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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

/x/ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACTS OF 1934.**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000**

**OR**

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

**For the transition period from to .**

**Commission file number 000-24487**

# MIPS Technologies, Inc.

(Exact name of registrant as specified in its charter)

| **DELAWARE** | **77-0322161** |
|---|---|
| (State or other jurisdiction of Incorporation or organization) | (I.R.S. Employer Identification Number) |

**1225 CHARLESTON ROAD, MOUNTAIN VIEW, CA 94043-1353**

(Address of principal executive offices)

Registrants' telephone number, including area code: (650) 567-5000

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 /x/ No / /

As of November 1, 2000, the number of outstanding shares of the Registrant's Class A common stock, $.001 par value, was 13,623,724. The number of outstanding shares of the Registrant's Class B common stock as of November 1, 2000, $.001 par value, was 25,065,957.

# PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## MIPS TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

**(In thousands)**

| | September 30, 2000 (unaudited) | June 30, 2000 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 91,291 | $ 84,359 |
| Accounts receivable | 12,453 | 9,175 |
| Prepaid expenses and other current assets | 8,578 | 8,002 |
| Total current assets | 112,322 | 101,536 |
| Equipment and furniture, net | 7,031 | 6,742 |
| Other assets | 1,430 | 974 |
| | $ 120,783 | $ 109,252 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 1,953 | $ 2,270 |
| Accrued liabilities | 13,778 | 10,180 |
| Deferred revenue | 4,408 | 4,598 |
| Total current liabilities | 20,139 | 17,048 |
| Stockholders' equity: | | |
| Common stock | 39 | 38 |
| Additional paid-in capital | 156,963 | 153,627 |
| Accumulated deficit | (56,358) | (61,461) |
| Total stockholders' equity | 100,644 | 92,204 |
| | $ 120,783 | $ 109,252 |

See accompanying notes.

**MIPS TECHNOLOGIES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

**(In thousands, except per share data)**

| | Three Months Ended September 30, | |
|---|---|---|
| | **2000** | **1999** |
| Revenue: | | |
| Royalties | $ 8,864 | $ 11,830 |
| Contract revenue | 12,191 | 7,117 |
| Total revenue | 21,055 | 18,947 |
| Costs and expenses: | | |
| Cost of contract revenue | — | 500 |
| Research and development | 7,653 | 6,109 |
| Sales and marketing | 3,493 | 2,286 |
| General and administrative | 2,218 | 2,167 |
| Total costs and expenses | 13,364 | 11,062 |
| Operating income | 7,691 | 7,885 |
| Other income, net | 1,568 | 638 |
| Income before income taxes | 9,259 | 8,523 |
| Provision for income taxes | 3,703 | 3,409 |
| Net income | $ 5,556 | $ 5,114 |
| Net income per basic share | $ 0.14 | $ 0.14 |
| Net income per diluted share | $ 0.14 | $ 0.13 |
| Shares used in computing basic net income per share | 38,520 | 37,627 |
| Shares used in computing diluted net income per share | 41,134 | 39,448 |

See accompanying notes.

**MIPS TECHNOLOGIES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

**(In thousands)**

| | Three Months Ended September 30, 2000 | Three Months Ended September 30, 1999 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 5,556 | $ 5,114 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 794 | 565 |
| Other non-cash charges | 34 | 71 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,278) | (5,125) |
| Accounts payable | (317) | 654 |
| Other assets and liabilities, net | 2,342 | (676) |
| Net cash provided by operating activities | 5,131 | 603 |
| Investing activities — capital expenditures | (1,083) | (592) |
| Financing activities — net proceeds from issuance of common stock | 3,088 | 3,834 |
| Foreign currency translation adjustment | (204) | (8) |
| Net increase in cash and cash equivalents | 6,932 | 3,837 |
| Cash and cash equivalents, beginning of period | 84,359 | 49,916 |
| Cash and cash equivalents, end of period | $ 91,291 | $ 53,753 |

See accompanying notes.

**MIPS TECHNOLOGIES, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED**

**Note 1. Description of Business and Basis of Presentation**

***Formation of MIPS Technologies, Inc. (MIPS).*** MIPS Technologies' predecessor, MIPS Computer Systems, Inc., was founded in 1984 and was engaged in the design and development of RISC processors for the computer systems and embedded markets. Silicon Graphics Inc. ("Silicon Graphics") adopted the MIPS architecture for its computer systems in 1988 and acquired MIPS Computer Systems, Inc. in 1992. Following the acquisition, Silicon Graphics continued the MIPS processor business through its MIPS Group (a division of Silicon Graphics), which focused primarily on the development of high-performance processors for Silicon Graphics' workstations and servers. In order to increase the focus of the MIPS Group on the design and development of processor applications dedicated to the embedded market, in December 1997, Silicon Graphics initiated a plan to separate the business of the MIPS Group from its other operations.

In April 1998, our Board of Directors approved a transaction pursuant to which Silicon Graphics transferred to us the assets and liabilities related to the design and development of processor intellectual property for embedded market applications (the "Separation"). From the closing of our initial public offering (the "Offering") on July 6, 1998, until June 20, 2000, we were a majority owned subsidiary of Silicon Graphics. On June 20, 2000, Silicon Graphics distributed all of its remaining interest in MIPS in the form of a stock dividend of Class B common stock to its stockholders.

***Basis of Presentation.*** The unaudited results of operations for the interim periods shown herein are not necessarily indicative of operating results for the entire fiscal year. In our opinion, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position, results of operations and cash flows for each interim period shown.

The condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. Certain information and footnote disclosures included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in these interim statements as allowed by such SEC rules and regulations. The balance sheet at June 30, 2000 has been derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. However, we believe that the disclosures are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements included in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes thereto, for the fiscal year ended June 30, 2000, included in our 2000 Annual Report on Form 10-K.

**Note 2. Computation of Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

| | Three Months Ended September 30, | |
|---|---|---|
| | 2000 | 1999 |
| Numerator: | | |
| Net income available to common stockholders | $ 5,556 | $ 5,114 |
| Denominator: | | |
| Weighted-average shares of common stock outstanding | 38,549 | 37,642 |
| Less: Weighted-average shares subject to repurchase | (29) | (15) |
| Shares used in computing net income per basic share | 38,520 | 37,627 |
| Effect of dilutive securities-employee stock options and shares subject to repurchase | 2,614 | 1,821 |
| Shares used in computing net income per diluted share | 41,134 | 39,448 |
| Net income per basic share | $ 0.14 | $ 0.14 |
| Net income per diluted share | $ 0.14 | $ 0.13 |

**Note 3. Comprehensive Income**

In the first three months of fiscal 2000 and 1999, the currency translation adjustment was not material and, therefore, total comprehensive income closely approximated net income in each period presented.

**Note 4. Contingencies**

On October 28, 1999, we filed suit against Lexra, Inc. in the United States District Court for the Northern District of California for infringement of two United States patents.

On November 12, 1999, Lexra, Inc. filed counterclaims against us seeking a declaratory judgment that the two asserted patents are invalid and not infringed. Lexra has also asserted claims for common law unfair competition, intentional interference with business relations, and statutory unfair competition, all purportedly based on the allegation that our claims of patent infringement have been made in bad faith. On December 3, 1999, we filed our answer to Lexra's counterclaims, and denied the substantive allegations made by Lexra.

On October 23, 2000, we filed an Amended Complaint in the action adding two recently released Lexra products to the lawsuit. Discovery is currently ongoing in the lawsuit, but a trial date has not yet been set by the Court.

From time to time, we receive communications from third parties asserting patent or other rights covering our products and technologies. Based upon our evaluation, we may take no action or we may seek to obtain a license. There can be no assurance in any given case that a license will be available on terms we consider reasonable, or that litigation will not ensue.

We are not aware of any pending disputes, including those discussed above that would be likely to have a material adverse effect on our results of operations or financial condition.

**Note 5. Recent Accounting Pronouncements**

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Financial Instruments and for Hedging Activities" which provides comprehensive and consistent standards for the recognition and measurement of derivatives and hedging activities. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Financial Instruments and Hedging Activities—Deferral of the Effective date of FASB Statement No. 133". As a result, we are required to adopt SFAS 133 in fiscal 2001. It's adoption is not anticipated to have an impact on our results of operations or financial condition when adopted, because we currently do not hold any derivative financial instruments and do not expect to engage in hedging activities in the near future.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", ("SAB 101"). SAB 101 summarizes SEC staff's views in applying generally accepted accounting principles to revenue recognition. We are currently in the process of evaluating SAB 101 and what effect it may have on our financial statements. Accordingly, we have not determined whether SAB 101 will have a material impact on our financial position or results of operations. In the event that the implementation of SAB 101 requires us to report a change in accounting principles related to our revenue recognition policy, we would be required to report such change no later than the quarter ending June 30, 2001.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

*You should read the following discussion and analysis together with the unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this report.* Except for the historical information contained in this Quarterly Report on Form 10-Q, this discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those indicated in these forward-looking statements as a result of certain factors, as more fully described under "Factors That May Affect Our Business", and other risks included from time to time in our other Securities and Exchange Commission ("SEC") reports, copies of which are available from us upon request. The forward-looking statements within this Quarterly Report on Form 10-Q are identified by words such as "believes," "anticipates," "expects," "intends," "may" and other similar expressions. However, these words are not the exclusive means of identifying such statements. We undertake no obligation to update any forward-looking statements included in this discussion.

### Results of Operations

*Revenue.* Our revenue consists of royalties and contract revenue earned under contracts with our licensees. We generate royalties from the sale by our licensees of products incorporating our technology. We also receive royalties from Nintendo relating to sales of Nintendo 64 video game players and related cartridges. Royalties may be calculated as a percentage of the revenue received by the seller on sales of such products or on a per unit basis. Contract revenue includes technology license fees and engineering service. We receive license fees for the use of technology that we have developed internally and, in some cases, which we have licensed from third parties. Licenses fees are typically recognized upon the execution of the license agreement and transfer of intellectual property provided no further significant performance obligations exist. Fees related to engineering services, which are performed on a best effort basis, are recognized as revenue when the defined milestones are achieved and collectibility of the milestone payment is probable. The technology we develop is generally licensed to multiple customers.

Total revenue for the first quarter of fiscal 2001 increased by $2.1 million to $21.0 million, compared to the comparable period in fiscal 2000. Royalties for the first quarter of fiscal 2001 decreased by $2.9 million to $8.9 million due primarily to lower royalties derived from sales of Nintendo products. As the Nintendo 64 video game product line continues further into its life-cycle, we expect that sales of such products and the related royalties we receive will generally trend downward, subject to seasonal fluctuations and to the impact of particular game titles introduced by Nintendo from time to time. Contract revenue for the first quarter of fiscal 2001 increased by $5.1 million to $12.2 million. The increase was the result of technology license fees from new agreements and engineering service fees earned upon our achievement of defined milestones.

*Cost of Contract Revenue.* Our cost of contract revenue consists of sublicense fees payable to third parties. We incur an obligation to pay these fees when we sublicense technology to our customers that we have licensed from third parties. Sublicense fees are recorded as cost of contract revenue when the obligation is incurred, which is typically the same period in which the related revenue is recognized.

There was no sublicensing activity during the first quarter of fiscal 2001 and therefore, there was no cost of contract revenue. Cost of contract revenue was $500,000 in the comparable period of fiscal 2000. We expect that in future periods cost of contract revenue will be minimal.

*Research and Development.* Costs incurred with respect to technology we develop internally and engineering services we perform which are not directly related to any particular licensee, license agreement or license fee, are recorded as research and development expense.

Research and development expenses for the first quarter of fiscal 2001 were $7.7 million compared with research and development expenses of $6.1 million for the comparable period in fiscal 2000. The increase in research and development expenses of $1.6 million in the first quarter of fiscal 2001 compared with the same period in the prior year were due to the addition of resources to support various project development activities including the addition of 18 employees to the development team during the past twelve months and offset in part by lower requirements for contractors needed to meet project milestones. We expect research and development expenses to increase in the foreseeable future as we continue to develop new designs for the digital consumer products market and the market for embedded processors.

*Sales and Marketing.* Sales and marketing expenses for the first quarter of fiscal 2001 were $3.5 million compared to $2.3 million for the comparable period in fiscal 2000. The increase in sales and marketing expenses of $1.2 million in the first quarter of fiscal 2001 compared with the same period in the prior year were due to additional resources hired to support our increasing licensing activities. We increased our sales and marketing staff to 45 persons as of September 30, 2001, from 25 persons as of September 30, 2000, to support this growth.

*General and Administrative.* General and administrative expenses for the first quarter of fiscal 2001 and 2000 were $2.2 million.

*Other Income, net.* For the first quarter of fiscal 2001, other income, net was $1.6 million compared to other income, net of $638,000 for the comparable period in fiscal 2000. The increase was primarily due to interest income earned from the investment of cash generated from our operating activities and the net proceeds from issuance of common stock under our stock plans.

*Income Taxes.* We recorded a provision for income taxes of $3.7 million for the first quarter of fiscal 2001, compared to $3.4 million for the same period in fiscal 2000 based on an estimated federal and state combined statutory rate of 40% on income before taxes.

**Financial Condition**

At September 30, 2000, we had cash and cash equivalents of $91.3 million and total working capital of $92.2 million.

Our operating activities provided net cash of $5.1 million for the three months ended September 30, 2000 compared to $603,000 for the comparable period in the prior year. During the three months ended September 30, 2000, net cash provided by operating activities consisted mainly of net income and an increase in other assets and liabilities offset by an increase in accounts receivable. The increase in accounts receivable was due to fees owed us under license agreements. The increase in other assets and liabilities was primarily due to the tax provision for the first quarter of fiscal 2001.

Net cash used in investing activities was $1.1 million and $592,000 for the three months ended September 30, 2000 and 1999, respectively. Net cash used in investing activities in both periods represents equipment purchases and licensing of computer aided design tools used in development. Capital expenditures have been, and future expenditures are anticipated to be, primarily for facilities, equipment to support expansion of our operations and licensing of computer aided design tools used in development.

Net cash provided by financing activities was $3.1 million for the three months ended September 30, 2000 compared to $3.8 million for the comparable period in the prior year. Net cash provided in both periods resulted from the exercise of stock options.

Our future liquidity and capital requirements are expected to vary significantly from quarter to quarter, depending on numerous factors, including, among others:

- the cost, timing and success of product development efforts;
- the cost and timing of sales and marketing activities;
- the extent to which our existing and new technologies gain market acceptance;

- the level and timing of contract revenues and royalties;
- competing technological and market developments; and
- the cost of maintaining and enforcing patent claims and other intellectual property rights.

We believe that cash generated by our operations, together with our existing cash balance, will be sufficient to meet our projected operating and capital requirements for the foreseeable future. However, we may in the future be required to raise additional funds through public or private financing, strategic relationships or other arrangements. Additional equity financing may be dilutive to holders of our common stock, and debt financing, if available, may involve restrictive covenants. Moreover, strategic relationships, if necessary to raise additional funds, may require that we relinquish our rights to certain of our technologies. Our failure to raise capital when needed could have a material adverse effect on our business, results of operations and financial condition.

On June 20, 2000, Silicon Graphics distributed all of the shares of our common stock that it owned in a transaction intended to be tax-free to Silicon Graphics and its stockholders. Our ability to issue additional shares of our common stock in connection with acquisitions or to raise equity capital during the 30 month period following this distribution will be limited under the terms of a distribution tax indemnification agreement which we have entered into with Silicon Graphics. The agreement contains covenants under which we may not issue capital stock in an acquisition or private or public offering within the 30-month period following the tax-free distribution, except (a) pursuant to the exercise of employee, director or consultant stock options or awards and (b) for the issuance of up to a cumulative amount of 10% of our outstanding stock at the time of the tax-free distribution unless certain conditions are met.

**Recent Accounting Developments**

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133. "Accounting for Derivative Financial Instruments and for Hedging Activities" which provides comprehensive and consistent standards for the recognition and measurement of derivatives and hedging activities. In June 1999, the FASB issued SFAS No. 137. "Accounting for Derivative Financial Instruments and Hedging Activities - Deferral of the Effective date of FASB Statement No. 133". As a result, we are required to adopt SFAS 133 in fiscal 2001. It's adoption is not anticipated to have an impact on our results of operations or financial condition when adopted, because we currently do not hold any derivative financial instruments and do not expect to engage in hedging activities in the near future.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements", (SAB 101"). SAB 101 summarizes SEC staff's views in applying generally accepted accounting principles to revenue recognition. We are currently in the process of evaluating SAB 101 and what effect it may have on our financial statements. Accordingly, we have not determined whether SAB 101 will have a material impact on our financial position or results of operations. In the event that the implementation of SAB 101 requires us to report a change in accounting principles related to our revenue recognition policy, we would be required to report such change no later than the quarter ending June 30, 2001.

**Factors That May Affect Our Business**

**Factors negatively affecting sales of Nintendo 64 video game players and related cartridges could materially and adversely affect us.** Royalties from Nintendo and NEC relating to Nintendo 64 video game players and related cartridges accounted for 26% of our total revenue for the three months ended September 30, 2000 compared to 49% for the comparable period in the prior year. We anticipate that royalties related to sales of Nintendo 64 video game cartridges will continue to represent a significant portion of our total revenue for the next year. Accordingly, declining sales of Nintendo 64 video game cartridges by an amount significantly greater than we have estimated could have a material adverse effect on our results of operations and financial condition. The market for home entertainment products is competitive and the introduction of new products or technologies, as well as shifting consumer preferences, could negatively impact the amount and timing of sales of Nintendo 64 video game players and related cartridges.

**We must diversify our sources of revenue to offset the decline in revenue we derive from sales of Nintendo video game products.** The next generation Nintendo video game system will not incorporate any of our technology. Our ability to diversify our sources of revenue is still uncertain and will depend on whether our processors and related designs are selected for design ("design wins") into a broader range of digital consumer products and business equipment. Our ability to achieve design wins is subject to several risks and uncertainties, including:

- the potentially limited opportunities for design wins with respect to certain digital consumer products, such as video game products, due to a limited number of product manufacturers and the length of product life cycles; and
- the risk that the performance, functionality, price and power characteristics of our designs may not satisfy those that are critical to specific digital consumer product applications.

Even if our technology is incorporated into new products, we cannot be certain that any such products will ultimately be brought to market, achieve commercial acceptance or generate meaningful royalties for us.

**We depend on semiconductor companies and digital consumer product manufacturers to adopt our technology and use it in the products they sell.** The adoption and continued use of our technology by semiconductor companies and digital consumer product manufacturers is important to our continued success. We face numerous risks in obtaining agreements with semiconductor companies and digital consumer product manufacturers on terms consistent with our business model, including:

- the lengthy and expensive process of building a relationship with a potential licensee;
- the fact that we may compete with the internal design teams of semiconductor companies and digital consumer product manufacturers;
- the potential difficulties in persuading large semiconductor companies and digital consumer product manufacturers to work with us, to rely on us for critical technology, and to disclose to us proprietary manufacturing technology; and
- the potential difficulties in persuading potential licensees to bear certain development costs associated with our technology and to produce embedded processors using our technology.

We cannot assure you that we will be able to maintain our current relationships or establish new relationships with additional licensees, and any failure by us to do so could have a material adverse effect on our business.

Moreover, we are subject to risks beyond our control that influence the success or failure of a particular semiconductor company or digital consumer product manufacturer, including:

- the competition it faces and the market acceptance of its products;
- its engineering, marketing and management capabilities and the technical challenges unrelated to our technology that it faces in developing its products; and
- its financial and other resources.

None of our current licensees are obligated to license new or future generations of our processor designs. In addition, because we do not control the business practices of our licensees, we do not influence the degree to which our licensees promote our technology or set the prices at which the products incorporating our technology are sold.

**Our quarterly financial results are subject to significant fluctuations that could adversely affect our stock price.** Our quarterly financial results may vary significantly due to a number of factors, many of which are outside of our control. In addition, our revenue components are difficult to predict and may fluctuate significantly from period to period. Because our expenses are largely independent of our revenue in any particular period, it is difficult to accurately forecast our operating results. Our operating expenses are based, in part, on anticipated future revenue and a high percentage of our expenses are fixed in the short term. As a result, if our revenue is below expectations in any quarter, the adverse effect may be magnified by our inability to adjust spending in a timely manner to compensate for the revenue shortfall.

In light of the foregoing, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be a good indication of our future performance. In addition, it is possible that in some future periods our results of operations may be below the expectations of public market analysts and investors. In this event, the price of both our Class A and Class B common stock may fall.

Factors that could cause our revenue and operating results to vary from quarter to quarter include:

- the demand for and average selling prices of semiconductor products that incorporate our technology;
- the financial terms of our contractual arrangements with our licensees, which may provide for significant up-front payments or payments based on the achievement of certain milestones;
- the relative mix of contract revenue and royalties;
- competitive pressures resulting in lower contract revenue or royalty rates;
- our ability to develop, introduce and market new processor intellectual property;
- the establishment or loss of licensing relationships with semiconductor companies or digital consumer product manufacturers;
- the timing of new products and product enhancements by us and our competitors;
- changes in development schedules, research and development expenditure levels and product support by us and digital consumer product manufacturers;
- seasonal fluctuations; and
- general economic and market conditions.

**We are dependent on the emerging market for digital consumer products and consumer acceptance of the products that incorporate our technology.** The digital consumer products industry is presently the primary market for our processor, core and related designs. The market for digital consumer products is relatively new and emerging, and our success will depend largely on the level of consumer interest in digital consumer products, many of which have only recently been introduced to the market. In addition, the timing and amount of royalties we receive will depend on consumer acceptance of the products that incorporate our technology. We cannot assure you that any products that incorporate our technology will achieve commercial acceptance or generate meaningful royalties for us.

Our dependence on the digital consumer products industry involves several risks and uncertainties, including:

- changes in consumer requirements and preferences;
- the introduction of products by our competitors embodying new technologies or features; and

- the current lack of open industry standards for hardware and software in the digital consumer products industry.

**If we are unable to develop enhancements and new generations of our intellectual property, our ability to achieve design wins may be adversely affected.** Our future success will depend on our ability to develop enhancements and new generations of our processors, cores and other intellectual property that satisfy the requirements of specific product applications and introduce these new technologies to the marketplace in a timely manner. If our development efforts are not successful or are significantly delayed, or if the characteristics of our processor and related designs are not compatible with the requirements of specific product applications, our ability to achieve design wins may be limited. Our failure to achieve a sufficient number of design wins could have a material adverse effect on our business, results of operations and financial condition.

Technical innovations of the type critical to our success are inherently complex and involve several risks, including:

- our ability to anticipate and timely respond to changes in the requirements of digital consumer product and business equipment manufacturers;
- our ability to anticipate and timely respond to changes in semiconductor manufacturing processes;
- changing consumer preferences in the digital consumer products market;
- the emergence of new standards in the semiconductor, digital consumer product or business equipment industries;
- the significant investment that is often required before commercial viability is determined; and
- the introduction by our competitors of products embodying new technologies or features.

Any failure by us to adequately address these risks could render our existing processor, core and related designs obsolete and could have a material adverse effect on our business, results of operations and financial condition. In addition, we cannot assure you that we will have the financial and other resources necessary to develop processor, core and related designs in the future, or that any enhancements or new generations of the technology that we develop will generate revenue in excess of the costs of development.

**Our intellectual property may be misappropriated or subject to claims of infringement.** We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and employee and third-party nondisclosure and assignment agreements. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

Policing the unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent the misappropriation or unauthorized use of our technologies, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. In addition, we cannot be certain that we will be able to prevent other parties from designing and marketing unauthorized MIPS-based products or that others will not independently develop or otherwise acquire the same or substantially equivalent technologies as ours. Moreover, cross licensing arrangements, in which we license certain of our patents but do not generally transfer know-how or other proprietary information, may facilitate the ability of cross-licensees, either alone or in conjunction with others, to develop competitive products and designs.

We cannot assure you that any of our patent applications will be approved or that any of the patents that we own will not be challenged, invalidated or circumvented by others or be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Significant litigation regarding intellectual property rights exists in our industry. We cannot be certain that third parties will not make a claim of infringement against us or against our licensees or digital consumer product manufacturers in connection with their use of our technology. Any claims, even those without merit, could be time consuming to defend, result in costly litigation and/or require us to enter into royalty or licensing agreements. These royalty or licensing agreements, if required, may not be available to us on acceptable terms or at all. A successful claim of infringement against us or one of our licensees in connection with its use of our technology could adversely affect our business.

**If we fail to compete effectively in the market for embedded processors, our business will be adversely affected.** Competition in the market for embedded processors is intense. We believe that the principal competitive factors in our industry are performance, functionality, price, customizability and power consumption. We cannot assure you that we will be able to compete successfully or that competitive pressures will not materially and adversely affect our business, results of operations and financial condition. We compete with other designers and developers of processors and cores, as well as semiconductor manufacturers whose product lines include processors for embedded and non-embedded applications. In addition, we may face competition from the producers of unauthorized MIPS-based clones and non-RISC based technology designs.

To remain competitive, we must also differentiate our processors, cores and related designs from those available or under development by the internal design groups of semiconductor companies, including some of our current and prospective licensees. Many of these internal design groups have substantial programming and design resources and are part of larger organizations with substantial financial and marketing resources. These internal design groups may develop products that compete directly with ours or may actively seek to license their own technology to third-party semiconductor companies.

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater brand recognition, larger customer bases as well as greater financial and marketing resources than we do. This may allow them to respond more quickly than we can to new or emerging technologies and changes in customer requirements. It may also allow them to devote greater resources than we can to the development and promotion of their technologies and products. In addition, we may face competition from non-RISC based technology designs.

**We may not be able to recruit and retain the personnel to succeed.** Our future success depends to a significant extent on the continued contributions of our key management, technical, sales and marketing personnel, many of who are highly skilled and difficult to replace. We intend to hire additional highly skilled personnel, particularly technical personnel, for our anticipated research and development activities. Competition for qualified personnel, particularly those with significant experience in the semiconductor and processor design industries, is intense. The loss of the services of any of our key personnel or our inability to attract and retain qualified personnel in the future could have a material adverse effect on our business, results of operations and financial condition. In particular, our ability to hire and retain qualified engineering personnel is essential to meet our business goals.

**Factors that negatively affect our licensees could adversely affect our business.** A significant portion of our total revenue has been derived from a limited number of companies. Accordingly, factors negatively affecting a particular licensee could adversely effect our results of operations and financial condition if such licensee accounts for a significant portion of our revenue at the time. We are subject to many risks beyond our control that influence the success of our licensees, including, for example, the highly competitive environment in which they operate, the market for their products, their engineering capabilities and their financial and other resources.

Revenue from our top two licensees represented an aggregate of 27% of our total revenue in the first quarter of fiscal 2000 and 28% of our total the comparable period during the prior year. We may experience similar revenue concentration in the future, although the identity of the particular licensees that will account for this revenue concentration may vary from period to period depending on the addition or expiration of contracts, the nature and timing of payments due under our contracts and the volumes and prices at which our licensees sell products incorporating our technology.

**Our revenue is subject to fluctuations in currency exchange rates.** A substantial portion of our revenue has been, and is expected to continue to be, derived from customers outside the United States, primarily in Japan. To date, substantially all of our revenue from international customers has been denominated in U.S. dollars. However, to the extent that the sales by our licensees to their customers are denominated in foreign currencies, the royalties we receive on such sales could be subject to fluctuations in currency exchange rates. In addition, if the effective price of the technology we sell to our licensees were to increase due to fluctuations in foreign currency exchange rates, demand for our technology could fall, which would, in turn, reduce our royalties. Because we cannot predict the amount of non-U.S. dollar denominated revenue earned by our licensees, we have not historically attempted to mitigate the effect that currency fluctuations may have on our revenue, and we do not presently intend to do so in the future.

**We have grown rapidly, and if we are unable to manage this growth, our business will be adversely affected.** Our ability to continue to grow successfully requires an effective planning and management process. Since June 30, 1999, we have increased our headcount substantially, from 139 employees at that date to 184 employees at September 30, 2000. This increase includes the addition of 19 employees at our development center in Denmark, as well as additional employees in our engineering, sales and marketing staff.

Our growth has placed, and the recruitment and integration of additional employees will continue to place, a strain on our resources. Digital consumer product manufacturers and our semiconductor company licensees typically require significant engineering support in the design, testing and manufacture of products incorporating our technology. Accordingly, increases in the adoption of our technology can be expected to increase the strain on our personnel, particularly our engineers.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are exposed to interest rate risk on investments of our excess cash. The primary objective of our investment activities is to preserve capital. To achieve this objective and minimize the exposure due to adverse shifts in interest rates, we invest in high quality short-term maturity commercial paper and money market funds operated by reputable financial institutions in the United States. Due to the nature of our investments, we believe that we do not have a material interest rate risk exposure.

We are exposed to fluctuations in currency exchange rates because a substantial portion of our revenue has been, and is expected to continue to be, derived from customers outside the United States, primarily in Japan. To date, substantially all of our revenue from international customers has been denominated in U.S. dollars. Because we cannot predict the amount of non-U.S. dollar denominated revenue earned by our licensees, we have not historically attempted to mitigate the effect that currency fluctuations may have on our revenue, and we do not presently intend to do so in the future.

# PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On October 28, 1999, we filed suit against Lexra, Inc. in the United States District Court for the Northern District of California for infringement of two United States patents.

On November 12, 1999, Lexra, Inc. filed counterclaims against us seeking a declaratory judgment that the two asserted patents are invalid and not infringed. Lexra has also asserted claims for common law unfair competition, intentional interference with business relations, and statutory unfair competition, all purportedly based on the allegation that our claims of patent infringement have been made in bad faith. On December 3, 1999, we filed our answer to Lexra's counterclaims, and denied the substantive allegations made by Lexra.

On October 23, 2000, we filed an Amended Complaint in the action adding two recently released Lexra products to the lawsuit. Discovery is currently ongoing in the lawsuit, but a trial date has not yet been set by the Court.

We are not aware of any pending disputes including that discussed above that would be likely to have a material adverse effect on our business, results of operations or financial condition.

From time to time, we receive communications from third parties asserting patent or other rights covering our products and technologies. Based upon our evaluation, we may take no action or we may seek to obtain a license. There can be no assurance in any given case that a license will be available on terms we consider reasonable, or that litigation will not ensue. In addition, from time to time, we evaluate possible infringement claims against third parties and may assert such claims, if appropriate.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

**(a) Exhibits**

27.1 Financial Data Schedule.

**(b) Reports on Form 8-K.**

None.

ITEMS 2, 3, 4 AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.

**SIGNATURES**

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.

MIPS Technologies, Inc.
a Delaware corporation

By: /s/ KEVIN C. EICHLER

Kevin C. Eichler
*Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)*

Dated: November 10, 2000

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