Mirati Therapeutics, Inc.
Form 10-Q
November 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

Commission File Number: 001-35921

MIRATI THERAPEUTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**46-2693615**
(State of Incorporation)	(I.R.S. Employer Identification No.)
9363 Towne Centre Drive, Suite 200 **San Diego, California**	**92121**
(Address of Principal Executive Offices)	(Zip Code)

(858) 332-3410

(Registrant s Telephone Number, Including Area Code)

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 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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Securities Exchange Act of 1934.

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

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

Total shares of common stock outstanding as of the close of business on November 7, 2013:

Class	**Number of Shares Outstanding**
Common Stock, $0.001 par value	13,261,862

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MIRATI THERAPEUTICS, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

MIRATI THERAPEUTICS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	**$ 7,616**	$ 18,403
Marketable securities	**7,418**	18,580
Restricted cash equivalents and marketable securities	**291**	302
Interest and other receivables	**186**	507
Other current assets	**1,510**	1,537
Total current assets	**17,021**	39,329
Security deposits	**99**	67
Restricted cash equivalents and marketable securities	**80**	72
Deferred costs	**374**	
Property and equipment, net	**427**	333
Total assets	**$ 18,001**	$ 39,801
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued liabilities	**6,555**	5,272
Current portion of other liability	**60**	68
Share-based compensation liability	**2,144**	
Warrant liability	**32,803**	
Total current liabilities	**41,562**	5,340
Other liability		45
Total liabilities	**41, 562**	5,385
Stockholders equity (deficit)		
Preferred stock, $0.001 par value, 10,000,000 shares authorized; none issued and outstanding at both September 30, 2013 and December 31, 2012		
Common stock, $0.001 par value; 100,000,000 authorized; 9,960,621 and 9,957,725 issued and outstanding at both September 30, 2013 and December 31, 2012	**10**	10
Warrants		11,153
Additional paid-in capital	**154,069**	154,224
Accumulated other comprehensive income	**9,520**	9,520

Accumulated deficit		**(187,160)**		(140,491)
Total stockholders equity (deficit)		**(23,561)**		34,416
Total liabilities and stockholders equity (deficit)	**$**	**18,001**	**$**	39,801

See accompanying notes

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MIRATI THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands except for share and per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Expenses				
Research and development, net	$ **5,492**	$ 4,249	**$ 15,477**	$ 10,105
General and administrative	**3,710**	1,717	**8,616**	4,019
Total operating expenses	**9, 202**	5,966	**24,093**	14,124
Loss from operations	**(9,202)**	(5,966)	**(24,093)**	(14,124)
Other (expense) income, net	**(20,141)**	34	**(17,418)**	172
Loss before income taxes	**(29,343)**	(5,932)	**(41,511)**	(13,952)
Income tax expense	**55**	14	**115**	27
Net loss and comprehensive loss	$ **(29,398)**	$ (5,946)	**$ (41,626)**	$ (13,979)
Basic and diluted net loss per share	$ **(2.95)**	$ (0.93)	**$ (4.18)**	$ (2.20)
Weighted average number of shares used in computing net loss per share, basic and diluted	**9,957,896**	6,361,093	**9,957,792**	6,359,216

See accompanying notes

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MIRATI THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended September 30,	
	2013	**2012**
Operating activities		
Net loss and comprehensive loss	$ **(41,626)**	$ (13,979)
Non-cash adjustments reconciling net loss to operating cash flows		
Depreciation of property and equipment	**105**	98
Share-based compensation expense	**1,094**	1,398
Change in fair value of warrant liability	**16,609**	
Change in fair value of share-based compensation liability	**871**	
Lease incentive liability	**(53)**	64
Changes in operating assets and liabilities		
Interest and other receivables	**321**	61
Other current assets	**27**	(105)
Deferred costs	**(374)**	
Accounts payable and accrued liabilities	**1,283**	1,001
Cash flows used for operating activities	**(21,743)**	(11,462)
Investing activities		
Purchases of property and equipment	**(199)**	(69)
Purchases of marketable securities	**(25,725)**	(17,325)
Security deposit	**(32)**	(12)
Restricted cash equivalents and marketable securities	**3**	(17)
Disposal and maturities of marketable securities	**36,887**	24,363
Cash flows provided by investing activities	**10,934**	6,940
Financing activities		
Exercise of warrants	**22**	
Costs of reorganization		(16)
Cash flows used for financing activities	**22**	(16)
Decrease in cash and cash equivalents	**(10,787)**	(4,538)
Effect of exchange rate changes on cash and cash equivalents		299
Cash and cash equivalents, beginning of period	**18,403**	9,882
Cash and cash equivalents, end of period	**$ 7,616**	$ 5,643

See accompanying notes

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MIRATI THERAPEUTICS, INC.

Notes to Consolidated Financial Statements

September 30, 2013

(Unaudited)

1. DESCRIPTION OF BUSINESS

Mirati Therapeutics, Inc. (Mirati or the Company) is a clinical stage biopharmaceutical company focused on developing a pipeline of targeted oncology products.

The Company has a wholly owned subsidiary in Canada, MethylGene, Inc. (MethylGene). MethylGene s common stock was listed on the Toronto Stock Exchange from June 29, 2004 until July 26, 2013 under the ticker symbol MYG . The Company also has an indirect, wholly-owned subsidiary, MethylGene US Inc., which was incorporated in Princeton, New Jersey on December 20, 2011 and started business activity in 2012. The Company s common stock has been listed on the NASDAQ Capital Market since July 15, 2013 under the ticker symbol MRTX . The Company is a holding company with minimal assets other than the stock of its subsidiary in Canada, MethylGene Inc., and primarily conducts its operations through MethylGene and MethylGene US Inc. Refer to Note 2 under the heading Basis of Presentation for further discussion of the Company s corporate structure.

2. BASIS OF PRESENTATION

The information contained herein has been prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X. The information as of September 30, 2013, and for the nine months ended September 30, 2013 and 2012, is unaudited. In the opinion of management, the information reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for the full year. The consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date, but does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For more complete financial information, these financial statements should be read in conjunction with the audited consolidated financial statements included in Mirati s Registration Statement on Form 10 (No. 001-35921), originally filed with the Securities and Exchange Commission (SEC) on May 10, 2013, as amended.

Mirati was incorporated under the laws of the State of Delaware on April 29, 2013. The Company was created to enter into an arrangement agreement with MethylGene described below.

On May 8, 2013, the Company s Board of Directors approved and the Company entered into an arrangement agreement with MethylGene. Subject to the terms and conditions of the arrangement agreement, which was consummated on June 28, 2013, the shareholders of MethylGene received one share of the Company s common stock in exchange for every 50 common shares of MethylGene, which had the effect of a 50 for 1

reverse split of MethylGene s common shares pursuant to a court-approved plan of arrangement under Section 192 of the Canada Business Corporations Act. Such transaction is referred to herein as the Arrangement . In addition, all outstanding options and warrants to purchase common shares of MethylGene became exercisable on a 50-for-1 basis for shares of the Company s common stock, and a proportionate adjustment was made to the exercise price. Upon completion of the Arrangement, MethylGene became the Company s wholly-owned subsidiary. The shares of the Company s common stock issued at the closing of the Arrangement were issued in reliance upon the exemption from registration under Section 3(A)(10) of the Securities Act of 1933, as amended.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has incurred significant operating losses since inception and has relied on its ability to fund its operations through private and public equity financings and a debt financing. At September 30, 2013, the Company had $15.4 million in cash, cash equivalents, marketable securities and restricted cash.

As described in Note 14, Subsequent Events, the Company completed a public offering of its common stock (the Offering) on October 29, 2013 for net proceeds of $53.0 million, after deducting underwriting discounts and commissions of $3.4 million and other estimated offering expenses of $0.5 million payable by us. The Company expects that its current cash, cash equivalents and marketable securities, together with the net proceeds from the Offering, will sustain its operations through the end of 2015.

These condensed interim consolidated financial statements are presented in U.S. dollars, which effective January 1, 2013, is also the functional currency of the Company.

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3. SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Transactions

Foreign currency transactions are initially recorded by the Company using the exchange rates prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rates of exchange. Non-monetary assets and liabilities are translated at the historical exchange rates. Exchange gains and losses arising from the translation of foreign currency items are included in other (expense) income in the consolidated statements of operations and comprehensive loss. The Company recognized net foreign exchange gains of $66,000 and net foreign exchange losses of $15,000 in other (expense)/income in the consolidated statement of operations and comprehensive loss for the three months ended September 30, 2013 and 2012, respectively. The Company recognized net foreign exchange losses of $593,000 and $4,000 in other (expense) income in the consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2013 and 2012, respectively.

Reclassification of Share-Based Compensation Liability

MethylGene had granted stock options denominated in Canadian dollars under the 1997 Equity Plan to Canadian and United States, or US, based employees and directors until July 26, 2013. Following the delisting of the Company s shares from the Toronto Stock Exchange, the options denominated in Canadian dollars that were granted to US-based employees and US-based directors are subject to liability accounting, in accordance with Accounting Standards Codification, or ASC, 718, *Compensation-Stock Compensation* . The Company revalued such options as of July 26, 2013 and recorded a share-based compensation liability of $1.1 million with a corresponding reduction in additional paid-in capital.

At each reporting period subsequent to July 26, 2013, the Company will adjust the fair value of the share-based compensation liability and any corresponding increase or decrease to the liability will be recorded as equity reclassification adjustment or stock compensation expense on the consolidated statement of operations and comprehensive loss. The estimated fair value is determined using the Black-Scholes option-pricing model based on the estimated value of the underlying common stock at the valuation measurement date, the remaining life of the options, risk-free interest rates, expected dividends and expected volatility of the price of the underlying common stock. As of September 30, 2013, the fair value of the liability was $2.1 million resulting in a reduction in additional paid-in capital of $1.2 million and an increase in stock compensation expense of $0.9 million for the three and nine months ended September 30, 2013 in the consolidated statement of operations and comprehensive loss.

Reclassification of Warrants

In 2011 and 2012, the Company issued common stock warrants in connection with the issuance of common stock through private placements (referred to as the 2011 Warrants and the 2012 Warrants). The exercise prices of the 2011 and 2012 Warrants were denominated in Canadian dollars. Upon the issuance of the 2011 and 2012 Warrants, the Company allocated the net proceeds to common stock and warrants based on their relative fair values, and calculated the fair value of the issued common stock warrants utilizing the Black-Scholes option-pricing model. The allocated fair value was then recorded as warrants within stockholders equity on the consolidated balance sheet. The fair value was not recalculated in periods subsequent to the date of issuance.

The change in its functional currency to the U.S. dollar effective January 1, 2013 changed how the Company accounts for its warrants which have exercise prices denominated in Canadian dollars. Upon the change in functional currency, the Company classified these warrants as a current liability and recorded a warrant liability of $16.2 million which represents the fair market value of the warrants at that date in accordance with Accounting Standards Codification, or ASC, 815, *Derivatives and Hedging*. The initial fair value recorded as warrants within stockholders equity of $11.2 million was reversed. The change in fair value related to periods prior to January 1, 2013 of $5.0 million was recorded as an adjustment to accumulated deficit. At each reporting period subsequent to January 1, 2013, the Company will adjust the fair value of the warrant liability and any corresponding increase or decrease to the warrant liability will be recorded as a component of other (expense) income on the consolidated statement of operations and comprehensive loss. The estimated fair value is determined using the Black-Scholes option-pricing model based on the estimated value of the underlying common stock at the valuation measurement date, the remaining contractual term of the warrants, risk-free interest rates, expected dividends and expected volatility of the price of the underlying common stock. The fair value of the warrant liability was $32.8 million at September 30, 2013 and the Company recorded a loss of $20.6 million for the three months ended September 30, 2013 and a loss of $16.6 million for the nine months ended September 30, 2013 which is included in other (expense) income in the consolidated statement of operations and comprehensive loss.

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4. COLLABORATION AGREEMENTS

Collaboration with Taiho

In October 2003, the Company entered into a license and research and development collaboration agreement with Taiho, a leading Japanese specialty oncology company, for mocetinostat and our small molecule HDAC inhibitor program for oncology for Japan, South Korea, Taiwan and China, or collectively the Taiho Territory. Under the terms of the agreement, the Company received an up-front license fee, equity investment and a contract research payment of $3.8 million. In addition, the Company may receive milestone payments based on successful development, regulatory approval, and commercialization of an HDAC oncology product totaling up to $16.2 million. The Company may also receive royalty payments in connection with commercial sales of HDAC oncology products as a percentage of annual net sales, which percentage is in the mid-single digit to mid-teen percent range, depending upon the total dollar amount of annual net sales. Such royalties may be reduced, subject to a mid-single digit floor, by (i) credits against recoupable development costs paid by Taiho to the Company and/or (ii) reduction by a percentage in the range of 20-30% in the event a generic competitor is introduced in a particular market, other than in China. Taiho provided the Company with contract research payments for scientists for two years at $2.0 million per year as well as funding for contract preclinical and contract clinical development costs in North America for mocetinostat, which totaled, in the aggregate, $5.4 million. In total, the Company has received $15.0 million from Taiho under the agreement, including a $1.5 million milestone payment relating to the start of the first Phase 2 trial with mocetinostat. However, upon the execution of the Company s agreement with Celgene in 2008, Taiho s funding obligations for clinical trials in North America ceased. In addition, Taiho s collaboration entailed in-kind support in their research laboratories in order to select a next generation compound, and in some cases, will support a portion of preclinical development costs in North America. Currently, there are no efforts by either (i) Taiho to further advance mocetinostat in the Taiho Territory or (ii) Taiho or the Company to further advance other small molecule HDAC inhibitors that would be covered by this agreement. However, Taiho has retained rights in the Taiho Territory to certain sirtuin inhibitors for cancer. The term of the agreement will, on a country-by-country basis, continue until expiration of the last to expire issued patent, or ten years after the first commercial sale in Japan. Additionally, Taiho has a unilateral right to terminate the agreement for any reason with 30 days written notice, and the Company has a unilateral right to terminate the agreement if Taiho fails to make an undisputed payment. An arbitrator may terminate the agreement for a breach of obligations if such breach has remained uncured for 90 days. As long as the agreement continues, the Company is obligated to use reasonable efforts to contract with Taiho for its supply of the active bulk compounds for the sale of mocetinostat outside of the Taiho Territory. In the event the parties wish to collaborate on the development of another HDAC inhibitor covered by this agreement or sirtuin inhibitor retained by Taiho, Taiho would be obligated to contribute to preclinical and clinical costs of such a compound. Such a compound would also be subject to potential development milestones and royalties. The Company is in preliminary discussions with Taiho to consider whether any amendments to the agreement should be made based upon its development plans for mocetinostat and their rights under the agreement.

Collaboration with Otsuka

In March 2008, the Company entered into a worldwide research collaboration and license agreement with Otsuka, a global Japanese pharmaceutical company, for the development of novel, small molecule, kinase inhibitors for local delivery and treatment of ocular diseases, excluding cancer. The Company was responsible for the design, characterization and initial screening of kinase inhibitors and control over determining which compounds to synthesize. Otsuka was responsible for funding efficacy and toxicity studies, as well as preclinical and clinical development of compounds. Otsuka is also responsible for the global commercialization of any resulting product. Under the terms of the agreement, the Company received an up-front license fee of $2.0 million. The Company may receive additional payments based on successful development, regulatory, commercialization and sales milestones that could total up to $50.5 million. The Company may also receive royalty payments in connection with commercial sales of licensed products under the agreement as a percentage of annual net sales, which percentage is in the mid-single digit to mid-teen percent range, depending upon the total dollar amount of annual net sales, subject to reduction by a percentage in the range of 40-50% in the event a generic competitor is introduced in a given market or intellectual property protection in a particular market does not exist or expires in a given market. The Company may receive aggregate milestone payments of up to $50.5 million under this agreement as follows: $7.5 million relates to development activities, $22.0 million relates to the completion of regulatory approvals and $21.0 million relates to the achievement of certain sale goals. Otsuka provided $1.9 million in research funding for the initial 18 months of

the research collaboration, which was extended on three occasions: September, 2009; April 2010 and June 2010. The research component of the agreement ended on June 30, 2011. The Company received a total of $4.5 million in research funding from the research component of this agreement. In October 2009, Otsuka made, in connection to the terms

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of the agreement, a $1.5 million equity investment in the Company s shares of common stock at a share price of CND$21.30 (or US$20.27, as converted), which was a 20% premium over the five-day volume-weighted average closing price at the date of the transaction. On June 30, 2010, the collaboration agreement was amended to, among certain other changes, provide Otsuka the rights to synthesize a limited number of compounds predetermined by the Company. A lead molecule was selected in June 2011 for further development. The research portion of the collaboration between the Company and Otsuka concluded on June 30, 2011; however, the term of the agreement will, on a country-by-country basis, continue until expiration of the last to expire issued patent, or if no patent has issued in such country, then 12 years after the first sale of a licensed product by Otsuka. Otsuka has a unilateral right to terminate the agreement for any reason with 90 days written notice and either party may terminate the agreement for a breach of obligations of the other party if such breach has remained uncured for 120 days (or 30 days for a breach of payment). Otsuka is currently advancing the lead compound through late preclinical development.

Collaboration with EnVivo

In March 2004, the Company entered into a proof of concept and option agreement with EnVivo, a private U.S. biotechnology company focusing on the treatment and prevention of certain neurodegenerative diseases, to exploit the Company s HDAC inhibitors in diseases such as Huntington s disease, Parkinson s disease and Alzheimer s disease. In February 2005 the Company signed an exclusive research, collaboration and license agreement. Over the course of 2005, EnVivo paid the Company $0.6 million for research, plus a $0.5 million license fee, for a total of $1.1 million. As part of this agreement, EnVivo received a warrant to purchase 1,050 shares of common stock at an exercise price of CND$214.30 (or US$203.76, as converted). The warrant expired in March 2007. In February 2008, the Company exercised its right to opt-out of the program. As a result, the Company granted EnVivo exclusive rights to our HDAC inhibitors for neurodegenerative diseases and the Company ceased research and development funding for this program. The Company is prohibited under the surviving terms of the agreement with EnVivo from developing or commercializing any HDAC products in the field of certain neurodegenerative diseases, including Huntington s disease, Parkinson s disease and Alzheimer s disease. The Company may receive royalty payments in an aggregate amount equal to a single digit percentage of net sales of any approved compound and will share in any sublicense income from future partnerships that EnVivo may enter into.

5. CASH AND CASH EQUIVALENTS

(in thousands)	**September 30, 2013**	**December 31, 2012**
Cash at bank and on hand	**$ 2,958**	$ 2,823
Bankers acceptances	**1,262**	1,369
Treasury bills		5,026
Promissory notes		6,020
Commercial papers	**2,716**	753
Term deposit notes	**971**	2,714
	7,907	18,705
Less: restricted cash equivalents	**(291)**	(302)
	7,616	$ 18,403

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6. MARKETABLE SECURITIES

(in thousands)	September 30, 2013	December 31, 2012
Bankers acceptances issued in Canadian currency, earning interest at a rate of 1.06% (1.20% in 2012) and maturing on November 1, 2013 (February 19, 2013 in 2012)	**$ 80**	$ 72
Commercial paper issued in Canadian currency, earning interest at rates ranging from 1.01% to 1.12% and maturing on various dates from February 21, 2013 to May 14, 2013		5,026
Guaranteed investment certificates issued in Canadian currency, earning interest at rates ranging from 1.20% to 1.30% (1.15% to 1.35% in 2012) and maturing on various dates from November 12, 2013 to September 29, 2014 (January 7, 2013 to September 16, 2013 in 2012)	**7,418**	6,518
Term deposits issued in Canadian currency, earning interest at rates ranging from 1.30% to 1.33% and maturing on various dates from March 18, 2013 to April 15, 2013		7,036
	7,498	18,652
Less restricted marketable securities	**(80)**	(72)
	$ **7,418**	$ 18,580

7. INTEREST AND OTHER RECEIVABLES

(in thousands)	September 30, 2013	December 31, 2012
Other receivables	**$ 160**	$ 425
Interest receivable	**26**	82
	$ 186	$ 507

8. OTHER CURRENT ASSETS

(in thousands)	September 30, 2013	December 31, 2012
Refundable research and development tax credits	**$ 654**	$ 593
Commodity taxes	**355**	165
Prepaid expenses	**501**	779
	$ 1,510	$ 1,537

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)	September 30, 2013	December 31, 2012
Accounts payable	**$ 2,001**	$ 1,752
Accrued compensation and benefits	**1,156**	834
Accrued expenses	**3,398**	2,686
	$ 6,555	$ 5,272

10. INVESTMENT TAX CREDITS

The Company recorded $196,000 and $678,000 related to refundable investment tax credits as a reduction of research and development expenses for the three-month period and nine-month period ended September 30, 2013, respectively, and $136,000 and $1.5 million for the three-month period and nine-month period ended September 30, 2012, respectively.

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11. NET LOSS PER SHARE

Basic and diluted

Net loss per share is calculated by dividing the net loss of the Company by the weighted average number of shares of common stock outstanding during the year. The following table presents potentially dilutive securities not included in the calculation of diluted net loss per share because to do so would be anti-dilutive:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Common stock options	51,393	28,904	1,436	12,755
Common stock warrants	481,765	771,684	92,192	780,034
Total	533,158	800,588	93,628	792,789

12. FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS

The following tables present information about the Company s assets and liabilities that are measured at fair value on a recurring basis for the periods presented and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.

Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.

Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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There were no transfers in or out of Level 1, Level 2 or Level 3 measurements for the periods presented (in thousands):

	September 30, 2013	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash equivalents	**$ 4,657**		**$ 4,657**	**$**
Marketable securities	**7,418**		**7,418**	
Restricted cash equivalents and marketable securities	**371**		**371**	
	$ 12,446	**$**	**$ 12,446**	**$**
Liability				
Share-based compensation liability	**2,144**			**2,144**
Warrant liability	**32,803**			**32,803**
	$ 34,947	**$**	**$**	**$ 34,947**

	December 31, 2012	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash equivalents	$ 15,580	$	$ 15,580	$
Marketable securities	18,580	$	18,580	
Restricted cash equivalents and marketable securities	374		374	
	$ 34,534	$	$ 34,534	$
Liability				
Share-based compensation liability				
Warrant liability				
	$	$	$	$

The following table presents a rollforward of the fair value of the share-based compensation liability which includes Level 3 measurements (in thousands):

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
Share-based compensation liability:				
Balance at beginning of period:	$	$	$	$
Change in fair value reclassified from equity	**1,273**			

4.2	Rights Agreement dated as of June 26, 2003, by and between the Registrant and Mellon Investor Services LLC, as Rights Agent, filed as Exhibit 4.1 to the Registrant s

Current Report on Form 8-K dated July 1, 2003, is incorporated herein by reference.

4.3 First Amendment to Rights Agreement, dated as of December 6, 2004, by and between the Registrant and Mellon Investor Services LLC, filed as Exhibit 4.4 to the Registrant s Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.

4.4 Common Stock Purchase Warrant dated June 27, 2003, filed as Exhibit 4.5 to the Registrant s Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.

4.5 Registration Rights Agreement dated as of June 27, 2003, by and between the Registrant and Conexant Systems, Inc.,

filed as Exhibit 4.6 to the Registrant s Registration Statement on Form S-3 (Registration Statement No. 333-109523), is incorporated herein by reference.

4.6 Credit Agreement Warrant dated June 27, 2003, issued by the Registrant to Conexant Systems, Inc., filed as Exhibit 4.5 to the Registrant s Registration Statement on Form S-3 (Registration Statement No. 333-109525), is incorporated herein by reference.

4.7 Registration Rights Agreement dated as of June 27, 2003 by and between the Registrant and Conexant Systems, Inc., filed as Exhibit 4.6 to the Registrant s Registration Statement on Form S-3 (Registration Statement No. 333-109525), is incorporated

		herein by reference.
	4.8	Indenture, dated as of December 8, 2004, between the Registrant and Wells Fargo Bank, N.A., filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.
	4.9	Form of 3.75% Convertible Senior Notes due 2009, attached as Exhibit A to the Indenture (Exhibit 4.8 hereto), is incorporated herein by reference.
	4.10	Registration Rights Agreement, dated as of December 8, 2004, by and between the Registrant and Lehman Brothers Inc., filed as Exhibit 4.3 to the Registrant s Current Report on Form 8-K dated December 2, 2004, is incorporated herein by reference.
*	10.1	Confidential Severance

		Agreement and General Release, dated June 26, 2006, by and between Danny Shamlou and the Registrant
*	10.2	Schedule identifying parties to and terms of agreements with the Registrant substantially identical to the Employment Agreement filed as Exhibit 10.8.1 to the Registrant s Registration Statement on Form 10 (File No. 1-31650).
	12.1	Statement re: Computation of Ratios.
	31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

Certain confidential portions of this Exhibit have been omitted pursuant to a request for confidential treatment.

Omitted portions have been filed separately with the Securities and Exchange Commission.

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SIGNATURE

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

MINDSPEED TECHNOLOGIES, INC.
(Registrant)

Date: August 8, 2006

By /s/ Simon Biddiscombe
Simon Biddiscombe
Senior Vice President, Chief Financial Officer, Secretary and Treasurer
(principal financial officer)

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