. Properties

At October 31, 2003, we occupied our headquarters located in Newport Beach, California (which includes design and sales offices), 6 design centers and 17 sales locations, some of which share space with Conexant. These facilities had an aggregate floor space of approximately 293,000 square feet, all of which is leased, consisting of approximately 190,000 square feet at our headquarters, 83,000 square feet at our design centers and 20,000 square

feet at our sales locations. In the opinion of management, our properties have been well maintained, are in sound operating condition and contain all the equipment and facilities to operate at present levels.

Through our design centers we provide design engineering and product application support and after-sales service to our OEM customers. The design centers are strategically located around the world to take advantage of key technical and engineering talent worldwide.

Item 3. *Legal Proceedings*

Various lawsuits, claims and proceedings have been or may be instituted or asserted against us or our subsidiaries, including those pertaining to product liability, intellectual property, environmental, safety and health, and employment matters. Pursuant to the Distribution Agreement, we assumed liability for all current and future litigation against Conexant or its subsidiaries to the extent related to the Mindspeed business.

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that a license will be granted. Injunctive relief could have a material adverse effect on our financial condition or results of operations. Based on our evaluation of matters which are pending or asserted, we believe the disposition of such matters will not have a material adverse effect on our financial condition or results of operations.

Item 4. *Submission of Matters to Vote of Security Holders*

No matters were submitted to a vote of our shareholders during the quarter ended September 30, 2003.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

On December 15, 2003, our common stock began trading on the Nasdaq National Market under the symbol "MSPD." From June 30, 2003 to December 12, 2003, our common stock traded on the American Stock Exchange. The following table lists the high and low sales price of our common stock as reported by the American Stock Exchange for the periods indicated.

	<u>High</u>	<u>Low</u>
Quarter ended September 30, 2003	\$6.20	\$2.00

At November 28, 2003, there were approximately 44,000 holders of record of our common stock. However, many holders' shares are listed under their brokerage firms' names. We estimate our number of beneficial shareholders to be approximately 200,000.

We have never paid cash dividends on our capital stock. We currently intend to retain any earnings for use in our business, and do not anticipate paying cash dividends in the foreseeable future.

Item 6. *Selected Financial Data*

The selected consolidated financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto appearing elsewhere in this annual report. Our consolidated statement of operations data for the years ended September 30, 2003, 2002, 2001 and 2000 and our consolidated balance sheet data as of September 30, 2003, 2002 and 2001 have been derived from our audited consolidated financial statements. Our consolidated statement of operations data for the year ended September 30, 1999 and our consolidated balance sheet data as of September 30, 2000 and 1999 have been derived from our unaudited consolidated financial statements. The selected financial data include the operating results and financial position of Mindspeed while it was part of Conexant prior to June 27, 2003. The financial data for periods prior to June 27, 2003 do not reflect what our financial position and results of operations would have been if we had operated as an independent public company during those periods.

	Year Ended September 30,				
	2003	2002	2001	2000(1)	1999
	(In thousands, except per share amounts)				
Statement of Operations Data					
Net revenues	\$ 81,906	\$ 80,036	\$ 305,368	\$ 579,206	\$277,613
Cost of goods sold	25,127	29,410	228,994	233,646	127,603
Gross margin	56,779	50,626	76,374	345,560	150,010
Operating expenses:					
Research and development	106,289	167,148	196,642	136,237	86,546
Selling, general and administrative	49,656	69,500	109,532	81,997	43,613
Amortization of intangible assets	51,223	312,388	304,991	143,171	5,255
Special charges(2)	27,170	168,866	7,665	—	2,200
Purchased in-process research and development	—	—	—	191,348	—
Total operating expenses	234,338	717,902	618,830	552,753	137,614
Operating income (loss)	(177,559)	(667,276)	(542,456)	(207,193)	12,396
Other income (expense), net	1,078	(298)	(448)	1,433	342
Income (loss) before income taxes	(176,481)	(667,574)	(542,904)	(205,760)	12,738
Provision (benefit) for income taxes	780	699	(46,511)	27,051	289
Income (loss) before cumulative effect of accounting change	(177,261)	(668,273)	(496,393)	(232,811)	12,449
Cumulative effect of change in accounting for goodwill(3)	(573,184)	—	—	—	—
Net income (loss)	<u>\$ (750,445)</u>	<u>\$ (668,273)</u>	<u>\$ (496,393)</u>	<u>\$ (232,811)</u>	<u>\$ 12,449</u>
Income (loss) per share, basic and diluted:					
Income (loss) before cumulative effect of accounting change	\$ (1.98)	\$ (7.74)	\$ (6.09)	\$ (3.30)	\$ 0.18
Cumulative effect of change in accounting for goodwill(3)	(6.39)	—	—	—	—
Net income (loss)	<u>\$ (8.37)</u>	<u>\$ (7.74)</u>	<u>\$ (6.09)</u>	<u>\$ (3.30)</u>	<u>\$ 0.18</u>
	As of September 30,				
	2003	2002	2001	2000	1999
Balance Sheet Data					
Working capital	\$ 71,783	\$ (35,430)	\$ (50,377)	\$ 182,688	\$118,869
Total assets	203,889	787,111	1,250,012	1,651,653	185,676
Shareholders' equity	167,134	720,323	1,155,015	1,520,687	154,931

- (1) In fiscal 2000, Conexant completed six acquisitions related to our business, including Microcosm Communications Limited in January; Maker Communications, Inc. in March; Applied Telecom, Inc. in April; HotRail, Inc. in June; and Novanet Semiconductor Ltd. and NetPlane Systems, Inc. in September. In connection with the Distribution, Conexant transferred to us all of the capital stock of Microcosm, Maker, Applied Telecom, HotRail and Novanet. In January 2003, Conexant sold the assets of NetPlane.
- (2) Special charges consist of asset impairments, restructuring, separation costs and gains and losses on the sale of certain assets.
- (3) Effective October 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and recorded an impairment charge of \$573.2 million to write down the carrying value of goodwill to estimated fair value.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

We design, develop and sell semiconductor networking solutions for communications applications in enterprise, access, metropolitan and wide-area networks. Our products, ranging from physical-layer transceivers and framers to higher-layer network processors, are classified into four focused product families: high-performance analog products, multiservice access products, T/E carrier products and asynchronous transfer mode (ATM)/multi-protocol label switching (MPLS) network processor products. Our products are sold to original equipment manufacturers (OEMs) for use in a variety of network infrastructure equipment, including voice and media gateways, high-speed routers, switches, access multiplexers, cross-connect systems, add-drop multiplexers and digital loop carrier equipment, that support the processing, transmission and switching of high-speed voice and data traffic within different segments of the communications network.

We market and sell our semiconductor products and system solutions directly to leading 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 58% of our revenues for fiscal 2003. For fiscal 2003, distributors Avnet, Inc. and Alltek Technology Corporation accounted for 22% and 12%, respectively, of our net revenues; no other direct customer accounted for 10% or more of our net revenues. Including indirect sales, we believe that Cisco Systems, Inc. accounted for approximately 15% of our fiscal 2003 net revenues and that no other OEM customer accounted for 10% or more of our net revenues. For fiscal 2003, approximately 60% of our total sales were to customers located outside the United States, primarily in the Asia-Pacific region and Europe. We believe a substantial portion of the products we sell to OEMs and third-party manufacturing service providers in the Asia-Pacific region are ultimately shipped to end markets in the Americas and Europe.

As of October 31, 2003 we had approximately 650 employees, including approximately 445 engineers. Approximately 400 of our employees are engaged in research and development activities at our headquarters in Newport Beach, California and at 6 design centers throughout the world. Our sales, marketing and technical support team comprises approximately 120 employees located in 6 domestic and 12 international sales locations.

Spin-off from Conexant Systems, Inc.

On June 27, 2003, Conexant completed the distribution to Conexant shareholders of all outstanding shares of common stock of Mindspeed, then a wholly owned subsidiary of Conexant (the Distribution). In the Distribution, each Conexant shareholder received one share of our common stock, par value \$.01 per share (including an associated preferred share purchase right), for every three shares of Conexant common stock held and cash for any fractional share of our common stock. Following the Distribution, we began operations as an independent, publicly held company. Our common stock now trades on the Nasdaq National Market under the ticker symbol "MSPD".

Prior to the Distribution, Conexant transferred to us the assets and liabilities of its Mindspeed business, including the stock of certain subsidiaries, and certain other assets and liabilities which were allocated to us under the Distribution Agreement entered into between us and Conexant. Also prior to the Distribution, Conexant contributed to us cash in an amount such that at the time of the Distribution our cash balance was \$100 million. We and Conexant also entered into a Credit Agreement, pursuant to which we may borrow up to \$50 million for working capital and general corporate purposes, and we issued to Conexant a warrant to purchase 30 million shares of our common stock at a price of \$3.408 per share, exercisable for a period beginning one year and ending ten years after the Distribution. In connection with the Distribution, we and Conexant also entered into an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

Results of Operations

Since the second quarter of fiscal 2001, we — like many of our customers and competitors — have been adversely impacted by a broad slowdown in investment in communications network infrastructure by Internet service providers (ISPs) and local and inter-exchange service providers. In most cases, the effect of weakened end-customer demand was compounded by significantly higher than normal levels of equipment and component inventories built up at our customers during fiscal 2000 and into fiscal 2001. This downturn in demand led to sharply lower sales volume, as compared to fiscal 2000 levels, across the majority of our product families. The effect was

most pronounced in the first quarter of fiscal 2002, as many of our customers dramatically reduced purchases as they sought to consume the higher than normal levels of component inventories.

For fiscal 2002, our revenues reflected a substantial decline from the prior year's level due to continued slow capital spending by telecommunications service providers. However, we believe that in some of the markets we address the levels of inventories held by our customers have decreased and, during fiscal 2002, we began to experience some renewed demand in the markets for certain of our product families, including our T/E carrier products, ATM/MPLS network processors and high-performance analog products. This renewed demand continued into fiscal 2003, and our fiscal 2003 revenues reflect modest growth from fiscal 2002 levels.

The overall slowdown in the network infrastructure markets has also impacted our gross margins and operating income. As a result of sharply reduced demand across our product portfolio, in fiscal 2001 we recorded \$83.5 million of inventory write-downs. In fiscal 2003, 2002 and 2001 we recorded special charges of \$27.2 million, \$168.9 million and \$7.7 million, respectively, for asset impairments and restructuring and other costs resulting from our cost reduction initiatives and the closure of certain facilities.

Net Revenues

We recognize revenues from product sales upon shipment and transfer of title, in accordance with the shipping terms specified in the arrangement with the customer. Revenue recognition is deferred in all instances where the earnings process is incomplete. We sell a portion of our products to electronic component distributors under agreements allowing for a right to return unsold products. We defer the recognition of revenue on all sales to these distributors until the products are sold by the distributors to a third party. We record a reserve for sales returns and allowances for other customers based on historical experience or specific identification of an event necessitating a reserve. Development revenue is recognized when services are performed and was not significant for any of the periods presented. The following table summarizes our net revenues:

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
			(In millions)		
Net revenues	\$81.9	2%	\$80.0	(74)%	\$305.4

Our net revenues continue to be impacted by the sharply lower demand for network infrastructure equipment which has affected us, our customers and our competitors since the second quarter of fiscal 2001. The effect was most pronounced in the first quarter of fiscal 2002, when our quarterly revenues decreased to \$14.2 million — their lowest level in several years — as many of our customers dramatically reduced purchases as they sought to consume their higher than normal levels of equipment and component inventories. Since that time, we have experienced some renewed demand in the markets for certain of our product families, including our T/E carrier products, ATM/MPLS network processors and switching solutions.

The increase in our revenues for fiscal 2003 compared to fiscal 2002 reflect higher sales volumes in our high-performance analog products, with strong demand for our crosspoint switches for storage applications. Our physical media devices also experienced strong demand from OEMs in the Asia-Pacific region for use in infrastructure equipment for fiber-to-the-home deployments and metropolitan area networks. Overall, sales to customers in the Asia-Pacific region for fiscal 2003 increased 50% over fiscal 2002, benefiting from network infrastructure build-out in that region. Our fiscal 2003 revenues also reflect higher sales volumes in our ATM/MPLS network processors and T/E carrier products. These increases were partially offset by lower shipments of our multiservice access products and DSL transceivers and the impact of our divestiture of the NetPlane Systems, Inc. (NetPlane) software business early in fiscal 2003.

Our net revenues for fiscal 2002 compared with fiscal 2001 reflect lower sales volume which resulted from the broad slowdown in investment in communications network infrastructure by telecommunications service providers, compounded by higher-than-normal levels of equipment and component inventories at our customers. This slowdown affected the majority of our product families. During fiscal 2002, we began to experience some renewed demand in the end markets for certain of our product families, including our T/E carrier products, ATM/MPLS network processors and switching solutions.

Gross Margin

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
	(In millions)				
Gross margin	\$56.8	12%	\$50.6	(34)%	\$76.4
Percent of net revenues	69%		63%		25%

Gross margin represents revenues less cost of goods sold. As a fabless semiconductor company, we use third parties (including Taiwan Semiconductor Manufacturing Co., Ltd., Jazz Semiconductor and Amkor Technology, Inc. and, prior to the organization of Jazz in March 2002, Conexant) for wafer fabrication and assembly and test services. Our cost of goods sold consists predominantly of: purchased finished wafers; assembly and test services; royalty and other intellectual property costs; labor and overhead costs associated with product procurement; and sustaining engineering expenses pertaining to products sold. Our gross margins for fiscal 2003 compared with fiscal 2002 reflect the effect of higher quarterly revenues and the favorable impact of our cost reduction actions. Gross margins for fiscal 2003 also benefited from lower provisions for excess and obsolete inventories.

Our gross margin for fiscal 2003 and 2002 also benefited from the sale of inventories with an original cost of \$4.1 million and \$4.6 million, respectively, that we had written down to a zero cost basis during fiscal year 2001. These sales resulted from renewed demand for certain products that was not anticipated at the time of the write-downs. The previously written-down inventories were generally sold at prices which exceeded their original cost. Had we not previously written down the cost basis of these goods, our cost of goods sold would include the original cost of such goods, and our gross margin for fiscal 2003 would have been \$52.7 million (64% of our net revenues) compared to \$46.0 million (57% of our net revenues) for fiscal 2002.

We recorded an aggregate of \$83.5 million of inventory write-downs in fiscal 2001. The fiscal 2001 inventory write-downs resulted from the sharply reduced end-customer demand for network infrastructure equipment during that period. As a result of these market conditions, we experienced a significant number of order cancellations and a decline in the volume of new orders beginning in the fiscal 2001 first quarter. Our fiscal 2001 second quarter revenues decreased 51% compared with the immediately preceding quarter. The reduced global demand for our products became more pronounced in the third and fourth quarters of fiscal 2001, and we experienced further sequential decreases in our quarterly revenues of 56% and 39%, respectively, in those periods. As a result of our ongoing assessment of the recoverability of our inventories, we recorded inventory write-downs of \$10.9 million, \$51.7 million and \$20.9 million in the first, second and third quarters, respectively, of fiscal 2001. The inventories written down in fiscal 2001 principally consisted of multiservice access processors and DSL transceivers.

We assess the recoverability of our inventories at least quarterly through a review of inventory levels in relation to foreseeable demand (generally over six months). Foreseeable demand is based upon all available information, including sales backlog and forecasts, product marketing plans and product life cycles. When the inventory on hand exceeds the foreseeable demand, we write down the value of those inventories which, at the time of our review, we expect to be unable to sell. The amount of the inventory write-down is the excess of historical cost over estimated realizable value. Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

Our products are used by OEMs that have designed our products into network infrastructure equipment. For many of our products, we gain these design wins through a lengthy sales cycle, which often includes providing technical support to the OEM customer. In the event of the loss of business from existing OEM customers, we may be unable to secure new customers for our existing products without first achieving new design wins. When the quantities of inventory on hand exceed foreseeable demand from existing OEM customers into whose products our products have been designed, we generally will be unable to sell our excess inventories to others, and the estimated realizable value of such inventories to us is generally zero.

From the time of the fiscal 2001 inventory write-downs through September 30, 2003, we scrapped a portion of these inventories having an original cost of \$32.7 million and sold a portion of these inventories with an original cost of \$8.7 million. The sales resulted from increased demand beginning in the first quarter of fiscal 2002 which was not anticipated at the time of the write-downs. As of September 30, 2003, we continued to hold inventories with an original cost of \$42.0 million which were previously written down to a zero cost basis. We currently intend to hold these remaining inventories and will sell these inventories if we experience renewed demand for these products. While there can be no assurance that we will be able to do so, if we are able to sell a portion of the inventories which are carried at zero cost basis, our gross margins will be favorably affected by an amount equal to the original cost of

the zero-cost basis inventory sold. To the extent that we do not experience renewed demand for the remaining inventories, they will be scrapped as they become obsolete.

We base our assessment of the recoverability of our inventories, and the amounts of any write-downs, on currently available information and assumptions about future demand and market conditions. Demand for our products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those projected by management. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

Research and Development

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
	(In millions)				
Research and development	\$106.3	(36)%	\$167.1	(15)%	\$196.6
Percent of net revenues	130%		209%		64%

Our research and development (R&D) expenses consist principally of direct personnel costs, photomasks, electronic design automation tools and pre-production evaluation and test costs. The decrease in R&D expenses for fiscal 2003 compared to fiscal 2002 primarily reflects lower headcount and personnel-related costs resulting from our expense reduction and restructuring actions. During fiscal 2002 and 2003, we eliminated R&D spending directed at high-end optical networking applications, closed design centers in San Jose, California and Bristol, United Kingdom, as well as our Novanet Semiconductor Ltd. subsidiary design center. In January 2003, we completed the divestiture of NetPlane. The decrease in R&D expenses for fiscal 2002 compared to fiscal 2001 primarily reflects lower headcount and personnel-related costs resulting from the expense reduction and restructuring actions we initiated during fiscal 2001 and 2002.

Selling, General and Administrative

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
	(In millions)				
Selling, general and administrative	\$49.7	(29)%	\$69.5	(37)%	\$109.5
Percent of net revenues	61%		87%		36%

Our selling, general and administrative (SG&A) expenses include personnel costs, independent sales representative commissions, 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. The decrease in SG&A expenses for fiscal 2003 compared to fiscal 2002 primarily reflects lower headcount and personnel-related costs resulting from our expense reduction and restructuring actions. For fiscal 2003, the decrease in SG&A expenses also reflects a \$2.5 million decrease in provisions for losses on accounts receivable, which totaled approximately \$(0.6) million in fiscal 2003 due to the recovery of certain accounts that we previously expected we would be unable to collect.

The decrease in SG&A expenses for fiscal 2002 compared to fiscal 2001 primarily reflects lower headcount and personnel-related costs resulting from the expense reduction and restructuring actions initiated during fiscal 2002 and 2001 and lower provisions for uncollectible accounts receivable. The provision for uncollectible accounts receivable was \$13.0 million for fiscal 2001, compared to \$1.9 million for fiscal 2002, due to an increase during fiscal 2001 in past-due accounts, which management estimated would ultimately be uncollectible. Excluding the effect of the provisions for uncollectible accounts, our SG&A expenses for fiscal 2002 decreased by \$28.9 million.

Amortization of Intangible Assets and Change in Accounting for Goodwill

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
	(In millions)				
Amortization of intangible assets	\$51.2	(84)%	\$312.4	2%	\$305.0

The lower amortization expenses in fiscal 2003 primarily resulted from the adoption of Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," as of the beginning of fiscal 2003. SFAS 141 requires that all business combinations be accounted for using the purchase method and provides new criteria for recording intangible assets separately from goodwill. Upon adoption, we evaluated our existing goodwill and intangible assets against the new criteria, which

resulted in certain intangible assets with a carrying value of \$4.3 million being subsumed into goodwill. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and requires that we no longer amortize goodwill into our results of operations. Instead, goodwill must be tested at least annually for impairment and written down when impaired. See Note 2 of Notes to Consolidated Financial Statements. We expect that amortization of intangible assets will total approximately \$49.7 million for fiscal 2004.

Also upon adoption of SFAS 142, we completed the transition impairment test of our goodwill required by SFAS 142 (as of the beginning of fiscal 2003). Our business consists of one reporting unit (as defined in SFAS 142) and, for purposes of the impairment test, we determined its fair value considering both an income approach and a market approach. Management determined that the recorded value of goodwill exceeded its fair value (estimated to be zero) by \$573.2 million. In the first quarter of fiscal 2003, we recorded a \$573.2 million charge — reflected in the accompanying statement of operations as the cumulative effect of a change in accounting principle — to write down the value of goodwill to estimated fair value. The impaired goodwill comprises the unamortized balances of goodwill relating to Maker Communications, Inc., HotRail, Inc., Microcosm Communications Limited and Applied Telecom, Inc. Conexant acquired each of these businesses during fiscal 2000 for the Mindspeed business. The impairment charge resulted from the sharp decline in the valuations assigned to communications semiconductor companies as of the time of the transition impairment test as compared with valuations at the dates of the respective acquisitions. Future periodic impairment tests may result in significant write-downs of the value of our intangible assets.

Special Charges

Special charges consist of the following:

	<u>2003</u>	<u>Change</u>	<u>2002</u>	<u>Change</u>	<u>2001</u>
			(In millions)		
Asset impairments	\$23.4	nm	\$143.4	nm	\$1.5
Restructuring charges	12.3	nm	25.5	nm	3.2
Separation costs	—	nm	—	nm	3.0
Other special charges	<u>(8.5)</u>	nm	<u>—</u>	nm	<u>—</u>
	<u>\$27.2</u>		<u>\$168.9</u>		<u>\$7.7</u>

nm = not meaningful

Asset Impairments

For a discussion of our asset impairment charges, see Note 11 of Notes to Consolidated Financial Statements.

Restructuring Charges

Commencing in fiscal 2001, and continuing into fiscal 2003, we implemented a number of cost reduction initiatives to improve our operating cost structure. For a discussion of our cost reduction initiatives and activity under our restructuring plans, see Note 11 of Notes to Consolidated Financial Statements.

As of September 30, 2003, we have completed most of the cost reduction actions under our restructuring plans and our combined SG&A and R&D expenses of approximately \$34.5 million for the fiscal 2003 fourth quarter, compared with expenses of \$51.7 million for the fiscal 2002 fourth quarter, reflect the favorable impact of these actions. We expect to realize the full effect of our cost reduction actions beginning in the second quarter of fiscal 2004 and anticipate that these actions will reduce our operating expenses by approximately \$14 million on an annualized basis from the fiscal 2003 fourth quarter's level.

Through September 30, 2003, we have paid an aggregate of \$28.6 million in connection with our fiscal 2001, 2002 and 2003 restructuring plans and we have a remaining accrued restructuring balance aggregating \$10.8 million, principally representing our obligations under non-cancelable lease and other commitments. We expect to pay a majority of the amounts accrued for the workforce reductions during fiscal 2004 and we expect to pay the obligations for the non-cancelable leases and other contractual commitments over their respective terms, which expire at various dates through fiscal 2008. In addition, costs for certain severance benefits under the Mindspeed 2003 restructuring plan totaling approximately \$0.5 million, which we expect to pay principally during fiscal 2004, will be

included in restructuring charges when incurred. Cash payments to complete the restructuring actions will be funded from available cash reserves and funds from product sales and are not expected to impact significantly our liquidity.

Separation Costs

Separation costs of approximately \$3.0 million incurred in fiscal 2001 related to the initial efforts to separate Mindspeed from Conexant, which began in September 2000. All separation costs related to our spin-off from Conexant on June 27, 2003 were paid by Conexant.

Other Special Charges

Other special charges for fiscal 2003 consist of a \$9.0 million gain on the sale of the assets of NetPlane, partially offset by losses on other asset sales.

Other Income (Expense), Net

	<u>2003</u>	<u>Change</u>	<u>2002</u> (In millions)	<u>Change</u>	<u>2001</u>
Other income (expense), net	\$1.1	nm	\$(0.3)	(33)%	\$(0.4)

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

Provision (Benefit) for Income Taxes

Our provision for income taxes for fiscal 2003 and 2002 consisted of income taxes incurred by our foreign subsidiaries. As a result of our recent operating losses and our expectation of future operating results, we determined that it is more likely than not that the additional income tax benefits (principally net operating losses we can carry forward to future years) which arose during fiscal 2003 and 2002 will not be realized. Accordingly, we have not recognized any income tax benefits relating to our operating losses for those periods and we do not expect to recognize any income tax benefits relating to future operating losses until we believe that such tax benefits are more likely than not to be realized. We expect that our provision for income taxes for fiscal 2004 will principally consist of income taxes related to our foreign operations.

In fiscal 2001, we recorded an income tax benefit of \$46.5 million. As a result of our history of operating losses, we determined it was more likely than not that the net deferred tax asset that arose during fiscal 2001 will not be realized. The income tax benefit we recorded reflects the value of our net loss to reduce our income taxes, net of the impact of non-deductible costs for amortization of intangible assets and a valuation allowance of \$73.5 million.

As of September 30, 2003, we had a valuation allowance of \$180.3 million against our deferred tax assets (which reduces their carrying value to zero) because we do not expect to realize the deferred tax assets through the reduction of future income tax payments. As of September 30, 2003, we had U.S. federal net operating loss carryforwards of approximately \$378.0 million, including the net operating loss carryforwards we retained in the Distribution. The remainder of our net operating losses, and a significant portion of our other deferred income tax assets, were retained by Conexant in the Distribution and are not available to be used in our separate income tax returns for periods subsequent to the Distribution.

Quarterly Results of Operations

The following table presents our operating results for each of the eight fiscal quarters in the period ended September 30, 2003. The information for each of these quarters is derived from our unaudited interim financial statements which have been prepared on the same basis as the audited consolidated financial statements included in this Annual Report. In our opinion, all necessary adjustments, which consist only of normal and recurring accruals as well as the inventory write-downs, special charges and the cumulative effect of the change in accounting for

goodwill, have been included to fairly present our unaudited quarterly results. This data should be read together with our consolidated financial statements and the notes thereto included in this report.

	Three Months Ended							
	Dec. 31, 2001	Mar. 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002	Mar. 31, 2003	June 30, 2003	Sept. 30, 2003
	(In thousands, except per share amounts)							
Statement of Operations Data								
Net revenues	\$ 14,178	\$ 19,018	\$ 21,958	\$ 24,882	\$ 20,255	\$ 18,311	\$ 20,153	\$ 23,187
Cost of goods sold	6,910	7,746	7,075	7,679	6,137	5,659	6,454	6,877
Gross margin	7,268	11,272	14,883	17,203	14,118	12,652	13,699	16,310
Research and development	42,326	45,409	42,034	37,379	31,152	26,190	26,251	22,696
Selling, general and administrative . .	21,466	17,095	16,639	14,300	12,128	13,326	12,418	11,784
Amortization of intangible assets . . .	80,156	80,337	80,130	71,765	14,200	12,322	12,349	12,352
Special charges	—	6,854	118,745	43,267	3,831	15,407	6,019	1,913
Total operating expenses	143,948	149,695	257,548	166,711	61,311	67,245	57,037	48,745
Operating loss	(136,680)	(138,423)	(242,665)	(149,508)	(47,193)	(54,593)	(43,338)	(32,435)
Other income (expense), net	(476)	(564)	515	227	(35)	(122)	658	577
Loss before income taxes	(137,156)	(138,987)	(242,150)	(149,281)	(47,228)	(54,715)	(42,680)	(31,858)
Provision (benefit) for income taxes	144	146	253	156	120	140	202	318
Loss before cumulative effect of accounting change	(137,300)	(139,133)	(242,403)	(149,437)	(47,348)	(54,855)	(42,882)	(32,176)
Change in accounting for goodwill . .	—	—	—	—	(573,184)	—	—	—
Net loss	<u><u>\$(137,300)</u></u>	<u><u>\$(139,133)</u></u>	<u><u>\$(242,403)</u></u>	<u><u>\$(149,437)</u></u>	<u><u>\$(620,532)</u></u>	<u><u>\$(54,855)</u></u>	<u><u>\$(42,882)</u></u>	<u><u>\$(32,176)</u></u>
Loss per share, basic and diluted:								
Loss before cumulative effect of accounting change	\$ (1.62)	\$ (1.63)	\$ (2.79)	\$ (1.69)	\$ (0.53)	\$ (0.62)	\$ (0.48)	\$ (0.35)
Cumulative effect of change in accounting for goodwill	—	—	—	—	(6.48)	—	—	—
Net loss	<u><u>\$ (1.62)</u></u>	<u><u>\$ (1.63)</u></u>	<u><u>\$ (2.79)</u></u>	<u><u>\$ (1.69)</u></u>	<u><u>\$ (7.01)</u></u>	<u><u>\$ (0.62)</u></u>	<u><u>\$ (0.48)</u></u>	<u><u>\$ (0.35)</u></u>
Shares used in computing diluted loss per share	84,787	85,378	86,805	88,362	88,571	88,848	89,496	91,576

Our quarterly revenues reflect the sharply reduced global demand for network infrastructure equipment we began to experience in fiscal 2001, which became most pronounced in the first quarter of fiscal 2002. Through the remainder of fiscal 2002 and fiscal 2003, our quarterly revenues and gross margins reflect some renewed demand in the markets for our T/E carrier, ATM/MPLS network processor and high-performance analog products. Our revenues for the fiscal 2002 fourth quarter reflect a one-time revenue benefit of \$4.6 million resulting from the favorable resolution of our obligations under certain rebate and similar programs.

Our research and development expenses and selling, general and administrative expenses generally decreased through fiscal 2002 and 2003 as a result of the workforce reductions and other cost reduction initiatives we implemented.

Quarterly amortization of intangible assets decreased during in the fourth quarter of fiscal 2002 due to the impairment of intangible assets related to the Novanet and NetPlane businesses. The lower amortization expenses in fiscal 2003 resulted from the cessation of amortization of goodwill upon our adoption of SFAS 141 and SFAS 142 as of the beginning of fiscal 2003.

In fiscal 2002, and continuing through fiscal 2003, we recorded special charges for our restructuring initiatives. We also recorded special charges for asset impairments, most prominently in the third quarter of fiscal 2002 (to write down the carrying value of certain goodwill and long-lived other assets associated with Novanet and NetPlane).

During the first quarter of fiscal 2003, we adopted SFAS 142 and recorded a \$573.2 million charge — reflected in the accompanying statements of operations as the cumulative effect of a change in accounting principle — to write down the value of goodwill to its estimated fair value.

In the past, our quarterly operating results have fluctuated due to a number of factors, many of which are outside our control. These include changes in the overall demand for network infrastructure equipment, the timing of new product introductions, the timing of receipt, reduction or cancellation of significant orders by customers, and other factors that have had a significant impact on our revenues and gross margins. Significant quarterly fluctuations in results of operations have also caused significant fluctuations in our liquidity and working capital, including our cash and cash equivalents, accounts receivable and payable and inventories.

Liquidity and Capital Resources

Cash used in operating activities was \$125.6 million for fiscal 2003 compared to \$205.3 million for fiscal 2002 and \$20.4 million for fiscal 2001. Operating cash flows for fiscal 2003 reflect our loss (before the effect of our change in accounting for goodwill) of \$177.3 million, partially offset by non-cash charges (depreciation and amortization, special charges and other) of \$82.1 million, and net working capital increases of approximately \$30.4 million. Before the effect of working capital changes, cash used in operations was \$95.2 million for fiscal 2003, compared to \$179.5 million for fiscal 2002.

The net working capital increases for fiscal 2003 consist principally of a \$25.8 million decrease in accounts payable, accrued expenses and other current liabilities, principally related to the timing of vendor payments and the payment of restructuring costs and a \$5.6 million decrease in deferred revenue due to lower inventory levels at our major distributors.

Cash provided by investing activities for fiscal 2003 principally consisted of proceeds from sales of assets of \$9.5 million, partially offset by capital expenditures of \$3.4 million. Cash used in investing activities of \$7.4 million for fiscal 2002 consisted of payments for capital expenditures of \$8.2 million, partially offset by proceeds from asset sales of \$0.8 million. Cash used in investing activities of \$15.9 million for fiscal 2001 principally consisted of capital expenditures of \$36.6 million, partially offset by proceeds from the sale of marketable securities of \$20.8 million.

Cash provided by financing activities of \$192.4 million for fiscal 2003 included net transfers from Conexant of \$186.6 million, including a cash contribution of approximately \$94.9 million in connection with the Distribution. Cash provided by financing activities for fiscal 2003 also included proceeds of \$6.1 million from the exercise of stock options and warrants, partially offset by deferred financing costs paid. Cash provided by financing activities for fiscal 2002 and 2001 consisted of net transfers from Conexant of \$210.7 million and \$37.5 million, respectively.

In connection with the Distribution, we entered into a Credit Agreement with Conexant, under which we may borrow up to \$50 million for working capital and other general corporate purposes. The credit facility is available for a term ending on June 29, 2007. We may borrow under the credit facility only to restore our cash balance to \$25 million. Loans under the credit facility will accrue interest at the rate of 10 percent per annum, payable at maturity. The credit facility contains customary conditions and covenants, including restrictions on payment of dividends, consolidations, mergers, acquisitions, investments, sales of assets, incurrence of indebtedness and creation of liens and encumbrances. In the event that we make borrowings under the credit facility, Conexant will be entitled to exercise certain warrants to purchase shares of our common stock. As of September 30, 2003, we had made no borrowings under the credit facility.

Our principal sources of liquidity are our existing cash reserves, cash generated from product sales and available borrowings under the \$50 million credit facility with Conexant. Our cash and cash equivalents at September 30, 2003 totaled \$80.1 million and our working capital at September 30, 2003 was \$71.8 million. During the past three fiscal years, we reduced our capital expenditures and implemented a number of expense reduction initiatives (including a series of workforce reductions, the consolidation of certain facilities and salary reductions of 10% for our senior management) to improve our operating cost structure. However, we expect that reduced end-customer demand and other factors will continue to result in our incurring significant operating losses and negative cash flows in the near term.

We believe that our existing sources of liquidity, 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 for at least the next twelve months. We will need to continue a focused program of capital expenditures to meet our research and development and corporate requirements. We may also consider acquisition opportunities to extend our technology portfolio and design expertise and to expand our product offerings. In order to fund capital expenditures, increase our working capital or complete any acquisitions, we may

seek to obtain additional debt financing or issue additional shares of our common stock. However, we cannot assure you that such financing will be available to us on favorable terms, or at all.

Contractual Obligations

In connection with the Distribution, we entered into a Sublease with Conexant pursuant to which we lease our headquarters in Newport Beach, California. The Sublease has an initial term extending through June 2008. We may, at our option, renew the Sublease for an additional two-year term. Rent payable under the Sublease will be a prorated portion of Conexant's actual costs. We estimate our minimum future obligation under the Sublease at approximately \$4.6 million annually (a total of \$21.6 million over the remainder of the initial lease term), but actual rents under the Sublease will vary based upon Conexant's actual costs.

We lease our other facilities and certain equipment under non-cancelable operating leases. The leases expire at various dates through 2008 and contain various provisions for rental adjustments including, in certain cases, adjustments based on increases in the Consumer Price Index. The leases generally contain renewal provisions for varying periods of time. Rental expense under operating leases (including amounts allocated from Conexant) was approximately \$12.2 million during fiscal 2003.

As of September 30, 2003, we had no long-term debt, capital lease obligations or long-term purchase obligations. The following table summarizes our the future payments we are required to make under contractual obligations as of September 30, 2003:

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u><1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>>5 years</u>
			(In millions)		
Operating leases	\$32.7	\$9.1	\$14.1	\$9.5	\$—

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 the Distribution, we generally assumed responsibility for all contingent liabilities and then-current and future litigation against Conexant or its subsidiaries related to the Mindspeed business. We may also be responsible for certain federal income tax liabilities under the tax allocation agreement between us and Conexant, which provides that we will be responsible for certain taxes imposed on us, Conexant or Conexant shareholders. 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 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 balance sheets.

Recent Accounting Standards

See Note 2 of Notes to Consolidated Financial Statements.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among the significant estimates affecting our consolidated financial statements are those relating to allowances for doubtful accounts, inventories, long-lived assets, income taxes, restructuring costs, litigation and revenue recognition. We regularly evaluate our estimates and assumptions based upon historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. To the extent actual results differ from those estimates, our future results of operations may be affected.

Impairment of Long-lived Assets — We continually monitor and review long-lived assets, including fixed assets, goodwill and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of any such asset may not be recoverable. The determination of recoverability is based on an estimate of undiscounted cash flows expected to result from the use of an asset and its eventual disposition. The estimate of cash flows is based upon, among other things, certain assumptions about expected future operating performance, growth rates and other factors. Our estimates of undiscounted cash flows may differ from actual cash flows due to, among other things, technological changes, economic conditions, changes to our business model or changes in our operating performance. If the sum of the undiscounted cash flows (excluding interest) is less than the carrying value, we recognize an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset.

Goodwill is tested for impairment using the fair value based test prescribed by SFAS 142. The estimates and assumptions described above (along with other factors such as discount rates) also affected the amount of the impairment loss we recognized upon adoption of SFAS 142.

Deferred Income Taxes — We have provided a full valuation allowance against our deferred tax assets. If sufficient evidence of our ability to generate sufficient future taxable income in certain tax jurisdictions becomes apparent, we may be required to reduce our valuation allowance, resulting in income tax benefits in our statement of operations. We evaluate the realizability of our deferred tax assets and assess the need for a valuation allowance quarterly.

Inventories — We write down our inventory for estimated obsolete or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than our estimates, additional inventory write-downs may be required. In the event we experience unanticipated demand and are able to sell a portion of the inventories we have previously written down, our gross margins will be favorably affected.

Allowance for Doubtful Accounts — We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates and additional allowances would be required.

Revenue Recognition — We recognize revenues from product sales upon shipment and transfer of title, in accordance with the shipping terms specified in the arrangement with the customer. Revenue recognition is deferred in all instances where the earnings process is incomplete. We make certain product sales to electronic component distributors under agreements allowing for a right to return unsold products. Recognition of revenue on all sales to these distributors is deferred until the products are sold by the distributors to a third party. We record a provision for estimated sales returns in the same period as the related revenues are recognized. We base these estimates on our historical experience and other known factors. To the extent actual sales returns differ from our estimates, our future results of operations may be affected.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Our financial instruments include cash and cash equivalents. Our main investment objectives are the preservation of investment capital and the maximization of after-tax returns on our investment portfolio. Consequently, we invest in the securities of high-credit-quality issuers and limit the amount of our credit exposure to any one issuer. We do not use derivative instruments for speculative or investment purposes.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of September 30, 2003, the carrying value of our cash and cash equivalents approximates fair value.

We transact business in various foreign currencies, and we have established a foreign currency hedging program utilizing foreign currency forward exchange contracts to hedge certain foreign currency transaction exposures. Under this program, we seek to offset foreign currency transaction gains and losses with gains and losses on the forward contracts, so as to mitigate our overall risk of foreign currency transaction gains and losses. We do not enter into forward contracts for speculative or trading purposes. At September 30, 2003, we held no foreign currency forward exchange contracts. Based on our overall currency rate exposure at September 30, 2003, a 10 percent change in currency rates would not have a material effect on our consolidated financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data

MINDSPEED TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2003	2002
	(In thousands, except per share amounts)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 80,121	\$ 7,269
Receivables, net of allowance of \$932 (2003) and \$1,897 (2002)	11,652	12,568
Inventories	4,035	4,842
Other current assets	7,926	5,313
Total current assets	103,734	29,992
Property, plant and equipment, net	26,612	42,854
Goodwill	—	568,900
Intangible assets, net	69,867	143,632
Other assets	3,676	1,733
Total assets	<u>\$203,889</u>	<u>\$787,111</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 8,110	\$ 18,689
Deferred revenue	3,173	9,093
Accrued compensation and benefits	8,424	14,784
Restructuring	7,273	18,975
Other current liabilities	4,971	3,881
Total current liabilities	31,951	65,422
Other liabilities	4,804	1,366
Total liabilities	36,755	66,788
Commitments and contingencies	—	—
Shareholders' Equity		
Preferred stock, \$0.01 par value: 25,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 500,000 shares authorized; 93,545 (2003) issued shares	935	—
Additional paid-in capital	215,518	—
Conexant's net investment	—	738,036
Accumulated deficit	(32,176)	—
Accumulated other comprehensive loss	(16,959)	(17,713)
Unearned compensation	(184)	—
Total shareholders' equity	<u>167,134</u>	<u>720,323</u>
Total liabilities and shareholders' equity	<u>\$203,889</u>	<u>\$787,111</u>

See accompanying notes to consolidated financial statements.

MINDSPEED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,		
	2003	2002	2001
	(In thousands, except per share amounts)		
Net revenues	\$ 81,906	\$ 80,036	\$ 305,368
Cost of goods sold	<u>25,127</u>	<u>29,410</u>	<u>228,994</u>
Gross margin	56,779	50,626	76,374
Operating expenses:			
Research and development	106,289	167,148	196,642
Selling, general and administrative	49,656	69,500	109,532
Amortization of intangible assets	51,223	312,388	304,991
Special charges	<u>27,170</u>	<u>168,866</u>	<u>7,665</u>
Total operating expenses	<u>234,338</u>	<u>717,902</u>	<u>618,830</u>
Operating loss	(177,559)	(667,276)	(542,456)
Other income (expense), net	<u>1,078</u>	<u>(298)</u>	<u>(448)</u>
Loss before income taxes	(176,481)	(667,574)	(542,904)
Provision (benefit) for income taxes	<u>780</u>	<u>699</u>	<u>(46,511)</u>
Loss before cumulative effect of accounting change	(177,261)	(668,273)	(496,393)
Cumulative effect of change in accounting for goodwill	<u>(573,184)</u>	<u>—</u>	<u>—</u>
Net loss	<u><u>\$ (750,445)</u></u>	<u><u>\$ (668,273)</u></u>	<u><u>\$ (496,393)</u></u>
Loss per share, basic and diluted:			
Loss before cumulative effect of accounting change	\$ (1.98)	\$ (7.74)	\$ (6.09)
Cumulative effect of change in accounting for goodwill	<u>(6.39)</u>	<u>—</u>	<u>—</u>
Net loss	<u><u>\$ (8.37)</u></u>	<u><u>\$ (7.74)</u></u>	<u><u>\$ (6.09)</u></u>
Number of shares used in per share computation	89,623	86,333	81,570

See accompanying notes to consolidated financial statements.

MINDSPEED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,		
	2003	2002	2001
	(In thousands)		
Cash Flows From Operating Activities			
Net loss	\$(750,445)	\$(668,273)	\$(496,393)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Cumulative effect of change in accounting for goodwill	573,184	—	—
Depreciation	14,629	21,903	19,260
Amortization of intangible assets	51,223	312,388	304,991
Asset impairments	23,397	143,428	1,436
Provision for losses on accounts receivable	(593)	1,936	12,965
Inventory provisions	1,239	4,518	102,101
Deferred income taxes	—	—	(46,924)
Stock compensation	722	3,527	9,641
Other noncash items, net	(8,526)	1,078	337
Changes in assets and liabilities:			
Receivables	1,460	3,049	88,492
Inventories	(432)	(1,723)	(30,488)
Accounts payable	(10,403)	(915)	9,385
Deferred revenue	(5,553)	(15,397)	(3,591)
Accrued expenses and other current liabilities	(15,394)	(1,740)	13,577
Other	(88)	(9,089)	(5,203)
Net cash used in operating activities	<u>(125,580)</u>	<u>(205,310)</u>	<u>(20,414)</u>
Cash Flows From Investing Activities			
Sale of marketable securities	—	—	20,755
Sales of assets	9,456	810	—
Capital expenditures	<u>(3,449)</u>	<u>(8,171)</u>	<u>(36,631)</u>
Net cash provided by (used in) investing activities	<u>6,007</u>	<u>(7,361)</u>	<u>(15,876)</u>
Cash Flows From Financing Activities			
Net transfers and advances from Conexant	186,584	210,688	37,463
Exercise of stock options and warrants	6,085	—	—
Deferred financing costs	<u>(244)</u>	<u>—</u>	<u>—</u>
Net cash provided by financing activities	<u>192,425</u>	<u>210,688</u>	<u>37,463</u>
Net increase (decrease) in cash and cash equivalents	72,852	(1,983)	1,173
Cash and cash equivalents at beginning of period	<u>7,269</u>	<u>9,252</u>	<u>8,079</u>
Cash and cash equivalents at end of period	<u><u>\$ 80,121</u></u>	<u><u>\$ 7,269</u></u>	<u><u>\$ 9,252</u></u>

See accompanying notes to consolidated financial statements.

MINDSPEED TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE LOSS

	<u>Common Stock</u>		<u>Additional</u>	<u>Conexant's</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Unearned</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Net Investment</u>	<u>Deficit</u>	<u>Other Comprehensive Loss</u>	<u>Compensation</u>	<u>Equity</u>
	(In thousands)							
Balance at September 30, 2000	—	\$ —	\$ —	\$1,527,794	\$ —	\$ (7,107)	\$ —	\$1,520,687
Net loss	—	—	—	(496,393)	—	—	—	(496,393)
Currency translation adjustment	—	—	—	—	—	(6,537)	—	(6,537)
Comprehensive loss								(502,930)
Purchase acquisitions	—	—	—	85,253	—	—	—	85,253
Net transfers from Conexant ..	—	—	—	52,005	—	—	—	52,005
Balance at September 30, 2001	—	—	—	1,168,659	—	(13,644)	—	1,155,015
Net loss	—	—	—	(668,273)	—	—	—	(668,273)
Currency translation adjustment	—	—	—	—	—	(4,069)	—	(4,069)
Comprehensive loss								(672,342)
Purchase acquisitions	—	—	—	16,316	—	—	—	16,316
Net transfers from Conexant ..	—	—	—	221,334	—	—	—	221,334
Balance at September 30, 2002	—	—	—	738,036	—	(17,713)	—	720,323
Net loss	—	—	—	(718,269)	(32,176)	—	—	(750,445)
Currency translation adjustment	—	—	—	—	—	754	—	754
Comprehensive loss								(749,691)
Net transfers from Conexant ..	—	—	—	189,943	—	—	—	189,943
The Distribution	90,333	903	208,807	(209,710)	—	—	—	—
Issuance of common stock	3,212	32	6,711	—	—	—	(201)	6,542
Compensation expense related to employee stock plans	—	—	—	—	—	—	17	17
Balance at September 30, 2003	<u>93,545</u>	<u>\$935</u>	<u>\$215,518</u>	<u>\$ —</u>	<u>\$(32,176)</u>	<u>\$(16,959)</u>	<u>\$(184)</u>	<u>\$ 167,134</u>

See accompanying notes to consolidated financial statements.

MINDSPEED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant shareholders of all 90,333,445 outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant shareholder received one share of Mindspeed common stock, par value \$.01 per share (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 (see Note 12). Mindspeed issued to Conexant a warrant to purchase 30 million shares of Mindspeed common stock at a price of \$3.408 per share, exercisable for a period beginning one year and ending ten years after the Distribution. Conexant and Mindspeed also entered into a Credit Agreement, pursuant to which Mindspeed may borrow up to \$50 million for working capital and general corporate purposes. Mindspeed and Conexant also entered into an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

Basis of Presentation

The consolidated 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. The consolidated financial statements of Mindspeed for periods prior to the Distribution include the assets, liabilities, operating results and cash flows of the Mindspeed business, including subsidiaries, contributed to Mindspeed by Conexant. Such financial statements have been prepared using Conexant's historical bases in the assets and liabilities and the historical operating results of the Mindspeed business during each respective period. Management believes the assumptions underlying the consolidated financial statements are reasonable. However, the financial information for periods prior to the Distribution may not reflect the consolidated financial position, operating results, changes in shareholders' equity and cash flows of Mindspeed in the future or what they would have been had Mindspeed been a separate, stand-alone entity during the periods presented. All accounts and transactions among Mindspeed's entities have been eliminated in consolidation.

The consolidated financial statements for periods prior to the Distribution include allocations of certain Conexant expenses (see Note 12). The expense allocations were determined using methods that Conexant and Mindspeed considered to be reasonable reflections of the utilization of services provided or the benefit received by Mindspeed. The allocation methods include specific identification, relative revenues or costs, or headcount. Management believes that the expenses allocated to Mindspeed are representative of the operating expenses it would have incurred had it operated on a stand-alone basis.

2. Summary of Significant Accounting Policies

Fiscal Periods — The Company maintains a fifty-two/fifty-three week fiscal year ending on the Friday closest to September 30. Fiscal year 2003 comprised 53 weeks and ended on October 3, 2003; fiscal years 2002 and 2001 each comprised 52 weeks and ended on September 27, 2002 and September 28, 2001, respectively. For convenience, the accompanying consolidated financial statements have been shown as ending on the last day of the calendar month.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Among the significant estimates affecting the financial statements are those related to the allowance for doubtful accounts, inventories, long-lived assets, income taxes, restructuring costs and litigation. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ materially from those estimates.

Revenue Recognition — Revenues from product sales are recognized upon shipment and transfer of title, in accordance with the shipping terms specified in the arrangement with the customer. Revenue recognition is deferred in all instances where the earnings process is incomplete. Certain product sales are made to electronic component distributors under agreements allowing for a right to return unsold products. Recognition of revenue on all sales to these distributors is deferred until the products are sold by the distributors to a third party. A provision for estimated sales returns from other customers is recorded in the same period as the related revenues are recognized, based on historical experience and other known factors. Development revenue is recognized when services are performed and was not significant for any of the periods presented.

Cash and Cash Equivalents — The Company considers all highly liquid investments with insignificant interest rate risk and original maturities of three months or less from the date of purchase to be cash equivalents. The carrying amounts of cash and cash equivalents approximate their fair values.

Inventories — Inventories are stated at the lower of cost or market. Cost is computed using the average cost method on a currently adjusted standard basis (which approximates actual cost); market is based upon estimated net realizable value. The valuation of inventories at the lower of cost or market requires the use of estimates as to the amounts of current inventories that will be sold. These estimates are dependent on the Company's assessment of current and expected orders from its customers, and orders generally are subject to cancellation with limited advance notice prior to shipment.

Property, Plant and Equipment — Property, plant and equipment is stated at cost. Depreciation is based on estimated useful lives (principally 10 to 27 years for buildings and improvements; 3 to 5 years for machinery and equipment; and the shorter of the remaining terms of the leases or the estimated economic useful lives of the improvements for land and leasehold improvements). Significant renewals and betterments are capitalized and replaced units are written off. Maintenance and repairs are charged to expense.

Goodwill and Intangible Assets — Goodwill and intangible assets principally result from business acquisitions. The Company accounts for business acquisitions by assigning the purchase price to tangible and intangible assets and liabilities, including purchased in-process research and development (IPRD) projects which have not yet reached technological feasibility and have no alternative future use. Assets acquired and liabilities assumed are recorded at their fair values; the excess of the purchase price over the net assets acquired is recorded as goodwill. The value of IPRD is immediately charged to expense upon completion of the acquisition. Goodwill acquired prior to June 30, 2001 was, through fiscal 2002, amortized on a straight-line basis over estimated lives of 5 years; patents, developed technology and other intangible assets are amortized on a straight-line basis over the estimated useful lives of 2 to 8 years.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" as of the beginning of fiscal 2003. SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and provides new criteria for recording intangible assets separately from goodwill. Upon adoption, the existing goodwill and intangible assets were evaluated against the new criteria, which resulted in certain intangible assets with a carrying value of \$4.3 million being subsumed into goodwill. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and requires that goodwill and intangible assets that have indefinite useful lives no longer be amortized into results of operations,

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

but instead be tested at least annually for impairment and written down when impaired. Upon adoption of SFAS 142, the Company ceased amortizing goodwill against its results of operations.

During fiscal 2003, the Company completed the transition impairment test of its goodwill (as of the beginning of fiscal 2003) required by SFAS 142. Mindspeed consists of one reporting unit (as defined in SFAS 142) and for purposes of the impairment test, its fair value was determined considering both an income approach and a market approach. Management determined that the recorded value of goodwill exceeded its fair value (estimated to be zero) by \$573.2 million. The Company recorded a fiscal 2003 charge of \$573.2 million — reflected in the accompanying statement of operations as the cumulative effect of a change in accounting principle — to write down the value of goodwill to estimated fair value.

The following table shows the Company's net loss as if the non-amortization provisions of SFAS 142 had been in effect for all periods presented (in thousands):

	Year Ended September 30,		
	2003	2002	2001
Net loss, as reported	\$(750,445)	\$(668,273)	\$(496,393)
Amortization of goodwill	—	251,166	242,005
Amortization of assembled workforce previously classified as an intangible asset	—	1,668	1,725
Net loss, as adjusted	<u>\$(750,445)</u>	<u>\$(415,439)</u>	<u>\$(252,663)</u>
Loss per share, basic and diluted:			
Net loss, as reported	\$ (8.37)	\$ (7.74)	\$ (6.09)
Net loss, as adjusted	\$ (8.37)	\$ (4.81)	\$ (3.10)

Impairment of Long-Lived Assets — The Company continually monitors events or changes in circumstances that could indicate that the carrying amount of long-lived assets to be held and used, including intangible assets, may not be recoverable. The determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. When impairment is indicated for a long-lived asset, the amount of impairment loss is the excess of net book value over fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. During fiscal 2003, 2002 and 2001, the Company recorded impairment charges as discussed in Notes 3 and 11.

Foreign Currency Translation and Remeasurement — The Company's foreign operations are subject to exchange rate fluctuations and foreign currency transaction costs. The functional currency of the Company's principal foreign subsidiaries is the local currency. Assets and liabilities denominated in foreign functional currencies are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates and income and expense items are translated at the average exchange rates prevailing during the period. The resulting foreign currency translation adjustments are accumulated as a component of other comprehensive income. For the remainder of the Company's foreign subsidiaries, the functional currency is the U.S. dollar. Inventories, property, plant and equipment, cost of goods sold and depreciation for those operations are remeasured from foreign currencies into U.S. dollars at historical exchange rates; other accounts are translated at current exchange rates. Gains and losses resulting from those remeasurements are included in earnings. Gains and losses resulting from foreign currency transactions are recognized currently in earnings.

Research and Development — Research and development costs, other than software development costs, are expensed as incurred. Development costs for software to be sold or marketed are capitalized following attainment of technological feasibility. No development costs that qualify for capitalization were incurred during any of the periods presented.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock-Based Compensation — As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, “Accounting for Stock-Based Compensation,” the Company accounts for stock-based compensation under Accounting Principles Board (APB) Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. Under APB 25, the Company generally recognizes no compensation expense with respect to stock option awards. Had compensation cost for stock option awards been determined based on the fair value of each award at its grant date, consistent with the provisions of SFAS 123, the Company’s pro forma net loss and pro forma net loss per share would have been as follows (in thousands, except per share amounts):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Pro forma net loss	\$ (783,647)	\$ (795,115)	\$ (648,322)
Pro forma net loss per share, basic and diluted	\$ (8.74)	\$ (9.21)	\$ (7.95)

For purposes of pro forma disclosures, compensation expense includes the estimated fair value of all stock-based compensation awarded to Mindspeed employees, including options to purchase Conexant common stock granted to Mindspeed employees prior to the Distribution. The fair value of each award is assumed to be amortized to expense over the vesting period. The fair value of stock options granted by Mindspeed under its stock option plans has been estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<u>2003</u>
Risk-free interest rate	2.3%
Expected volatility	100%
Dividend yield	—
Expected option life (years)	3.5
Weighted-average fair value of options granted	\$1.79

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing models require the input of highly subjective assumptions, including the expected option life and expected stock price volatility. Because options held by employees and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, management believes the existing option pricing models do not necessarily provide a reliable single measure of the fair value of these options.

Income Taxes — The provision (benefit) for income taxes is determined in accordance with SFAS No. 109, “Accounting For Income Taxes.” Deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. For periods prior to the Distribution, Mindspeed’s results of operations were included in Conexant’s consolidated federal and state income tax returns. The provision for income taxes for periods prior to the Distribution is calculated as if Mindspeed had filed separate tax returns as an independent company. See Note 4.

Loss Per Share — Basic loss per share is based on the weighted-average number of shares of common stock outstanding during the period. Diluted loss per share also includes the effect of stock options, warrants and other common stock equivalents outstanding during the period if such securities are dilutive. Because the Company incurred a net loss in each of the periods presented, the potential dilutive effect of such securities was not included in the computation of diluted loss per share because these securities were antidilutive. For

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

periods prior to the Distribution, the weighted-average number of shares outstanding is based on Conexant's weighted-average shares outstanding.

Concentrations — Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade accounts receivable. The Company principally invests its cash balances in money market funds through high-credit quality financial institutions. The Company's trade accounts receivable primarily are derived from sales to manufacturers of network infrastructure equipment and electronic component distributors. Management believes that credit risks on trade accounts receivable are moderated by the diversity of its end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral, such as letters of credit and bank guarantees, whenever deemed necessary.

The following individual customers accounted for 10% or more of net revenues:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Customer A	22%	16%	24%
Customer B	12%	5%	1%
Customer C	7%	5%	11%

The following individual customers accounted for 10% or more of total accounts receivable at fiscal year ends:

	<u>2003</u>	<u>2002</u>
Customer A	3%	24%
Customer B	18%	4%
Customer C	15%	20%
Customer D	11%	3%
Customer E	11%	10%

Supplemental Cash Flow Information — The Company paid no interest during fiscal 2003, 2002 and 2001. Income taxes paid were \$0.4 million and \$0.9 million during fiscal 2003 and 2002, respectively; during fiscal 2001 all income taxes were paid by Conexant.

Comprehensive Loss — Accumulated other comprehensive loss at September 30, 2003 and 2002 consists of foreign currency translation adjustments. Foreign currency translation adjustments are not presented net of any tax effect as the Company does not expect to incur any tax liability or realize any benefit related thereto.

Recent Accounting Standards — SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," supersedes previous guidance on financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The Company adopted SFAS 144 as of the beginning of fiscal 2003, with no significant impact on its financial position or results of operations.

In August 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 requires that costs associated with exit or disposal activities be recognized when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company must apply SFAS 146 prospectively to exit or disposal activities initiated after December 31, 2002. If the Company initiates exit or disposal activities after that date, SFAS 146 will affect the timing of the recognition of the related costs. The adoption of SFAS 146 had no significant impact on the Company's financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

requires increased financial statement disclosures by a guarantor about its obligations under certain guarantees it has issued. FIN 45 also requires that a guarantor recognize a liability for the fair value of a certain guarantees made after December 31, 2002. The Company adopted FIN 45 in fiscal 2003, with no impact on its financial position or results of operations.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." The Company has no interests in variable interest entities and the adoption of FIN 46 during fiscal 2003 had no impact on the Company's financial position or results of operations.

Reclassifications — Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Supplemental Financial Statement Data

Inventories

Inventories at fiscal year ends consist of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Work-in-process	\$2,575	\$2,820
Finished goods	<u>1,460</u>	<u>2,022</u>
	<u>\$4,035</u>	<u>\$4,842</u>

Cost of goods sold for fiscal 2001 includes inventory write-downs of \$83.5 million. These write-downs resulted from the sharply reduced end-customer demand for network infrastructure equipment experienced during fiscal 2001. As a result of these market conditions, the Company experienced a significant number of order cancellations and a decline in the volume of new orders beginning in the fiscal 2001 first quarter, and becoming more pronounced in the second quarter. The inventories written down in fiscal 2001 principally consisted of multiservice access processors and multi-megabit DSL transceivers.

The Company assesses the recoverability of inventories through an ongoing review of inventory levels in relation to sales backlog and forecasts, product marketing plans and product life cycles. When the inventory on hand exceeds the foreseeable demand, the value of inventory that at the time of the review is not expected to be sold is written down. The amount of the write-down is the excess of historical cost over estimated realizable value (generally zero). Once established, these write-downs are considered permanent adjustments to the cost basis of the excess inventory.

The assessment of the recoverability of inventories, and the amounts of any write-downs, are based on currently available information and assumptions about future demand (generally over six months) and market conditions. Demand for the Company's products may fluctuate significantly over time, and actual demand and market conditions may be more or less favorable than those projected by management. In the event that actual demand is lower than originally projected, additional inventory write-downs may be required.

The Company may retain and make available for sale some or all of the inventories which have been written down. In the event that actual demand is higher than originally projected, the Company may be able to sell a portion of these inventories in the future. The Company generally scraps inventories which have been written down and are identified as obsolete.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property, Plant and Equipment

Property, plant and equipment at fiscal year ends consists of the following (in thousands):

	<u>2003</u>	<u>2002</u>
Machinery and equipment	\$ 69,699	\$ 88,186
Leasehold improvements	3,799	5,048
Construction in progress	<u>76</u>	<u>500</u>
	73,574	93,734
Accumulated depreciation and amortization	<u>(46,962)</u>	<u>(50,880)</u>
	<u>\$ 26,612</u>	<u>\$ 42,854</u>

Goodwill

During the first quarter of fiscal 2003, the Company completed the transition impairment test required by SFAS 142 and recorded a charge of \$573.2 million to write down the carrying value of goodwill to its estimated fair value. Goodwill was adjusted as follows (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Goodwill at beginning of period	\$ 568,900	\$ 909,293	\$1,061,581
Additional consideration for fiscal 2000 acquisitions	—	16,316	85,253
Assembled workforce reclassified to goodwill	4,284	—	—
Amortization	—	(251,166)	(242,005)
Impairments	—	(102,619)	—
Other adjustments	—	(2,924)	4,464
Cumulative effect of change in accounting for goodwill ..	<u>(573,184)</u>	<u>—</u>	<u>—</u>
Goodwill at end of period	<u>\$ —</u>	<u>\$ 568,900</u>	<u>\$ 909,293</u>

Intangible Assets

Intangible assets at fiscal year-ends consist of the following (in thousands):

	<u>2003</u>		<u>2002</u>	
	<u>Gross Asset</u>	<u>Accumulated Amortization</u>	<u>Gross Asset</u>	<u>Accumulated Amortization</u>
Developed technology	\$225,663	\$(163,765)	\$269,583	\$(143,906)
Customer base	27,515	(19,911)	27,060	(14,169)
Assembled workforce	—	—	9,599	(5,315)
Other intangible assets	<u>10,406</u>	<u>(10,041)</u>	<u>10,235</u>	<u>(9,455)</u>
	<u>\$263,584</u>	<u>\$(193,717)</u>	<u>\$316,477</u>	<u>\$(172,845)</u>

The increases in the gross amounts of the customer base and other intangible assets as of September 30, 2003, as compared with September 30, 2002, reflect the impact of foreign currency translation adjustments. Intangible assets are amortized over a weighted-average period of approximately five years for each major asset class. Amortization of intangible assets totaled \$51.2 million (2003), \$61.2 million (2002) and \$63.0 million (2001). Annual amortization expense is expected to be approximately \$49.7 million (2004) and \$20.2 million (2005).

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

4. Income Taxes

The components of the provision (benefit) for income taxes are as follows (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current:			
United States	\$ —	\$ —	\$ —
Foreign	528	437	311
State and local	<u>252</u>	<u>262</u>	<u>102</u>
Total current	<u>780</u>	<u>699</u>	<u>413</u>
Deferred:			
United States	—	—	(45,619)
Foreign	—	—	(3,803)
State and local	<u>—</u>	<u>—</u>	<u>2,498</u>
Total deferred	<u>—</u>	<u>—</u>	<u>(46,924)</u>
	<u>\$780</u>	<u>\$699</u>	<u>\$ (46,511)</u>

A reconciliation of income taxes computed at the U.S. federal statutory income tax rate to the provision (benefit) for income taxes on continuing operations follows (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
U.S. federal statutory tax at 35%	\$(61,768)	\$(233,651)	\$(190,017)
State taxes, net of federal effect	(4,532)	(9,649)	(10,038)
Foreign income taxes in excess of U.S.	3,410	38,129	11,212
Research and development credits	—	(7,698)	(7,595)
Nondeductible amortization of intangible assets	—	90,875	75,475
Valuation allowance	63,587	122,038	73,544
Other	<u>83</u>	<u>655</u>	<u>908</u>
Provision (benefit) for income taxes	<u>\$ 780</u>	<u>\$ 699</u>	<u>\$ (46,511)</u>

Income (loss) before income taxes consists of the following components (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
United States	\$(169,158)	\$(559,882)	\$(500,892)
Foreign	<u>(7,323)</u>	<u>(107,692)</u>	<u>(42,012)</u>
	<u>\$ (176,481)</u>	<u>\$ (667,574)</u>	<u>\$ (542,904)</u>

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred income tax assets and liabilities at fiscal year-ends consist of the tax effects of temporary differences related to the following (in thousands):

	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Inventories	\$ 43,505	\$ 49,721
Deferred revenue	1,640	2,909
Accrued compensation and benefits	1,815	2,514
Product returns and allowances	852	1,469
Net operating losses	139,061	156,901
Research and development and investment credits	22,100	38,479
Other	9,081	7,229
Valuation allowance	<u>(180,332)</u>	<u>(196,343)</u>
Total deferred tax assets	<u>37,722</u>	<u>62,879</u>
Deferred tax liabilities:		
Intangible assets	22,993	44,843
Property, plant and equipment	1,941	5,776
Deferred state taxes	8,579	9,450
Other	<u>4,209</u>	<u>2,810</u>
Total deferred tax liabilities	<u>37,722</u>	<u>62,879</u>
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

Based upon the Company's operating losses and expected future operating results, management determined that it is more likely than not that the deferred tax assets as of September 30, 2003 and 2002 will not be realized through the reduction of future income tax payments. Consequently, the Company has established a valuation allowance for its net deferred tax asset as of those dates.

Through the Distribution date, Mindspeed's results of operations were included in Conexant's consolidated federal and state income tax returns. The provision for income taxes and the related deferred tax assets and liabilities for periods prior to the Distribution were calculated as if Mindspeed had filed separate tax returns as an independent company. Had Mindspeed filed separate tax returns as of September 30, 2002, the U.S. federal net operating loss carryforwards would have been approximately \$406.3 million and aggregate state net operating loss carryforwards would have been approximately \$243.4 million.

In connection with the Distribution, Mindspeed and Conexant entered into a tax allocation agreement which provides, among other things, for the allocation between Conexant and Mindspeed of federal, state, local and foreign tax liabilities relating to Mindspeed. The tax allocation agreement also allocates the liability for any taxes that may arise in connection with the Distribution. The tax allocation agreement generally provides that Conexant will be responsible for any such taxes. However, Mindspeed will be responsible for any taxes imposed on Mindspeed, Conexant or Conexant shareholders if either the Distribution fails to qualify as a reorganization for U.S. federal income tax purposes or the distribution of Mindspeed Technologies common stock is disqualified as a tax-free transaction to Conexant for U.S. federal income tax purposes and such failure or disqualification is attributable to post-Distribution transaction actions by Mindspeed, its subsidiaries or its shareholders.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the Distribution, Mindspeed retained U.S. federal net operating loss carryforwards of \$237.6 million and aggregate state net operating loss carryforwards of approximately \$17.0 million.

As of September 30, 2003, Mindspeed had U.S. federal net operating loss carryforwards of approximately \$378.0 million, which expire at various dates through 2023, and aggregate state net operating loss carryforwards of approximately \$157.2 million, which expire at various dates through 2013. Mindspeed also has U.S. federal and state research and development tax credit carryforwards of approximately \$7.8 million and \$14.3 million, respectively. The U.S. federal credits expire at various dates through 2023, while the state credits have no expiration date.

The deferred tax assets as of September 30, 2003 include a deferred tax asset of \$2.3 million representing net operating losses arising from the exercise of stock options by Mindspeed employees. To the extent the Company realizes any tax benefit for the net operating losses attributable to the stock option exercises, such amount would be credited directly to shareholders' equity.

5. Credit Facility

In connection with the Distribution, the Company entered into a Credit Agreement with Conexant, under which the Company may borrow up to \$50 million for working capital and other general corporate purposes. The credit facility is available for a term ending on June 29, 2007. The Company may borrow under the credit facility only to restore its cash balance to \$25 million. Loans under the credit facility will accrue interest at the rate of 10 percent per annum, payable at maturity. The credit facility contains customary conditions and covenants, including restrictions on payment of dividends, consolidations, mergers, acquisitions, investments, sales of assets, incurrence of indebtedness and creation of liens and encumbrances. In the event that Mindspeed makes borrowings under the credit facility, Conexant will be entitled to exercise certain warrants to purchase shares of Mindspeed common stock (see Note 9). As of September 30, 2003, the Company had made no borrowings under the credit facility.

6. Commitments

In connection with the Distribution, Mindspeed entered into a Sublease with Conexant pursuant to which Mindspeed leases its headquarters located in Newport Beach, California. The Sublease has an initial term extending through June 2008. Mindspeed may, at its option, renew the Sublease for an additional two-year term. Rent payable under the Sublease will be a prorated portion of Conexant's actual costs. Mindspeed's minimum future obligation under the Sublease is estimated at approximately \$4.6 million annually (a total of \$21.6 million over the remainder of the initial lease term), but actual rents under the Sublease will vary based upon Conexant's actual costs.

The Company leases its other facilities and certain equipment under non-cancelable operating leases. The leases expire at various dates through 2008 and contain various provisions for rental adjustments including, in certain cases, adjustments based on increases in the Consumer Price Index. The leases generally contain renewal provisions for varying periods of time.

Rental expense was approximately \$12.2 million, \$14.1 million and \$12.7 million during fiscal 2003, 2002 and 2001, respectively. Rental expense for fiscal 2003 includes \$1.2 million paid to Conexant under the

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Sublease. As of September 30, 2003, Mindspeed's minimum future obligations under operating leases (including the estimated minimum future obligation under the Sublease) are as follows (in thousands):

<u>Fiscal Year</u>	
2004	\$ 9,117
2005	7,486
2006	6,628
2007	5,901
2008	<u>3,596</u>
Total minimum future lease payments	<u>\$32,728</u>

The minimum future lease payments as of September 30, 2003 include an aggregate of \$8.4 million relating to facilities no longer occupied by the Company, which is included in the restructuring liability in the accompanying consolidated balance sheets.

7. Contingencies

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

The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company. Many intellectual property disputes have a risk of injunctive relief and there can be no assurance that the Company will be able to license a third party's intellectual property. Injunctive relief could have a material adverse effect on the financial condition or results of operations of the Company. Based on its evaluation of matters which are pending or asserted, management of the Company believes the disposition of such matters will not have a material adverse effect on the financial condition or results of operations of the Company.

8. Guarantees

The Company has made guarantees and indemnities, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. In connection with the Distribution, the Company generally assumed responsibility for all contingent liabilities and then-current and future litigation against Conexant or its subsidiaries related to Mindspeed. The Company may also be responsible for certain federal income tax liabilities under the tax allocation agreement between Mindspeed and Conexant, which provides that the Company will be responsible for certain taxes imposed on Mindspeed, Conexant or Conexant shareholders. In connection with the sales of its products, the Company provides intellectual property indemnities to its customers. In connection with certain facility leases, the Company has indemnified its lessors for certain claims arising from the facility or the lease. The Company indemnifies its 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 guarantees and indemnities to customers in connection with product sales generally are subject to limits based upon the amount of the related product sales. Some customer guarantees and indemnities, and the majority of other guarantees and indemnities, do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. The Company has not recorded any liability for these guarantees and indemnities in the accompanying consolidated balance sheets.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. Capital Stock

The Company's authorized capital consists of 500,000,000 shares of common stock, par value \$0.01 per share, and 25,000,000 shares of preferred stock, par value \$0.01 per share, of which 2,500,000 shares are designated as Series A junior participating preferred stock (Junior Preferred Stock).

The Company has a preferred share purchase rights plan to protect shareholders' rights in the event of a proposed takeover of the Company. Pursuant to the preferred share purchase right (a Right) attached to each share of common stock the holder may, in certain takeover-related circumstances, become entitled to purchase from the Company 1/100th of a share of Junior Preferred Stock at a price of \$20, subject to adjustment. Also, in certain takeover-related circumstances, each Right (other than those held by an acquiring person) will generally be exercisable for shares of the Company's common stock or stock of the acquiring person having a then-current market value of twice the exercise price. In certain events, each Right may be exchanged by the Company for one share of common stock or 1/100th of a share of Junior Preferred Stock. The Rights expire on June 26, 2013, unless earlier exchanged or redeemed at a redemption price of \$0.01 per Right, subject to adjustment.

Warrants

In the Distribution, Mindspeed issued to Conexant a warrant to purchase 30 million shares of Mindspeed common stock at a price of \$3.408 per share, exercisable for a period beginning one year and ending ten years after the Distribution. The \$89 million fair value of the warrant (estimated by management at the time of the Distribution using the Black-Scholes option pricing model) was recorded as a return of capital to Conexant.

Also in the Distribution, as a result of adjustments made to an outstanding warrant to purchase shares of Conexant common stock, Mindspeed issued to Jazz Semiconductor, Inc. (Jazz) a warrant to purchase approximately 1.0 million shares of Mindspeed common stock, at a price of \$2.5746 per share, exercisable through December 2004.

In connection with the credit facility, the Company issued to Conexant warrants to purchase up to 8.3 million shares of Mindspeed common stock. The number of shares that may be acquired under the warrants will depend on the highest level of borrowings under the credit facility, increasing on a pro rata basis up to a maximum of 8.3 million shares of Mindspeed common stock if the level of borrowings under the credit facility reaches \$50 million. The warrants will be exercisable for a period of ten years after the Distribution at a price per share equal to the lesser of \$3.408 or the fair market value of Mindspeed common stock at the time of the borrowings under the credit facility that entitle Conexant to acquire the shares. The estimated fair value of any warrants that become exercisable as a result of borrowings under the credit facility will be charged against earnings as a cost of obtaining the credit facility.

As of September 30, 2003, warrants to purchase up to an aggregate of 39.3 million shares of Mindspeed common stock are outstanding, of which approximately 1.0 million are exercisable.

Stock Options

In connection with the Distribution, each holder of a Conexant stock option (other than options held by persons in certain foreign locations) received an option to purchase a number of shares of Mindspeed common stock. The number of shares subject to, and the exercise prices of, the outstanding Conexant options and the Mindspeed options were adjusted so that the aggregate intrinsic value of the options was equal to the intrinsic value of the Conexant option immediately prior to the Distribution and the ratio of the exercise price per share to the market value per share of each option was the same immediately before and after the Distribution. As a result of such option adjustments, Mindspeed issued options to purchase an aggregate of approximately 29.9 million shares of its common stock to holders of Conexant stock options (including Mindspeed employees).

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of activity under Mindspeed's stock option plans follows (shares in thousands):

	Number of Shares	Weighted Average Exercise Price
Outstanding prior to the Distribution	—	\$ —
Issued in connection with the Distribution	29,936	1.98
Granted during period	4,251	2.69
Exercised	(2,977)	2.02
Cancelled	(744)	2.09
Outstanding at September 30, 2003	<u>30,466</u>	2.07
Exercisable at end of period	<u>17,581</u>	2.14

Option awards under the Company's stock option plans generally have terms of eight to ten years and generally vest over the four-year period following the grant date. The following table summarizes all options to purchase Mindspeed common stock outstanding at September 30, 2003 (shares in thousands):

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares	Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
\$0.14 – \$0.96	994	5.7	\$0.78	491	\$0.70
0.97 – 1.00	3,550	7.0	0.98	207	0.99
1.01 – 1.78	2,159	4.1	1.57	1,832	1.61
1.80 – 2.36	17,501	5.9	2.04	13,506	2.03
2.38 – 23.29	<u>6,262</u>	7.1	3.16	<u>1,545</u>	4.37
0.14 – 23.29	<u>30,466</u>	6.1	2.07	<u>17,581</u>	2.14

The outstanding stock options include options held by Mindspeed employees to purchase an aggregate of 15.1 million shares of Mindspeed common stock, which are summarized in the following table (shares in thousands):

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares	Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
\$0.14 – \$0.96	315	5.1	\$0.81	122	\$0.71
0.97 – 1.00	1,518	6.8	1.00	103	0.99
1.01 – 1.78	470	4.3	1.53	364	1.58
1.80 – 2.36	7,922	6.0	1.97	5,943	1.96
2.38 – 16.98	<u>4,842</u>	7.6	2.86	<u>465</u>	4.18
0.14 – 16.98	<u>15,067</u>	6.5	2.12	<u>6,997</u>	2.05

Restricted Stock

The Company's long-term incentive plans also provide for awards of restricted shares of common stock and other stock-based incentive awards to officers and other employees and certain non-employees. Prior to

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the Distribution, similar awards were made to Mindspeed employees under Conexant's long-term incentives plans. Restricted stock awards are subject to forfeiture if employment terminates during the prescribed retention period (generally within two years of the date of award) or, in certain cases, if prescribed performance criteria are not met. The fair value of restricted stock awards is charged to expense over the vesting period. In fiscal 2003, 2002 and 2001, Mindspeed recorded compensation expense of \$0.1 million, \$0.7 million and \$1.1 million, respectively, for the value of restricted stock awards to employees, including amounts allocated from Conexant.

Employee Stock Purchase Plan

The Company has an employee stock purchase plan which allows eligible employees to purchase shares of its common stock at specified intervals during a 24-month offering period at 85% of the lower of the fair market value on the first day of the 24-month offering period or on the purchase date. Prior to the Distribution, Mindspeed employees were eligible to participate in a similar plan sponsored by Conexant. Under the employee stock purchase plan, employees may authorize the Company to withhold up to 10% of their compensation for each pay period to purchase shares under the plan, subject to certain limitations. Offering periods generally commence on the first trading day of February and August of each year and are generally 24 months in duration, but may be terminated earlier under certain circumstances.

10. Employee Benefit Plans

The Company sponsors a 401(k) retirement savings plan for its eligible employees. Prior to the Distribution, Mindspeed employees were eligible to participate in similar plans sponsored by Conexant. The Company matches a portion of employee contributions and funds the matching contribution in shares of its common stock. In fiscal 2003, the Company issued 118,000 shares of its common stock to fund the matching contributions. The Company recognized expenses under the retirement savings plans, including amounts allocated from Conexant, of \$2.4 million, \$3.1 million and \$3.3 million for fiscal 2003, 2002 and 2001, respectively.

11. Special Charges

Special charges consist of the following (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Asset impairments	\$23,397	\$143,428	\$1,436
Restructuring charges	12,314	25,438	3,229
Separation costs	—	—	3,000
Other special charges	<u>(8,541)</u>	<u>—</u>	<u>—</u>
	<u>\$27,170</u>	<u>\$168,866</u>	<u>\$7,665</u>

Asset Impairments

2003 Impairments — During fiscal 2003, the Company recorded an impairment charge of \$19.1 million to write down the carrying value of identified intangible assets (principally developed technology) related to the HotRail subsidiary. In January 2003, the Company decided to close the HotRail design center and to curtail investment in selected associated products. Management evaluated the recoverability of the assets of the HotRail business to determine whether their value was impaired, based upon the future cash flows expected to be generated by the affected products over the remainder of their life cycles (estimated to be approximately five years). The estimated sales volumes, pricing, gross margin and operating expenses were consistent with historical trends and other available information. Since the estimated undiscounted cash flows

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

were less than the carrying value (approximately \$27.4 million) of the related assets, management determined that the value of such assets was impaired. The Company recorded an impairment charge of \$19.1 million, which was determined by comparing the estimated fair value of the assets to their carrying value. The fair value of the assets was determined by computing the present value of the expected future cash flows using a discount rate of 18%, which management believes is commensurate with the underlying risks associated with the projected cash flows. Management believes the assumptions used in the discounted cash flow model represent a reasonable estimate of the fair value of the assets. The write-down established a new cost basis for the impaired assets.

Also during fiscal 2003, the Company recorded asset impairment charges totaling \$4.3 million related to certain assets that it determined to abandon or scrap.

2002 Impairments — During fiscal 2002, the Company performed a strategic review of its operations and initiated restructuring actions intended to focus its research and development spending on products for the network infrastructure market segments it believes offer the most attractive near-term growth prospects, such as its products for metro/access applications. The Company believes that the end markets for optical long-haul networks offer weaker recovery prospects, with slow adoption of new, higher speed networks. Management determined that this anticipated weak demand would adversely affect the potential return on continued investment in the Novanet Semiconductor Ltd. (Novanet) business, which was engaged in the development of semiconductor products for high-speed SONET applications. In June 2002, the Company closed the Novanet design center in Israel, which represented substantially all of Novanet's operations. Management also expected this weak demand would adversely affect the operating performance of the NetPlane Systems, Inc. (NetPlane) software business and determined to divest the NetPlane business. NetPlane develops and sells networking protocol software and systems for control plane applications in network infrastructure equipment. The Company completed the sale of the assets of NetPlane in the second quarter of fiscal 2003 for net proceeds of \$9.2 million.

As a result of these decisions, in fiscal 2002 the Company recorded impairment charges of \$114.1 million to write down the carrying value of certain long-lived assets associated with these operations. Substantially all of the \$61.0 million impairment charge for Novanet was recorded to write down the carrying value of goodwill. The amount of the impairment charge was the excess of the carrying value of the goodwill over its fair value, which was estimated to be zero because the Company did not expect to realize any significant cash flows from Novanet. The principal components of the \$53.1 million impairment charge for NetPlane included the balances of goodwill (\$40.8 million) and identified intangible assets (\$12.3 million). The amount of the impairment charge was the excess of the carrying value over fair value, which was estimated to be zero because the Company did not at that time expect to realize any significant cash flows from the disposition of NetPlane.

Also during fiscal 2002, the Company recorded other asset impairment charges totaling \$29.3 million. The impairment charges included \$15.7 million to write off acquired technology that the Company determined, at the time of the impairment, would not be used in the future. The remaining impairment charges were associated with property and equipment that the Company determined to abandon or scrap.

2001 Impairments — During fiscal 2001, the Company recorded impairment charges of \$1.4 million associated with assets it determined to abandon or scrap. The Company determined the amounts of the impairment charges by comparing the assets' estimated fair values, less costs to sell, to their carrying values. The Company determined the estimated fair values, using all available information, based upon the proceeds expected to result from a disposition of the assets. Management believes the assumptions used in estimating the fair values were reasonable and the estimated fair values approximated the amounts that would be realized upon the ultimate disposition of the assets. The write-downs established a new cost basis for the impaired assets.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restructuring Charges

In fiscal 2001, 2002 and 2003, the Company implemented a number of cost reduction initiatives to improve its operating cost structure. The cost reduction initiatives included workforce reductions, significant reductions in capital spending, the consolidation of certain facilities and salary reductions for the senior management team. The costs and expenses associated with the restructuring activities are included in special charges in the accompanying consolidated statements of operations.

2001 Global Restructuring Plan — During the second quarter of fiscal 2001, as part of a broad cost reduction initiated by Conexant, the Company announced certain expense reduction initiatives and a reduction in workforce which reduced its headcount by approximately 60 employees. These actions were intended to focus investment and resources in areas that best support the Company's strategic growth drivers. The charges for the workforce reduction aggregated \$1.1 million and were based upon estimates of the cost of severance benefits for the affected employees. The Company completed these restructuring actions in fiscal 2002. Activity and liability balances related to the 2001 global restructuring plan through September 30, 2003 are as follows (in thousands):

	<u>Workforce Reductions</u>
Charged to costs and expenses	\$ 1,110
Cash payments	<u>(1,014)</u>
Restructuring balance, September 30, 2001	96
Cash payments	<u>(35)</u>
Restructuring balance, September 30, 2002	61
Expense reversal	<u>(61)</u>
Restructuring balance, September 30, 2003	<u>\$ —</u>

2001 Mindspeed Cost Reduction Plan — During the third quarter of fiscal 2001, the Company initiated a further cost reduction plan, which reduced its workforce by approximately 110 employees, and recorded charges aggregating \$2.1 million. The charges were based upon estimates of the cost of severance benefits for the affected employees. The Company completed these actions in the fourth quarter of fiscal 2001. In fiscal 2003, the Company reversed \$0.1 million of previously accrued costs upon the resolution of liabilities for severance benefits payable under the plan. Activity and liability balances related to the 2001 Mindspeed cost reduction plan through September 30, 2003 are as follows (in thousands):

	<u>Workforce Reductions</u>
Charged to costs and expenses	\$ 2,119
Cash payments	<u>(1,518)</u>
Restructuring balance, September 30, 2001	601
Cash payments	<u>(455)</u>
Restructuring balance, September 30, 2002	146
Expense reversal	<u>(146)</u>
Restructuring balance, September 30, 2003	<u>\$ —</u>

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2002 Cost Reduction Plan — During fiscal 2002, the Company initiated additional actions to improve further its operating cost structure. Under this plan, the Company terminated approximately 110 employees and recorded charges aggregating \$2.1 million. The charges were based upon estimates of the cost of severance benefits for the affected employees. In addition, the Company recorded restructuring charges of \$0.2 million for costs associated with the consolidation of certain facilities. In fiscal 2003, the Company resolved its obligations related to certain leased facilities and reversed \$0.1 million of previously accrued costs. Activity and liability balances related to the 2002 cost reduction plan through September 30, 2003 are as follows (in thousands):

	<u>Workforce Reductions</u>	<u>Facility and Other</u>	<u>Total</u>
Charged to costs and expenses	\$ 2,097	\$171	\$ 2,268
Cash payments	(1,488)	(37)	(1,525)
Non-cash charges	<u>(609)</u>	<u>—</u>	<u>(609)</u>
Restructuring balance, September 30, 2002	—	134	134
Expense reversal	—	(54)	(54)
Cash payments	<u>—</u>	<u>(80)</u>	<u>(80)</u>
Restructuring balance, September 30, 2003	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Mindspeed Strategic Restructuring Plan — During the third quarter of fiscal 2002, the Company announced a number of expense reduction and restructuring initiatives intended to reduce further its operating cost structure and focus its research and development spending on products for the network infrastructure market segments it believes offer the most attractive near-term growth prospects. These actions include the elimination of research and development spending in high-end optical networking applications, the closure of Novanet, the divestiture of NetPlane and a reduction of support services spending, in total reducing the Company's workforce by over 400 employees. During fiscal 2002, the Company terminated approximately 280 of such employees and recorded charges aggregating \$7.1 million. These charges were based upon estimates of the cost of severance benefits for the affected employees. These actions reduced the Company's workforce throughout its operations. In addition, the Company recorded restructuring charges of \$16.1 million for costs associated with the consolidation of certain facilities, including lease cancellation and related costs.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During the first quarter of fiscal 2003, the Company implemented an additional workforce reduction affecting approximately 80 employees and closed its design center in Bristol, England. The Company recorded additional charges of \$2.3 million for the workforce reductions, based upon estimates of the cost of severance benefits for the affected employees, and \$4.6 million for commitments under license obligations for the purchase of design tools that the Company determined would not be used in the future. During the first quarter of fiscal 2003, the Company substantially completed these workforce reductions. Activity and liability balances related to the Mindspeed strategic restructuring plan through September 30, 2003 are as follows (in thousands):

	<u>Workforce Reductions</u>	<u>Facility and Other</u>	<u>Total</u>
Charged to costs and expenses	\$ 7,061	\$16,109	\$ 23,170
Cash payments	(2,419)	(1,211)	(3,630)
Non-cash charges	(552)	(354)	(906)
Restructuring balance, September 30, 2002	4,090	14,544	18,634
Charged to costs and expenses	2,341	4,589	6,930
Cash payments	(6,431)	(9,980)	(16,411)
Restructuring balance, September 30, 2003	<u>\$ —</u>	<u>\$ 9,153</u>	<u>\$ 9,153</u>

Mindspeed 2003 Restructuring Plan — In March 2003, the Company announced a number of expense reduction and restructuring initiatives intended to further improve its operating cost structure. The actions include the closure of the HotRail design center in San Jose, California and a further workforce reduction of approximately 130 employees. Restructuring charges for fiscal 2003 include \$4.1 million for severance benefits to the affected employees. Additional costs for severance benefits totaling approximately \$0.5 million, expected to be paid during fiscal 2004, will be included in restructuring charges when incurred. In addition, the Company recorded restructuring charges of \$1.6 million for costs associated with the consolidation of certain facilities and lease cancellation and related costs. Activity and liability balances related to the Mindspeed 2003 restructuring plan through September 30, 2003 are as follows (in thousands):

	<u>Workforce Reductions</u>	<u>Facility and Other</u>	<u>Total</u>
Charged to costs and expenses	\$ 4,077	\$1,568	\$ 5,645
Cash payments	(3,759)	(191)	(3,950)
Restructuring balance, September 30, 2003	<u>\$ 318</u>	<u>\$1,377</u>	<u>\$ 1,695</u>

Through September 30, 2003, the Company paid an aggregate of \$28.6 million in connection with the fiscal 2001, 2002 and 2003 restructuring plans and has a remaining accrued restructuring balance totaling \$10.8 million. The Company expects to pay a majority of the amounts accrued for the workforce reductions during fiscal 2004 and expects to pay the obligations for the non-cancelable lease and other commitments over their respective terms, which expire at various dates through fiscal 2008. Cash payments to complete the restructuring actions will be funded from available cash reserves and funds from product sales, and are not expected to impact significantly the Company's liquidity.

Separation Costs

Separation costs of approximately \$3.0 million incurred in fiscal 2001 related to the initial efforts to separate Mindspeed from Conexant's Broadband Communications business, which began in September 2000.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Other Special Charges

Other special charges for fiscal 2003 consist of a \$9.0 million gain on the sale of the assets of NetPlane, partially offset by losses on other asset sales.

12. Related Party Transactions

Prior to the Distribution, the Company operated as a wholly owned subsidiary of Conexant. Conexant maintained a centralized treasury function and provided funding for Mindspeed's capital requirements. This funding consisted of Conexant's payment of expenses allocated to Mindspeed and payments made by Conexant on behalf of Mindspeed for operating expenses, capital expenditures and acquisitions, offset by Mindspeed's cash receipts. For periods prior to the Distribution, cash and cash equivalents in the consolidated balance sheets represents amounts held by Mindspeed's foreign operations and at certain subsidiaries.

The financing from Conexant also included additional consideration of \$101.6 million (in cash and shares of Conexant common stock) paid in fiscal 2001 and 2002 to the former owners of acquired companies upon the achievement of certain performance and technology goals and the expiration of indemnity, escrow or holdback provisions of the related acquisition agreements. The fair value of the additional consideration increased the amounts of goodwill related to the acquired companies.

The financing provided by Conexant took the form of equity capital advances in Mindspeed, with no formal repayment or interest arrangements, nor any expectation of any such arrangements in the future. The equity capital advances have been presented as additions to Conexant's net investment in the consolidated statements of shareholders' equity and comprehensive loss. Conexant provided the financing from its cash reserves, cash generated from operation and debt incurred at the parent level. The accompanying consolidated financial statements do not include any allocation of Conexant's debt or the related interest expense.

The Distribution Agreement between Conexant and Mindspeed provides for, among other things, the principal corporate transactions required to effect the separation of Mindspeed from Conexant, the distribution of Mindspeed common stock and certain other terms governing the relationship between Conexant and Mindspeed with respect to or in consequence of the Distribution. Under the Distribution Agreement, Conexant transferred to Mindspeed certain specifically identified assets and other assets used primarily or exclusively in the Mindspeed business. The Distribution Agreement also provides generally for the assumption by Mindspeed of all liabilities related to its business. Pursuant to the Distribution Agreement, Conexant made a pre-Distribution cash contribution to Mindspeed in an amount such that at the time of the Distribution Mindspeed's cash balance was \$100 million.

As of September 30, 2003, a receivable from Conexant of \$1.7 million is included in other current assets in the accompanying consolidated balance sheets.

Through the first quarter of fiscal 2001, Mindspeed's operating costs and expenses included expenses allocated from Conexant for sales, marketing, engineering and support services provided by Conexant. In the second quarter of fiscal 2001, Mindspeed established separate corporate infrastructure to perform a majority of the services previously provided by Conexant. For all periods subsequent to the first quarter of fiscal 2001, Mindspeed's operating costs and expenses principally represent direct purchases by Mindspeed. Expenses allocated from Conexant include the cost of certain services which Conexant provides to Mindspeed, facility rent and, through March 2002, allocations of costs associated with the underutilization of Conexant's former manufacturing facilities.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Expenses allocated from Conexant included in the accompanying consolidated statements of operations for periods prior to the Distribution are as follows (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Cost of goods sold	\$ 491	\$ 1,548	\$ 9,346
Research and development	3,294	6,557	10,926
Selling and marketing	2	129	9,452
General and administrative	<u>3,470</u>	<u>4,562</u>	<u>9,926</u>
	<u>\$7,257</u>	<u>\$12,796</u>	<u>\$39,650</u>

Operating costs and expenses were allocated based upon specific identification to the extent possible; the remaining common costs are allocated on bases that management considered to be reasonable reflections of the utilization of services provided to or the benefit received by Mindspeed. A summary of the primary methods used to allocate common costs and expenses is as follows:

Cost of goods sold	Percentage of specifically identified cost of goods sold for Mindspeed to the total of specifically identified cost of goods sold.
Research and development expenses and selling and marketing expenses	- Detailed activity-based analyses. - Percentage of specific spending for Mindspeed to the total spending for research and development expenses and selling and marketing expenses, respectively. - Pro rata manufacturing capacity utilization (through March 2002)
General and administrative expenses	Percentage of all specifically identified costs incurred by Mindspeed to the total of all specifically identified costs incurred by Conexant for cost of goods sold, research and development expenses and selling and marketing expenses.

In connection with the Distribution, Mindspeed and Conexant entered into a Transition Services Agreement, under which each of Mindspeed and Conexant agreed to provide certain services to the other. These services will be provided through various dates in 2004, unless the parties otherwise agree. The price for the services will be the actual cost of the services. The accompanying consolidated statements of operations include expenses of \$0.4 million for services purchased from Conexant under the Transition Services Agreement subsequent to the Distribution.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

13. Segment and Other Information

The Company operates a single business segment which designs, develops and sells semiconductor networking solutions for communications applications in enterprise, access, metropolitan and wide-area networks. Revenues by geographic area are presented based upon the country of destination. Revenues by geographic area are as follows (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
United States	\$32,939	\$43,313	\$190,501
Other Americas	<u>8,823</u>	<u>3,319</u>	<u>12,938</u>
Total Americas	41,762	46,632	203,439
Taiwan	9,683	3,686	5,161
Hong Kong	8,145	4,080	33,616
Japan	4,290	5,460	12,903
Other Asia-Pacific	<u>6,120</u>	<u>5,581</u>	<u>13,471</u>
Total Asia-Pacific	28,238	18,807	65,151
Europe, Middle East and Africa	<u>11,906</u>	<u>14,597</u>	<u>36,778</u>
	<u>\$81,906</u>	<u>\$80,036</u>	<u>\$305,368</u>

No other foreign country represented 10% or more of net revenues for any of the periods presented.

Long-lived assets consist of property, plant and equipment, goodwill and intangible assets, and other assets. Long-lived assets by geographic area at fiscal year-ends are as follows (in thousands):

	<u>2003</u>	<u>2002</u>
United States	\$ 85,120	\$681,553
Europe, Middle East and Africa	14,087	75,037
Asia-Pacific	<u>948</u>	<u>529</u>
	<u>\$100,155</u>	<u>\$757,119</u>

INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders of
Mindspeed Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Mindspeed Technologies, Inc. and subsidiaries (the "Company") as of September 30, 2003 and 2002, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive loss for each of the three years in the period ended September 30, 2003. Our audits also included the financial statement schedule listed in Item 15(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at September 30, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the accompanying consolidated financial statements, in 2003 the Company changed its method of accounting for goodwill and intangible assets.

DELOITTE & TOUCHE LLP

Costa Mesa, California
October 29, 2003

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer, the Company carried out an evaluation of the effectiveness as of September 30, 2003 of the design and operation of its "disclosure controls and procedures," which are defined under Securities and Exchange Commission rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report to timely alert them to material information relating to the Company required to be included in the Company's Exchange Act filings. There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Certain information required by Part III is omitted from this Annual Report in that the Company will file its definitive Proxy Statement for the Annual Meeting of Stockholders to be held on February 26, 2004 pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Proxy Statement) not later than 120 days after the end of the fiscal year covered by this Annual Report, and certain information included in the Proxy Statement is incorporated herein by reference.

Item 10. *Directors and Executive Officers of the Registrant*

The information required by this Item is incorporated herein by reference to the sections entitled "Executive Officers," "Election of Directors," "Board Committees and Meetings" and "Other Matters — Code of Ethics" in the Proxy Statement.

Item 11. *Executive Compensation*

The information required by this Item is incorporated herein by reference to the sections entitled "Executive Compensation" and "Directors' Compensation" in the Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

The information required by this Item is incorporated herein by reference to the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Proxy Statement.

Item 13. *Certain Relationships and Related Transactions*

In connection with the Distribution, Conexant and the Company entered into several agreements, including agreements relating to services to be provided by Conexant to the Company following the Distribution, the allocation of liabilities and obligations with respect to taxes, employee benefit plans and compensation arrangements, and other matters. At the time these agreements were negotiated and executed, certain of the Company's directors and executive officers also served as directors or executive officers of Conexant. The Company believes the terms of these agreements to be reasonable.

Additional information required by this Item is incorporated by reference to the section entitled "Certain Relationships and Related Transactions" in the Proxy Statement.

Item 14. *Principal Accountants Fees and Services*

The information required by this Item is incorporated herein by reference to the section entitled “Principal Accountants Fees and Services” in the Proxy Statement.

PART IV**Item 15. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*****(a) (1) Financial Statements**

The following consolidated financial statements of the Company for the fiscal year ended September 30, 2003 are included herewith:

Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Cash Flows, Consolidated Statements of Shareholders’ Equity and Comprehensive Loss, Notes to Consolidated Financial Statements, and Report of Deloitte & Touche LLP, Independent Auditors

(2) Supplemental Schedules

Schedule II — Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

- 3.1 Restated Certificate of Incorporation of Registrant, filed as Exhibit 4.1 to Registrant’s Registration Statement on Form S-3 (Registration Statement No. 333-106146) (the “2003 Stock Option Plan S-3”), is incorporated herein by reference.
- 3.2 Bylaws of Registrant, filed as Exhibit 4.2 to the 2003 Stock Option Plan S-3, are incorporated herein by reference.
- 4.1 Specimen certificate for Mindspeed Common Stock, par value \$.01 per share, filed as Exhibit 4.1 to Registrant’s Registration Statement on Form 10 (File No. 1-31650) (the “Form 10”), is incorporated herein by reference.
- 4.2 Rights Agreement dated as of June 26, 2003 by and between Mindspeed Technologies, Inc. and Mellon Investor Services LLC, as Rights Agent, filed as Exhibit 4.1 to Registrant’s Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.
- 10.1 Distribution Agreement dated as of June 27, 2003 by and between Conexant Systems, Inc. and Mindspeed Technologies, Inc., filed as Exhibit 2.1 to Registrant’s Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.
- 10.2 Employee Matters Agreement dated as of June 27, 2003 by and between Conexant Systems, Inc. and Mindspeed Technologies, Inc., filed as Exhibit 2.2 to Registrant’s Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.
- 10.3 Tax Allocation Agreement dated as of June 27, 2003 by and between Conexant Systems, Inc. and Mindspeed Technologies, Inc., filed as Exhibit 2.3 to Registrant’s Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.
- 10.4 Sublease dated as of June 27, 2003 by and between Conexant Systems, Inc. and Mindspeed Technologies, Inc., filed as Exhibit 2.4 to Registrant’s Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.
- 10.5 Credit Agreement dated as of June 27, 2003 by and among Mindspeed Technologies, Inc., the subsidiaries of Mindspeed Technologies, Inc. from time to time parties thereto and Conexant Systems, Inc., filed as Exhibit 2.5 to Registrant’s Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.

- 10.6 Credit Agreement Warrant dated June 27, 2003, issued by the Registrant to Conexant Systems, Inc., filed as Exhibit 4.5 to Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109525), is incorporated herein by reference.
- 10.7 Registration Rights Agreement dated as of June 27, 2003 by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109525), is incorporated herein by reference.
- 10.8 Common Stock Purchase Warrant dated June 27, 2003, filed as Exhibit 4.5 to Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- 10.9 Registration Rights Agreement dated as of June 27, 2003 by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to Registrant's Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.
- *10.10 Form of Employment Agreement to be entered into between Registrant and certain executives of Registrant, filed as Exhibit 10.8.1 to the Form 10, is incorporated herein by reference.
- *10.11 Schedule identifying agreements substantially identical to the Employment Agreement constituting Exhibit 10.10 hereto, filed as Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003, is incorporated herein by reference.
- *10.12 Mindspeed Technologies, Inc. 2003 Stock Option Plan, filed as Exhibit 4.5 to the 2003 Stock Option Plan S-3, is incorporated herein by reference.
- *10.13 Mindspeed Technologies, Inc. Retirement Savings Plan, filed as Exhibit 4.5 to Registrant's Registration Statement on Form S-8 (Registration Statement No. 333-106148), is incorporated herein by reference.
- *10.14 Mindspeed Technologies, Inc. 2003 Long-Term Incentives Plan, filed as Exhibit 4.5 to Registrant's Registration Statement on Form S-8 (Registration Statement No. 333-106479), is incorporated herein by reference.
- *10.15 Mindspeed Technologies, Inc. Directors Stock Plan, filed as Exhibit 4.6 to Registrant's Registration Statement on Form S-8 (Registration Statement No. 333-106479), is incorporated herein by reference.
- *10.16 Mindspeed Technologies, Inc. 2003 Employee Stock Purchase Plan, filed as Exhibit 4.5 to Registrant's Registration Statement on Form S-8 (Registration Statement No. 333-106481), is incorporated herein by reference.
- *10.17 Mindspeed Technologies, Inc. 2003 Non-Qualified Employee Stock Purchase Plan, filed as Exhibit 4.6 to Registrant's Registration Statement on Form S-8 (Registration Statement No. 333-106481), is incorporated herein by reference.
- 21 List of subsidiaries of Registrant.
- 23 Independent auditors' consent.
- 24 Power of attorney authorizing certain persons to sign this Annual Report on Form 10-K on behalf of certain directors and officers of the Company.
- 31.1 Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

Current Report on Form 8-K dated July 1, 2003, reporting the distribution by Conexant Systems, Inc. to its shareholders of all outstanding shares of the Company's common stock on June 27, 2003. (Items 5 and 7)

Current Report on Form 8-K dated July 23, 2003, furnishing the Company's press release dated July 23, 2003, announcing its financial results for the quarter ended June 30, 2003. (Items 7 and 12)

Current Report on Form 8-K dated October 29, 2003, furnishing the Company's press release dated October 29, 2003, announcing its financial results for the quarter and fiscal year ended September 30, 2003. (Items 7 and 12)

Current Report on Form 8-K dated December 5, 2003, reporting the approval of the Company's application to list its common stock on the Nasdaq National Market. (Items 5 and 7)

(c) Exhibits

See subsection (a) (3) above.

(d) Financial Statement Schedules

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Newport Beach, State of California, on this 17th day of December, 2003.

MINDSPEED TECHNOLOGIES, INC.

By: /s/ RAOUF Y. HALIM
Raouf Y. Halim
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed on the 17th day of December, 2003 by the following persons on behalf of the Registrant and in the capacities indicated:

<u>Signature</u>	<u>Title</u>
<u>/s/ RAOUF Y. HALIM</u> Raouf Y. Halim	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ SIMON BIDDISCOMBE</u> Simon Biddiscombe	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
<u>/s/ DWIGHT W. DECKER*</u> Dwight W. Decker	Chairman of the Board of Directors
<u>/s/ DONALD R. BEALL*</u> Donald R. Beall	Director
<u>/s/ HOSSEIN ESLAMBOLCHI*</u> Hossein Eslambolchi	Director
<u>/s/ MING LOUIE*</u> Ming Louie	Director
<u>/s/ THOMAS A. MADDEN*</u> Thomas A. Madden	Director
<u>/s/ JERRE L. STEAD*</u> Jerre L. Stead	Director

*By: /s/ RAOUF Y. HALIM
Raouf Y. Halim,
*Attorney-in-Fact***

** By authority of the power of attorney filed as Exhibit 24 hereto.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions(1)</u>	<u>Balance at End of Year</u>
	(In thousands)			
Year ended September 30, 2003:				
Allowance for doubtful accounts	\$ 1,897	\$ (593)	\$ (372)	\$ 932
Reserve for sales returns and allowances	641	(39)	(172)	430
Allowance for excess and obsolete inventories	27,191	1,239	(7,068)	21,361
Year ended September 30, 2002:				
Allowance for doubtful accounts	\$ 4,030	\$ 1,936	\$ (4,069)	\$ 1,897
Reserve for sales returns and allowances	250	2,466	(2,075)	641
Allowance for excess and obsolete inventories	23,024	4,518	(351)	27,191
Year ended September 30, 2001:				
Allowance for doubtful accounts	\$ 1,366	\$ 12,965	\$(10,301)	\$ 4,030
Reserve for sales returns and allowances	857	5,974	(6,581)	250
Allowance for excess and obsolete inventories	12,700	18,649(2)	(8,325)	23,024

- (1) Deductions in the allowance for doubtful accounts reflect amounts written off.
- (2) Additions charged to costs and expenses in the allowance for excess and obsolete inventories in fiscal 2001 exclude inventory write-downs of \$83.5 million relating to inventory that the Company expected to be unable to sell. From the time of the fiscal 2001 inventory write-downs and through September 30, 2003, the Company scrapped a portion of these inventories having an original cost of \$32.7 million and sold a portion of these inventories with an original cost of \$8.7 million. As of September 30, 2003, the Company continued to hold inventories with an original cost of \$42.0 million which were previously written down to a zero cost basis.

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Raouf Y. Halim, Chief Executive Officer of Mindspeed Technologies, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Mindspeed Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RAOUF Y. HALIM

Raouf Y. Halim
Chief Executive Officer

Dated: December 17, 2003

**CERTIFICATIONS OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Simon Biddiscombe, Senior Vice President, Chief Financial Officer and Treasurer of Mindspeed Technologies, Inc., certify that:

1. I have reviewed this Annual Report on Form 10-K of Mindspeed Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ SIMON BIDDISCOMBE

Simon Biddiscombe
Senior Vice President,
Chief Financial Officer and Treasurer

Dated: December 17, 2003

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned, the Chief Executive Officer and the Senior Vice President, Chief Financial Officer and Treasurer of Mindspeed Technologies, Inc. (the “Company”), hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company’s Annual Report on Form 10-K for the year ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RAOUF Y. HALIM

Raouf Y. Halim
Chief Executive Officer

/s/ SIMON BIDDISCOMBE

Simon Biddiscombe
*Senior Vice President, Chief Financial Officer and
Treasurer*

Dated: December 17, 2003

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Corporate Information

Board of Directors

Donald R. Beall
Retired Chairman and Chief Executive
Officer of Rockwell International
Corporation

Dwight W. Decker (Chairman)
Chairman of the Board and Chief Executive
Officer of Conexant Systems, Inc.

Hossein Eslambolchi
Chief Technology Officer of AT&T
Corp. and President of AT&T Labs

Raouf Y. Halim
Chief Executive Officer and Director
of Mindspeed Technologies, Inc.

Ming Louie
Co-Founder, Managing Director
and Director of Mobile Radius, Inc.

Thomas. A. Madden
Executive Vice President and Chief
Financial Officer of Ingram Micro Inc.

Jerre L. Stead
Retired Chairman and Chief Executive
Officer of Ingram Micro Inc.

Shareholder Services

Mellon Investor Services LLC
PO Box 3315
South Hackensack, NJ 07606

1-800-853-4954
1-201-329-8660 International

Independent Auditors

Deloitte & Touche LLP
Costa Mesa, California

Executive Officers

Raouf Y. Halim
Chief Executive Officer

Simon Biddiscombe
Senior Vice President,
Chief Financial Officer and Treasurer

David W. Carroll
Senior Vice President, Worldwide Sales

Mojy C. Chian
Senior Vice President, Core Technologies

Harry H. Davoody
Senior Vice President and General Manager,
Multiservice Access

Thomas J. Medrek
Senior Vice President and General Manager,
Broadband Internetworking Systems

Wayne K. Nesbit
Senior Vice President, Operations

Daryush Shamlou
Senior Vice President and General Manager,
Transport Systems Solutions

Thomas A. Stites
Senior Vice President, Communications

Ian J. Stock
Senior Vice President,
General Counsel and Secretary

Bradley W. Yates
Senior Vice President and Chief
Administrative Officer



