MINDSPEED TECHNOLOGIES, INC
Form 10-Q
February 08, 2005

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

FORM 10-Q

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

For the quarterly period ended December 31, 2004

OR

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

Commission file number: 000-50499

MINDSPEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**01-0616769**
(State of incorporation)	(I.R.S. Employer Identification No.)

4000 MacArthur Boulevard, East Tower
Newport Beach, California 92660-3095
(Address of principal executive offices) (Zip code)

(949) 579-3000
(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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).
Yes þ No o

Number of shares of registrant s common stock outstanding as of January 28, 2005 was 101,941,247.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains statements relating to Mindspeed Technologies, Inc. (including certain projections and business trends) that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. All statements included in this Quarterly Report on Form 10-Q, other than those that are purely historical, are forward-looking statements. Words such as expect, believe, anticipate, outlook, could, target, project, intend, plan, seek, estimate, should, may, assume and continu such words and similar expressions, also identify forward-looking statements. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation: our expectations of future losses and negative cash flows; the sufficiency of our liquidity and capital resources; our ability to achieve revenue growth; the effect of the adoption of SFAS 123R; the levels of future amortization expense; the outcome of lawsuits, claims or proceedings against us; the expected reduction in headcount and facilities closures and the timing and amount of cost savings under our restructuring plans; the timing and amount of payments required to complete our restructuring plans, and their effect on our liquidity; the levels of inventory held by us and our customers; our expectations of the growth prospects for the market for network infrastructure equipment in general, and for the applications on which we focus in particular; the length of our customers design cycles; our ability to obtain design wins; the impact of cyclical fluctuations on our business; inventory write-downs; impairment charges; income taxes; the potential dilution resulting from adjustments to our convertible senior notes or warrants to purchase our common stock; and the effect of interest rate risk and foreign exchange risk.

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

- market demand for our new and existing products;
- availability and terms of capital needed for our business;
- our ability to reduce our cash consumption;
- successful development and introduction of new products;
- obtaining design wins and developing revenues from them;
- pricing pressures and other competitive factors;
- order and shipment uncertainty;
- fluctuations in manufacturing yields;
- product defects;
- intellectual property infringement claims by others and the ability to protect our intellectual property;
- our ability to maintain operating expenses within anticipated levels; and,
- the ability to attract and retain qualified personnel.

The forward-looking statements in this Quarterly Report on Form 10-Q are subject to additional risks and uncertainties, including those set forth herein under the heading Certain Business Risks and 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, except as required by law, we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Mindspeed Technologies® is a registered trademark of Mindspeed Technologies, Inc. Other brands, names and trademarks contained in this report are the property of their respective owners.

MINDSPEED TECHNOLOGIES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2004	September 30, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	$ 75,600	$ 43,638
Receivables, net of allowance of $631 and $627 at December 31, 2004 and September 30, 2004, respectively	16,080	19,618
Inventories	9,341	11,986
Other current assets	6,502	6,114
Total current assets	107,523	81,356
Property, plant and equipment, net	18,552	20,979
Intangible assets, net	7,806	20,385
Other assets	5,448	3,580
Total assets	$ 139,329	$ 126,300
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 7,159	$ 13,112
Deferred revenue	4,147	3,471
Accrued compensation and benefits	9,031	9,282
Restructuring	4,358	2,823
Other current liabilities	3,915	3,586
Total current liabilities	28,610	32,274
Convertible senior notes	43,931	
Other liabilities	3,828	3,099
Total liabilities	76,369	35,373
Commitments and contingencies		
Stockholders Equity		
Preferred and junior preferred stock		
	1,019	1,006

Common stock, $0.01 par value: 500,000 shares authorized; 101,880 and 100,619 shares issued at December 31, 2004 and September 30, 2004, respectively		
Additional paid-in capital	234,304	231,577
Accumulated deficit	(155,902)	(125,423)
Accumulated other comprehensive loss	(15,888)	(16,024)
Unearned compensation	(573)	(209)
Total stockholders equity	62,960	90,927
Total liabilities and stockholders equity	$ 139,329	$ 126,300

See accompanying notes to consolidated condensed financial statements.

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MINDSPEED TECHNOLOGIES, INC.

Consolidated Condensed Statements of Operations
(unaudited, in thousands, except per share amounts)

	Three months ended December 31, 2004	Three months ended December 31, 2003
Net revenues	$ 26,316	$ 26,746
Cost of goods sold	7,982	8,128
Gross margin	18,334	18,618
Operating expenses:		
Research and development	19,604	20,424
Selling, general and administrative	10,662	11,960
Amortization of intangible assets	12,676	12,476
Special charges	5,473	
Total operating expenses	48,415	44,860
Operating loss	(30,081)	(26,242)
Other income, net		214
Loss before income taxes	(30,081)	(26,028)
Provision for income taxes	398	192
Net loss	$ (30,479)	$ (26,220)
Net loss per share, basic and diluted	$ (0.30)	$ (0.28)
Weighted-average number of shares used in per share computation	100,804	94,612

See accompanying notes to consolidated condensed financial statements.

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MINDSPEED TECHNOLOGIES, INC.

Consolidated Condensed Statements of Cash Flows
(unaudited, in thousands)

	Three months ended December 31,	
	2004	**2003**
Cash Flows From Operating Activities		
Net loss	$ (30,479)	$ (26,220)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,599	3,019
Amortization of intangible assets	12,676	12,476
Asset impairments	600	
Inventory provisions	495	999
Other non-cash items, net	295	(8)
Changes in assets and liabilities:		
Receivables	3,535	(2,678)
Inventories	2,150	(814)
Accounts payable	(5,953)	(1,729)
Deferred revenue	676	821
Accrued expenses and other current liabilities	1,859	(1,354)
Other	1,724	55
Net cash used in operating activities	(9,823)	(15,433)
Cash Flows From Investing Activities		
Capital expenditures	(762)	(2,161)
Sales of assets	128	
Purchase of marketable securities	(3,253)	
Net cash used in investing activities	(3,887)	(2,161)
Cash Flows From Financing Activities		
Sale of convertible senior notes	43,930	
Exercise of stock options and warrants	2,062	4,232
Deferred financing costs	(320)	(64)
Net cash provided by financing activities	45,672	4,168
Net increase (decrease) in cash and cash equivalents	31,962	(13,426)

Cash and cash equivalents at beginning of period	43,638	80,121
Cash and cash equivalents at end of period	$ 75,600	$ 66,695

See accompanying notes to consolidated condensed financial statements.

MINDSPEED TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

Mindspeed Technologies, Inc. (Mindspeed or the Company) designs, develops and sells semiconductor networking solutions for communications applications in enterprise, access, metropolitan and wide-area networks. On June 27, 2003, Conexant Systems, Inc. (Conexant) completed the distribution (the Distribution) to Conexant stockholders of all 90,333,445 outstanding shares of common stock of its wholly owned subsidiary, Mindspeed. In the Distribution, each Conexant stockholder 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. 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. In connection with the Distribution, Mindspeed and Conexant also entered into a Credit Agreement, an Employee Matters Agreement, a Tax Allocation Agreement, a Transition Services Agreement and a Sublease.

Basis of Presentation The consolidated condensed financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of Mindspeed and each of its subsidiaries. All accounts and transactions among Mindspeed and its subsidiaries have been eliminated in consolidation. In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments, consisting of adjustments of a normal recurring nature and the special charges (Note 6), necessary to present fairly the Company s financial position, results of operations and cash flows. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2004.

Fiscal Periods For presentation purposes, references made to the periods ended December 31, 2004 and 2003 relate to the actual fiscal 2005 first quarter ended December 31, 2004 and the actual fiscal 2004 first quarter ended January 2, 2004, respectively.

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 the intrinsic value method required by APB 25, the Company generally recognizes no compensation expense with respect to stock option awards. The following table illustrates the effect on net loss and net loss per share as if compensation expense for all awards of stock-based employee compensation had been determined under the fair value-based method prescribed by SFAS 123 (in thousands, except per share amounts).

	Three months ended

	December 31, 2004	December 31, 2003
Net loss, as reported	$ (30,479)	$ (26,220)
Stock-based employee compensation expense determined under the fair value method	3,909	8,994
Pro forma net loss	$ (34,388)	$ (35,214)
Net loss per share, basic and diluted:		
As reported	$ (0.30)	$ (0.28)
Pro forma	$ (0.34)	$ (0.37)

For purposes of the 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 amortized to expense over its vesting

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

period. The decrease in stock-based employee compensation expense determined under the fair value method for the three months ended December 31, 2004 compared to the three months ended December 31, 2003 reflects the higher fair values of awards made prior to the Distribution and the effect of many of those awards becoming vested. 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:

	Three months ended December 31,	
	2004	**2003**
Risk-free interest rate	3.3%	2.3%
Expected volatility	100%	90%
Dividend yield		
Expected option life	3.5 years	3.5 years
Weighted-average fair value of options granted	$ 1.60	$ 3.63

Recent Accounting Standards In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R). Under SFAS 123R, the Company will no longer be able to account for share-based compensation transactions using the intrinsic method of APB 25. Instead, the Company will be required to account for such transactions using a fair-value method and to recognize the fair value of each award over the service period. SFAS 123R will be effective for periods beginning after June 15, 2005 and allows for several alternative transition methods. The Company expects to adopt SFAS 123R in the fourth quarter of fiscal 2005 using modified prospective application, which will require that the Company recognize compensation expense for new awards, modified awards and for any awards outstanding at the effective date but vesting after such date. Although the Company is currently evaluating the impact of SFAS 123R on its results of operations, the Company expects the adoption of SFAS 123R to materially increase its operating expenses.

Income Taxes The provision for income taxes for the three months ended December 31, 2004 and 2003 principally consists of income taxes incurred by the Company s foreign subsidiaries.

Supplemental Cash Flow Information The Company paid no interest for the three months ended December 31, 2004 and 2003, respectively. Income taxes paid, net of refunds received, for the three months ended December 31, 2004 and 2003 were $151,000 and $32,000 respectively.

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

2. Supplemental Financial Statement Data

Marketable Securities

In connection with the sale of $46.0 million aggregate principal amount of Convertible Senior Notes due 2009 (Note 3), the Company purchased U.S. Treasury securities having an aggregate face amount of approximately $3.4 million for approximately $3.3 million. The securities, which have been pledged to the trustee for the payment of the first four scheduled interest payments on the notes when due, mature at various dates between May 2005 and November 2006 and are included in other current assets and other assets in the accompanying consolidated balance sheet. Consequently, these securities are classified as held to maturity securities and are recorded at their amortized cost. As of December 31, 2004, the $3.3 million carrying value of the securities approximates their fair value.

Inventories

Inventories consist of the following (in thousands):

	December 31, 2004	September 30, 2004
Work-in-process	$ 4,100	$ 4,585
Finished goods	5,241	7,401
	$ 9,341	$ 11,986

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

During the three months ended December 31, 2004 and 2003, the Company sold inventories with an original cost of approximately $2.0 million and $1.0 million, respectively, that had been written down to a zero cost basis during fiscal 2001.

Intangible Assets

Intangible assets consist of the following (in thousands):

	December 31, 2004		September 30, 2004	
	Gross Asset	Accumulated Amortization	Gross Asset	Accumulated Amortization
Developed technology	$ 231,299	$ (224,262)	$ 228,618	$ (210,467)
Customer base	28,527	(27,798)	28,045	(25,916)
Other intangible assets	11,131	(11,091)	10,786	(10,681)
	$ 270,957	$ (263,151)	$ 267,449	$ (247,064)

The increases in the gross amounts of intangible assets as of December 31, 2004, as compared with September 30, 2004, reflect the impact of foreign currency translation adjustments. Intangible assets are amortized over periods averaging approximately five years for each major asset class and extending to various dates through June 2005. Unless earlier impairment is required, amortization of intangible assets is expected to be approximately $20.5 million for fiscal 2005, including the $12.7 million recorded in the fiscal 2005 first quarter.

Comprehensive Loss

Comprehensive loss is as follows (in thousands):

	Three months ended December 31,	
	2004	2003
Net loss	$ (30,479)	$ (26,220)
Foreign currency translation adjustments	136	738
Comprehensive loss	$ (30,343)	$ (25,482)

The balance of accumulated other comprehensive loss at December 31, 2004 and September 30, 2004 consists of accumulated foreign currency translation adjustments.

Revenues by Product Line

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

	Three months ended December 31,	
	2004	**2003**
Multiservice access DSP products	$ 6,470	$ 3,558
High-performance analog products	6,258	4,768
T/E carrier products	8,425	12,014
ATM/MPLS network processor products	5,163	6,148
Other		258
	$ 26,316	$ 26,746

Revenues by Geographic Area

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

	Three months ended December 31,	
	2004	**2003**
Americas	$ 11,414	$ 13,188
Asia-Pacific	11,436	10,042
Europe, Middle East and Africa	3,466	3,516
	$ 26,316	$ 26,746

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

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

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

	Three months ended December 31,	
	2004	**2003**
Customer A	16%	16%
Customer B	16%	11%
Customer C	15%	7%
Customer D	13%	1%
Customer E		12%

3. Convertible Senior Notes

In December 2004, the Company sold $46.0 million aggregate principal amount of Convertible Senior Notes due 2009 for net proceeds (after discounts and commissions) of approximately $43.9 million. The notes are senior unsecured obligations of the Company, ranking equal in right of payment with all future unsecured indebtedness. The notes bear interest at a rate of 3.75%, payable semiannually in arrears each May 18 and November 18. The Company used approximately $3.3 million of the proceeds to purchase U.S. government securities that have been pledged to the trustee for the payment of the first four scheduled interest payments on the notes when due.

The notes are convertible, at the option of the holder, at any time prior to maturity into shares of the Company s common stock. Upon conversion, the Company may, at its option, elect to deliver cash in lieu of shares of its common stock or a combination of cash and shares of common stock. The initial conversion rate is 355.8719 shares per $1,000 principal amount of the notes, representing an initial conversion price of $2.81 per share, subject to adjustment to reflect stock dividends, stock splits, issuances of rights to purchase shares of the Company s common stock and other events. In addition, if the market price of the Company s common stock is less than $1.89 for at least 20 out of any 30 consecutive trading days during the twelve month period following the issuance of the notes, the conversion price will be reduced to $2.31 per share.

If the Company undergoes certain fundamental changes (as defined in the indenture) holders of notes may require the Company to repurchase some or all of their notes at 100% of the principal amount plus accrued and unpaid interest. If, upon notice of certain events constituting a fundamental change, holders of the notes elect to convert the notes, the Company will be required to increase the number of shares issuable upon conversion by up to 78.9 shares per $1,000 principal amount of notes. The number of additional shares, if any, will be determined by the table set forth in the indenture governing the notes. In the event of a non-stock change of control constituting a public acquirer change of control (as defined in the indenture), the Company may, in lieu of issuing additional shares or making an additional cash payment upon conversion as required by the indenture, elect to adjust the conversion price and the related conversion obligation such that the noteholders will be entitled to convert their notes into a number of shares of public acquirer common stock.

For financial accounting purposes, the Company s contingent obligation to issue additional shares or make an additional cash payment upon conversion following a fundamental change is an embedded derivative. As of December 31, 2004, the estimated fair value of the Company s liability under the fundamental change adjustment was not significant.

In connection with the sale of the notes, the Company granted the purchasers certain registration rights. In the event the Company fails to register the notes and the common stock issuable upon the conversion of the notes within the specified time periods, it will be required to pay the noteholders additional interest of up to 0.5% per annum until the registration is effective.

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

Upon completion of the sale of the notes, the $50 million Credit Agreement with Conexant was terminated. The Company had made no borrowings under the credit facility, and no portion of the related warrant is, or will become, exercisable.

Interest expense for the three months ended December 31, 2004 was $140,000.

4. Stock Warrants

During the three months ended December 31, 2004, the Company issued 478,405 shares of its common stock upon the exercise of all remaining warrants held by Jazz Semiconductor, Inc. for aggregate proceeds of $1.2 million.

As of December 31, 2004, outstanding warrants consist of a warrant to purchase 30 million shares of Mindspeed common stock at a price of $3.408 per share, exercisable through June 27, 2013, held by Conexant.

5. Commitments and Contingencies

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

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 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 stockholders. 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. 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 condensed balance sheets. Product warranty costs have not been significant to date.

6. Special Charges

Special charges consist of the following (in thousands):

	Three months ended December 31,	
	2004	2003
Asset impairments	$ 600	$
Restructuring charges	4,873	
	$ 5,473	$

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

Asset Impairments

During the first three months of fiscal 2005, the Company recorded asset impairment charges totaling $600,000 related to property and equipment that it determined to abandon or scrap.

Restructuring Charges

Mindspeed 2004 Restructuring Plan In October 2004, the Company announced a restructuring plan intended to reduce its operating expenses while focusing its research and development investment in key high-growth markets, including voice-over-IP and high-performance analog applications. The expense reduction actions under the restructuring plan include workforce reductions and the closure of a design center in Herzlia, Israel. Approximately 80% of the expense reductions are expected to come from the termination of research and development programs which the Company believes have a longer return-on-investment timeframe or that address slower growth markets. The affected research and development programs are principally the Company s ATM/MPLS network processor products and, to a lesser extent, its T/E carrier transmission products. The remainder of the expected cost savings are expected to come from the selling, general and administrative functions. The Company plans to complete the majority of these actions by June 30, 2005, reducing its workforce by approximately 100 employees.

In connection with these actions, the Company recorded restructuring charges of approximately $5.0 million during the first quarter of fiscal 2005. The restructuring charges included an aggregate of $2.2 million for severance benefits payable t