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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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

(State or other jurisdiction of
Incorporation or organization)

77-0322161

(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 No

As of May 1, 2002, the number of outstanding shares of the Registrant's Class A common stock, \$.001 par value, was 14,153,164. As of May 1, 2002, the number of outstanding shares of the Registrant's Class B common stock, \$.001 par value, was 25,057,830.

PART I—FINANCIAL INFORMATION

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**MIPS TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)**

	March 31, 2002	June 30, 2001
	<u>(unaudited)</u>	<u></u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,423	\$ 116,520
Short-term investments	19,375	—
Accounts receivable	5,567	6,443
Prepaid expenses and other current assets	8,052	7,720
	<u>111,417</u>	<u>130,683</u>
Equipment and furniture, net	6,793	8,089
Intangible assets	4,393	—
Other assets	5,369	1,661
	<u>\$ 127,972</u>	<u>\$ 140,433</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 468	\$ 3,184
Accrued liabilities	6,309	10,472
Deferred revenue	3,593	4,069
	<u>10,370</u>	<u>17,725</u>
Stockholders' equity:		
Common stock	39	39
Additional paid-in capital	176,363	175,520
Accumulated other comprehensive loss	(459)	(615)
Accumulated deficit	(58,341)	(52,236)
	<u>117,602</u>	<u>122,708</u>
	<u>\$ 127,972</u>	<u>\$ 140,433</u>

See accompanying notes.

MIPS TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	2001 (Restated)	2002	2001 (Restated)
Revenue:				
Royalties	\$ 4,135	\$ 16,106	\$ 13,580	\$ 34,204
Contract revenue	8,607	12,029	23,635	33,082
Total revenue	12,742	28,135	37,215	67,286
Costs and expenses:				
Cost of contract revenue	—	—	250	250
Research and development	8,446	9,543	25,315	24,867
Sales and marketing	4,916	4,272	13,270	11,414
General and administrative	1,948	2,557	5,506	6,801
Acquired in-process research and development	—	—	1,737	—
Restructuring	—	—	437	—
Total costs and expenses	15,310	16,372	46,515	43,332
Operating income (loss)	(2,568)	11,763	(9,300)	23,954
Other income, net	510	1,651	2,415	4,883
Income (loss) before income taxes	(2,058)	13,414	(6,885)	28,837
Provision (benefit) for income taxes	(380)	4,875	(780)	11,044
Income (loss) before cumulative effect of change in accounting principle	(1,678)	8,539	(6,105)	17,793
Cumulative effect of change in accounting principle, net of tax benefit	—	—	—	(741)
Net income (loss)	\$ (1,678)	\$ 8,539	\$ (6,105)	\$ 17,052
Per basic share amounts:				
Income (loss) before cumulative effect of change in accounting principle	\$ (0.04)	\$ 0.22	\$ (0.16)	\$ 0.46
Cumulative effect of change in accounting principle	—	—	—	(0.02)
Net income (loss) per basic share	\$ (0.04)	\$ 0.22	\$ (0.16)	\$ 0.44
Per diluted share amounts:				
Income (loss) before cumulative effect of change in accounting principle	\$ (0.04)	\$ 0.21	\$ (0.16)	\$ 0.44
Cumulative effect of change in accounting principle	—	—	—	(0.02)
Net income (loss) per diluted share	\$ (0.04)	\$ 0.21	\$ (0.16)	\$ 0.42
Shares used in computing basic net income (loss) per share	39,014	38,778	38,969	38,659
Shares used in computing diluted net income (loss) per share	39,014	40,262	38,969	40,585

See accompanying notes.

MIPS TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	Nine Months Ended March 31,	
	2002	2001
		(Restated)
Operating activities:		
Net income (loss)	\$ (6,105)	\$ 17,052
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cumulative effect of change in accounting principle, net of tax benefit	—	741
Depreciation	3,924	2,754
Other non-cash charges	399	87
Changes in operating assets and liabilities:		
Accounts receivable	876	(3,454)
Accounts payable	(2,716)	2,093
Other assets and liabilities, net	(8,445)	5,469
	(12,067)	24,742
Investing activities:		
Purchases of short-term investments	(39,375)	—
Maturities of short-term investments	20,000	—
Capital purchases	(2,528)	(4,694)
Purchases of intangible assets	(3,750)	—
Purchases of investments in privately held company	(1,414)	—
	(27,067)	(4,694)
Financing activities—net proceeds from issuance of common stock		
Foreign currency translation adjustment	842	6,648
	195	(325)
Net increase (decrease) in cash and cash equivalents	(38,097)	26,371
Cash and cash equivalents, beginning of period	116,520	84,359
Cash and cash equivalents, end of period	\$ 78,423	\$ 110,730

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. 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. From the closing of our initial public offering on July 6, 1998 and 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 us 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 in these financial statements 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, 2001 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 related notes for the fiscal year ended June 30, 2001, included in our 2001 Annual Report on Form 10-K.

Use of Estimates. We prepare our financial statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from the estimates, and such differences may require material adjustments to our financial statements to reconcile actual results with estimates previously made. Estimates are used for, among other things, the recognition of revenues under engineering services contracts, depreciation and amortization, recognition of restructuring costs and the effect of contingencies.

Revenue Recognition and Cumulative Effect of Change in Accounting Principle. We derive revenue from fees for the transfer of proven and reusable intellectual property components and from the performance of engineering services. We enter into licensing agreements that provide licensees the right to incorporate MIPS' intellectual property components in their products with terms and conditions that

have historically varied by licensee. Generally, these agreements include a nonrefundable technology license fee, which is payable upon the transfer of intellectual property, or a nonrefundable engineering service fee, which generally is payable upon achievement of defined milestones. In addition, these agreements also include royalty payments, which are payable upon sale of a licensee's product, and maintenance and limited support fees. We classify all revenue that involves the future sale of a licensee's products as royalty revenue. Royalty revenue generally is recognized in the quarter in which a report is received from a licensee detailing the shipments of products incorporating our intellectual property components (i.e., in the quarter following the sale of licensed product by the licensee). We classify all revenue that does not involve the future sale of a licensee's products, primarily license fees and engineering service fees and maintenance and support fees, as contract revenue. License fees are recognized upon the execution of the license agreement and transfer of intellectual property, provided no further significant performance obligations exist and collectibility is deemed probable.

Fees related to engineering services contracts, which are performed on a best efforts basis and for which we receive periodic milestone payments, are recognized as revenue over the estimated development period, using a cost-based percentage of completion method.

In the fourth quarter of fiscal 2001, but effective to July 1, 2000, we changed our method of accounting to that described above for fees related to engineering services contracts. We historically recognized these fees as revenue when all of the contractual obligations required to earn each milestone payment had been met, there were no further performance obligations for such milestone, and collection was deemed probable. We believe the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101— *Revenue Recognition in Financial Statements* , released in December 1999.

As a result of this change in method of accounting, the results of the third quarter and first nine months of fiscal 2001 were restated, and a charge of \$1.2 million (\$741,000 net of tax effect) was recorded to reflect the cumulative effect of the change as of the beginning of the fiscal year. During the third quarter of fiscal year 2001, we recorded no contract revenue that was included in the cumulative effect adjustment as of July 1, 2000. During the first nine months of fiscal 2001, we recorded \$1.2 million in contract revenue that was included in the cumulative effect adjustment as of July 1, 2000. There was no amount of contract revenue recorded in the third quarter or first nine months of fiscal 2002 that was included in the cumulative effect adjustment as of July 1, 2000.

Annual maintenance and support fees, renewable by licensee, are classified as contract revenue and are amortized over the period of support, generally 12 months. Revenue from these arrangements is not significant.

Cash, Cash Equivalents and Short-term Investments. Cash and cash equivalents consists mainly of financial instruments which are readily convertible into cash and have original maturities of three months or less at the time of acquisition. Short-term investments consists mainly of financial instruments which have original maturities of one year or less at the time of original acquisition. The average maturity of our short-term investment balance at March 31, 2002 is 102 days.

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 March 31,		Nine Months Ended March 31,	
	2002	2001 (Restated)	2002	2001 (Restated)
Numerator:				
Net income (loss)	\$ (1,678)	\$ 8,539	\$ (6,105)	\$ 17,052
Denominator:				
Weighted-average shares of common stock outstanding	39,039	38,817	38,995	38,690
Less: Weighted-average shares subject to repurchase	(25)	(39)	(26)	(31)
Shares used in computing basic net income (loss) per share	39,014	38,778	38,969	38,659
Effect of dilutive securities-employee stock options and shares subject to repurchase	—	1,484	—	1,926
Shares used in computing diluted net income (loss) per share	39,014	40,262	38,969	40,585
Basic net income (loss) per share	\$ (0.04)	\$ 0.22	\$ (0.16)	\$ 0.44
Diluted net income (loss) per share	\$ (0.04)	\$ 0.21	\$ (0.16)	\$ 0.42
Potentially dilutive securities excluded from diluted net income per share computation because they are anti-dilutive	4,240	1,940	6,411	1,170

Note 3. Comprehensive Income

Total comprehensive income includes net income (loss) and other comprehensive income, which for us primarily comprises unrealized gains and losses from foreign currency adjustments. Total comprehensive loss for the third quarter of fiscal 2002 was \$1.9 million and for the first nine months of fiscal 2002 was \$5.9 million compared to total comprehensive income of \$8.3 million and \$16.7 million for the comparable periods in fiscal 2001.

Note 4. Purchased Intangible Assets

In December 2001, we acquired from Lexra, Inc. certain technology related to our processor architectures and cores for cash consideration of \$6.0 million. We incurred acquisition costs of approximately \$400,000. The purchase price was allocated to the acquired technology assets based on their estimated fair value. Developed technology, core technology, and in-process technology were recorded at \$1.8 million, \$2.9 million and \$1.7 million, respectively.

The values of developed and core technologies were determined, with the assistance of independent third-party appraisers, by estimating the present value of cash flows from those technologies as based on MIPS management and industry assumptions and market data. Developed and core technologies are being amortized, on a straight-line basis, over their estimated useful lives of three and seven years, respectively.

A charge of \$1.7 million for purchased in-process research and development expenses was recorded upon acquisition of the technology. The amount allocated to in-process research and development was expensed upon acquisition because technological feasibility had not been established and no future alternative uses for the technology existed. The value of the projects was determined, with the assistance of an independent third-party appraiser, by estimating the present value of the net cash flows management believed would result from the acquired technology.

As of March 31, 2002, our accrued liabilities included a remaining balance payable to Lexra, Inc. of approximately \$900,000, which will be due in July 2002.

Note 5. Restructuring Charge

A restructuring charge of \$437,000 was recorded during the second quarter of fiscal 2002 and is comprised of employee severance and benefit payments. We eliminated 18 regular positions, or approximately 8% of our global workforce, affecting all of our functional groups, with the objective of reducing our operating expenses. All of the severance and benefit costs associated with the eliminated positions were paid by January 2002.

Note 6. Contingencies

In October 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, seeking injunctive relief and compensatory and enhanced damages. In November 1999, Lexra, Inc. filed counterclaims against us that sought a declaratory judgment that the two asserted patents were invalid and not infringed and also asserted claims for unfair competition, intentional interference with business relations, and statutory unfair competition. In September 2001, the District Court issued its ruling on the appropriate interpretation of the disputed patent claim terms to govern all further proceedings in the District Court. In addition to its actions in the District Court, Lexra filed three separate requests with the Patent and Trademark Office seeking re-examination of one of the patents at issue in this litigation. In December 2001, we and Lexra settled this litigation and dismissed all claims against each other in the litigation. In connection with this settlement, Lexra recognized the validity of our patents, agreed to cease licensing processor cores, and became a MIPS32 architecture licensee. In addition, we purchased Lexra's intellectual property rights and technology related to its processor cores and architectural extensions and a small equity interest in Lexra. In February 2002, the Patent and Trademark Office completed its reexamination of one of our patents based on Lexra's reexamination requests. The Patent and Trademark Office confirmed the patentability of all claims contained in the patent thereby rejecting *Lexra's repeated* attempts to invalidate *several of these* claims.

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 patent infringement claims against third parties and may assert such claims if appropriate.

Note 7. Stock Option Exchange Offer

On November 15, 2001, we completed a voluntary stock option exchange program for our employees. Under the program, employees were given the opportunity to submit for cancellation any of their outstanding stock options in a one-for-one exchange for replacement options to be granted on a day that is at least six months and one day from the date of cancellation of the submitted options. A total of 4,471,121 options were cancelled in connection with the option exchange program. The exercise price of the replacement options will be equal to the closing price of our Class A common stock as reported on the Nasdaq National Market on the grant date of the replacement options. For certain of our executive officers, the exercise price of the replacement options will be equal to the higher of the closing price of our common stock on the grant date of the replacement options or on the date of cancellation.

Note 8. Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141), and No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. SFAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001. Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. The adoption of SFAS 141 on July 1, 2001 did not have a material impact on our financial position or results of operations, and we do not expect the adoption of SFAS 142 on July 1, 2002 will have a material impact on our financial position or results of operations.

In August 2001, the FASB issued Statements of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which is effective for fiscal periods beginning after December 15, 2001 and interim periods within those fiscal years. SFAS 144 establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. We are currently evaluating the potential impact, if any, the adoption of FAS 144 will have on our financial position and results of operations.

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

You should read the following discussion and analysis together with our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this report. This discussion may contain forward-looking statements that involve risks and uncertainties. These 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. Our actual results could differ materially from those indicated in these forward-looking statements as a result of certain factors, including those described under "Factors That May Affect Our Business", and other risks affecting our business. We undertake no obligation to update any forward-looking statements included in this discussion.

Accounting Policies and Estimates

Our revenue consists of royalties and contract revenue earned under contracts with our licensees. Our contracts with our licensees are typically subject to periodic renewal or extension and expire at various dates through June 2018. Although the precise terms of our contracts vary, they typically provide for royalties, technology license or engineering service fees, and maintenance fees.

We generate royalties from the sale by our licensees of products incorporating our technology. Royalty revenue generally is recognized in the quarter in which a report is received from a licensee detailing the shipments of products incorporating our intellectual property, typically in the quarter following the sale of the licensee's product to its customer. Royalties are calculated either 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 services fees. 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. License fees are typically recognized upon the execution of the license agreement and transfer of intellectual property, provided no further significant performance obligations exist and collectibility is deemed probable. Technology license fees vary based on, among other things, whether a particular technology is licensed on a per use application or for multiple or unlimited applications, and whether the license granted covers a particular design or a broader architecture. Fees related to engineering services contracts, which are performed on a best efforts basis and for which we receive periodic milestone payments, are recognized as revenue over the estimated development period using a cost-based percentage of completion method. In most instances, the technology we develop, including under engineering services contracts, can be licensed to multiple customers.

In the fourth quarter of fiscal 2001, but effective to July 1, 2000, we changed our method of accounting to that described above for fees related to engineering services contracts. We historically recognized these fees as revenue when all of the contractual obligations required to earn each milestone payment had been met, there were no further performance obligations for such milestone, and collection was deemed probable. We believe the change in accounting principle is preferable based on guidance provided in SEC Staff Accounting Bulletin No. 101— *Revenue Recognition in Financial Statements*, released in December 1999.

As a result of this change in method of accounting, the results of the third quarter and first nine months of fiscal 2001 were restated, and a charge of \$1.2 million (\$741,000 net of tax effect) was recorded to reflect the cumulative effect of the change as of the beginning of the fiscal year. During the third quarter of fiscal 2001, we recorded no contract revenue that was included in the cumulative effect adjustment as of July 1, 2000. During the first nine months of fiscal 2001, we recorded \$1.2 million in contract revenue that was included in the cumulative effect adjustment as of July 1, 2000. There was no amount of contract revenue recorded in the third quarter or first nine months of fiscal 2002 that was included in the cumulative effect adjustment as of July 1, 2000.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results inevitably will differ from the estimates, and such differences may require material adjustments to our financial statements to reconcile actual results with estimates previously made. Estimates are used for, among other things, the recognition of revenues under engineering services contracts, depreciation and amortization, recognition of restructuring costs and the effect of contingencies.

Results of Operations

Revenue. Total revenue for the third quarter of fiscal 2002 was \$12.7 million and for the first nine months of fiscal 2002 was \$37.2 million compared to \$28.1 million and \$67.3 million for the comparable periods in fiscal 2001. Total revenue excluding royalties from Nintendo 64 game products was \$11.7 million in the third quarter of fiscal 2002 and for the first nine months of fiscal 2002 was \$33.2 million compared to \$16.2 million and \$44.2 million for the comparable periods in fiscal 2001. This was a decline of 28% during the third quarter of fiscal 2002 and 25% during the first nine months of fiscal 2002 over the comparable periods in fiscal 2001. Royalties for the third quarter of fiscal 2002 were \$4.1 million and for the first nine months of fiscal 2002 were \$13.5 million compared to \$16.1 million and \$34.2 million for the comparable periods in fiscal 2001. The decrease in royalty revenues in both periods was primarily due to lower royalties derived from sales of Nintendo products. As the Nintendo 64 video game product line continues further into its life cycle, sales of such products, and the related royalties we receive, are trending downward, subject to seasonal fluctuations and the impact of particular game titles introduced by Nintendo from time to time. We anticipate that revenue related to sales of Nintendo 64 game players and related cartridges will continue to decline and will be insignificant by the end of fiscal 2002. Royalties excluding royalties from Nintendo 64 game products declined 26% in the third quarter of fiscal 2002 and 14% during the first nine months of fiscal 2002 over the comparable periods in fiscal 2001. Contract revenue for the third quarter of fiscal 2002 was \$8.6 million and for the first nine months of fiscal 2002 was \$23.6 million compared to \$12.0 million and \$33.1 million for the same periods in fiscal 2001. The decrease in contract revenues in both the third quarter and first nine months of fiscal 2002 was primarily due to lower revenue from both unlimited use and per use licenses than in the comparable periods of fiscal 2001. In addition, fees related to engineering service contracts were lower during the third quarter and first nine months of fiscal 2002 due to lower average fees per service contract. We expect that contract revenue, except for seasonal fluctuations in royalties, will be greater than 50% of our total revenue for the next several years.

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.

Cost of contract revenue for the third quarter of fiscal 2002 and 2001 was zero and for the first nine months of fiscal 2002 and 2001 was \$250,000. 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 third quarter of fiscal 2002 were \$8.4 million and for the first nine months of fiscal 2002 were \$25.3 million compared with research and development expenses of \$9.5 million and \$24.9 million for the comparable periods in fiscal 2001. The decrease in research and development expenses during the third quarter of fiscal 2002 was due to our reduced

demand for services from independent contractors and outside testing services needed to meet project milestones. The increase in research and development expenses during the first nine months of fiscal 2002 was due to the addition of resources and computer aided design tools to support various project development activities, including a net increase of 18 employees to the development team during the past twelve months. These increases were partially offset by our reduced demand for services from independent contractors needed to meet project milestones. We expect research and development expenses to increase slightly as we continue to develop technologies to extend our product line offering.

Sales and Marketing. Sales and marketing expenses for the third quarter of fiscal 2002 were \$4.9 million and for the first nine months of fiscal 2002 were \$13.3 million compared to \$4.3 million and \$11.4 million for the comparable periods in fiscal 2001. The increase in sales and marketing expenses was due to increased spending on third party software development tools as we partner with tool vendors to enhance the offering of MIPS compatible development tools such as compilers, debuggers, probes and operating systems. Expenses associated with third party tools are typically driven by attainment of milestones and vary from period to period. We expect our other sales and marketing expenses to remain relatively stable over the next few quarters.

General and Administrative. General and administrative expenses for the third quarter of fiscal 2002 were \$1.9 million and for the first nine months of fiscal 2002 were \$5.5 million compared to \$2.6 million and \$6.8 million for the comparable periods in fiscal 2001. The decrease in the third quarter of fiscal 2002 and year-to-date general and administrative expenses was primarily because fewer projects were outsourced to third party accounting and legal firms. Our general and administrative costs are subject to quarterly fluctuation depending on our requirements for third party services regarding tax, patent and trademark projects and other legal and accounting matters.

Acquired In-Process Research and Development. In December 2001, we acquired from Lexra, Inc. certain technology related to our processor architectures and cores and we recorded a charge of \$1.7 million for purchased in-process research and development expenses upon acquisition of the technology. The amount allocated to in-process research and development was expensed upon acquisition because technological feasibility had not been established and no future alternative uses for the technology existed. The value of the projects was determined, with the assistance of an independent third-party appraiser, by estimating the present value of the net cash flows management believed would result from the acquired technology.

Restructuring. The restructuring charge of \$437,000 recorded during the second quarter of fiscal 2002 is comprised of employee severance and benefit payments. We eliminated 18 regular positions or about 8% of our global workforce with the objective of reducing our operating expenses. All of the severance and benefit costs associated with the 18 positions eliminated were paid by January 2002.

Other Income, Net. For the third quarter of fiscal 2002, other income, net, was \$510,000 and for the first nine months of fiscal 2002 was \$2.4 million compared to other income, net, of \$1.7 million and \$4.9 million for the comparable periods in fiscal 2001. The decrease in both periods was primarily due to a decline in interest income due to lower interest rates.

Income Taxes. We recorded an income tax benefit of \$380,000 for the third quarter of fiscal 2002 and \$780,000 for the first nine months of fiscal 2002 compared to an income tax provision of \$4.9 million and \$11.0 million for the same periods in fiscal 2001. The income tax benefit recorded for the three-and-nine-month periods ended March 31, 2002 represents a projected recovery of previously paid US federal income taxes reduced by current year foreign income taxes. The income tax provision recorded for the three-and-nine-month periods ended March 31, 2001 represents a combined US federal, state and foreign effective tax rate of approximately 38%.

Financial Condition

At March 31, 2002, we had cash and cash equivalents and short-term investments of \$97.8 million and total working capital of \$101.0 million.

Our operating activities used net cash of \$12.1 million for the nine months ended March 31, 2002 compared to net cash provided by operating activities of \$24.7 million for the comparable period in the prior year. During the nine-month period ended March 31, 2002, net cash used by operating activities consisted mainly of our net loss, including the one-time in-process research and development charge and the restructuring charge, combined with an increase in other assets, and a decrease in accounts payable and accruals, partially offset by depreciation. The increase in other assets pertains to increased licensing of computer aided design tools. An increasing number of our computer aided design tools are now secured through term licenses of three to seven years. In the past, the majority of our tools were acquired through purchases of perpetual licenses, which were recorded as capital assets. The decrease in accounts payable is due to the timing of asset purchases and related payments. The decrease in accruals is primarily due to a decrease in our tax provision resulting from estimated payments and a tax benefit in the first nine months of fiscal 2002. During the nine months ended March 31, 2001, net cash provided by operations consisted primarily of net income, a net increase in other assets and liabilities, an increase in accounts payable and the non-cash benefit of depreciation expense, offset in part by an increase in accounts receivable. The increase in accounts payable was due to the timing of asset purchases and related payments. The net increase in other assets and liabilities in fiscal 2001 was primarily due to the tax provision, offset by a decrease in deferred revenue. The increase in accounts receivable reflects the timing of the invoicing and collection of fees owed us under licensing agreements.

Net cash used in investing activities was \$27.1 million for the nine months ended March 31, 2002 compared to \$4.7 million for the comparable period in the prior year. Net cash used in investing activities during the first nine months of fiscal 2002 includes purchases net of maturities of short-term investments as well as purchases of equipment and computer aided design tools used in development, in addition to the purchase price for intangible assets from Lexra, Inc. and a small equity interest in Lexra, Inc. As of March 31, 2002, our accrued liabilities included the remaining balance payable to Lexra, Inc. of approximately \$900,000, which will be due in July 2002. Net cash used in investing activities for the comparable period of fiscal 2001 represents purchases of equipment and computer aided design tools used in development. Capital expenditures have been, and future expenditures are anticipated to be, primarily for facilities, equipment and computer aided design tools used in development.

Net cash provided by financing activities was \$842,000 for the nine months ended March 31, 2002 compared to \$6.6 million for the comparable period in the prior year. Net cash provided in both periods resulted primarily from the exercise of employee stock options and activity in our employee stock purchase plan, and the decrease in fiscal 2002 is due to fewer stock option exercises than in the same period of the prior year.

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

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

We believe that we have sufficient cash 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, particularly if we continue to consume cash due to losses from operations. If available, additional equity financing may be dilutive to holders of our common stock, and debt financing, if available, may involve restrictive covenants. Moreover, strategic relationships may require that we relinquish our rights to certain of our technologies. Our failure to raise capital when needed could adversely affect 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.

Factors That May Affect Our Business

Our success is subject to numerous risk and uncertainties, including those discussed below. These factors could hinder our growth, cause us to sustain losses or have other adverse effects on us, all of which could cause our stock price to decline.

We must diversify our sources of revenue to offset the decline in revenue we derive from sales of Nintendo video game products. Historically, royalties from Nintendo and NEC Corporation relating to Nintendo 64 video game players and related cartridges have accounted for a substantial portion of our total revenues. We anticipate that royalties related to Nintendo 64 game products, will continue to decline and will be insignificant by the end of fiscal 2002. In addition, the next generation Nintendo video game system will not incorporate our technology. We must diversify our sources of revenue to offset the decline in these Nintendo-related revenues. However, our ability to diversify our sources of revenue is uncertain and will depend on whether our processors and related designs are selected for design, which we refer to as design wins, into a broader range of both digital consumer and business products. 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 and business 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.

Our future growth depends in significant part on our receipt of royalties from the sale of products incorporating our technology, and we have limited visibility as to the timing and amount of such sales. Our license agreements generally provide for our receipt of license fees, which we characterize as contract revenue, paid for access to our technology, and, ultimately, for royalties that are owed to us upon the sale of products incorporating this technology. In recent years we have had an increase in contract revenues from licenses of our technology. While we expect that we will continue to grant additional licenses to new licensees and develop new products to license to both new and existing

licensees, our contract revenue has slowed recently and we do not expect it to continue to grow at the same rate as it had in the past. Generally our licensees are not obligated to license new or future generations of our products, so past contract revenue may not be indicative of the amount of such revenue in any future period. Our future growth depends significantly on our receipt of royalties from the sales of products using our technology. Frequently these sales upon which our royalties depend are based on the sales of products incorporating the semiconductors or other products of our licensees, and as a result we do not have direct access to information that will help us anticipate the timing and amount of future royalties. To date most of our royalties have come from the sale of Nintendo 64 products, and it is difficult to predict royalties from other sources.

Because of our dependence on royalties from the sale of products incorporating our technology, our success is linked to the success of our licensees and, in the case of our semiconductor company licensees, the success of their customers. Factors that negatively affect our licensees and their customers could adversely affect our business. The success of our direct and indirect customers is subject to a number of factors, including:

- the competition these companies face and the market acceptance of their products;
- the engineering, marketing and management capabilities of these companies and technical challenges unrelated to our technology that they face in developing their products;
- their financial and other resources.

Because we do not control the business practices of our licensees and their customers, we have little influence on the degree to which our licensees promote our technology and do not set the prices at which 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. Therefore, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be a good indication of our future performance.

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 our 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 and delivery schedules 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 and business 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 and business product manufacturers;
- seasonal fluctuations; and
- general economic and market conditions.

We depend on semiconductor companies and digital consumer and business 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 and business product manufacturers is essential to our continued success. We face numerous risks in obtaining agreements with semiconductor companies and digital consumer and business product manufacturers on terms consistent with our business model, including:

- potential competition with the internal design teams of semiconductor companies and digital consumer and business product manufacturers;
- 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
- 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. In addition, we may devote substantial resources to the pursuit of a relationship with a potential licensee that ultimately is not successful.

We depend on the emerging markets for digital consumer and business products and customer acceptance of the products that integrate our technology. The digital consumer and business products industries are presently the primary market for our processor, core and related designs. The markets for digital consumer and business products are relatively new and emerging, and our success will depend largely on the level of interest in digital consumer and business products, many of which have only recently been introduced to the market and for us to grow, it is necessary that a significant number of additional products incorporating our technology be developed and successfully marketed. Further, customer acceptance of both consumer and business products may be hampered during periods of general economic uncertainty, as many consumers and businesses might delay their purchase decisions. 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 and business products industries involves several risks and uncertainties, including:

- changes in customer 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 digital consumer and business products.

If we are unable to develop enhancements and new generations of our intellectual property, we may be unable to achieve design wins. 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, core 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 would adversely affect 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 semiconductor companies, and original equipment manufacturers, or OEMs, of digital consumer and business products;
- our ability to anticipate and timely respond to changes in semiconductor manufacturing processes;
- changing customer preferences in the digital consumer and business products markets;
- the emergence of new standards in the semiconductor industry and for digital consumer and business products;
- the significant investment in a potential product that is often required before commercial viability is determined; and
- the introduction by our competitors of products embodying new technologies or features.

Our failure to adequately address these risks could render our existing processor, core and related designs obsolete and adversely affect 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 or sufficient to cover the costs of development.

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. Our products compete with those of other designers and developers of processors and cores, as well as those of 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. 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.

In order to be successful in marketing our products to semiconductor companies, we must differentiate our processors, cores and related designs from those available or under development by the internal design groups of these companies, including some of our current and prospective licensees. Many of these internal design groups have substantial engineering 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.

Our intellectual property may be misappropriated or subject to claims of infringement. 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 or other intellectual property rights that we own or use 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, our licensees, or their manufacturers' customers in connection with 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.

We depend on our key personnel to succeed. Our success depends to a significant extent on the continued contributions of our key management, technical, sales and marketing personnel, many of whom are highly skilled and difficult to replace. Generally, our employees are not bound by employment or non-competition agreements, and we cannot assure you that we will retain our key officers and employees. Further, we expect that we will continue to need to hire highly skilled personnel, particularly engineering and other technical personnel for our research and development activities. Competition for qualified personnel, particularly those with significant experience in the semiconductor and processor design industries, remains 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 adversely affect our business, results of operations and financial condition.

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.

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 municipal bonds, 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 located 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

In October 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, seeking injunctive relief and compensatory and enhanced damages. In November 1999, Lexra, Inc. filed counterclaims against us that sought a declaratory judgment that the two asserted patents were invalid and not infringed and also asserted claims for unfair competition, intentional interference with business relations, and statutory unfair competition. In September 2001, the District Court issued its ruling on the appropriate interpretation of the disputed patent claim terms to govern all further proceedings in the District Court. In addition to its actions in the District Court, Lexra filed three separate requests with the Patent and Trademark Office seeking re-examination of one of the patents at issue in this litigation.

In December 2001, we and Lexra settled this litigation and dismissed all claims against each other in the litigation. In connection with this settlement, Lexra recognized the validity of our patents, agreed to cease licensing processor cores, and became a MIPS32 architecture licensee. In addition, we purchased Lexra's intellectual property rights and technology related to its processor cores and architectural extensions and a small equity interest in Lexra. In February 2002, the Patent and Trademark Office completed its reexamination of one of our patents based on Lexra's reexamination requests. The Patent and Trademark Office confirmed the patentability of all claims contained in the patent thereby rejecting *Lexra's repeated* attempts to invalidate *several of these* claims.

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 patent infringement claims against third parties and may assert such claims if appropriate.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.10 Directors' Stock Option Plan, as amended.

(b) Reports on Form 8-K

None.

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

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Exhibit No.

10.10 Directors' Stock Option Plan, as amended

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MIPS TECHNOLOGIES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands)

MIPS TECHNOLOGIES, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited) (In thousands, except per share data)

MIPS TECHNOLOGIES, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (In thousands)

MIPS TECHNOLOGIES, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED

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EXHIBIT 10.10

MIPS TECHNOLOGIES, INC.

DIRECTORS' STOCK OPTION PLAN

(adopted by the Board of Directors on July 2, 1998
and approved by the Stockholder on July 2, 1998)
(as amended May 18, 1999)
(as amended January 24, 2002)

MIPS TECHNOLOGIES, INC.

DIRECTORS' STOCK OPTION PLAN

(adopted by the Board of Directors on July 2, 1998
and approved by the Stockholder on July 2, 1998)
(as amended May 18, 1999)
(as amended January 24, 2002)

1. *Purposes of the Plan.* The purposes of this Directors' Stock Option Plan are to attract and retain the best available personnel for service as Directors of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

All options granted hereunder shall be non-statutory stock options.

2. *Definitions.* As used herein, the following definitions shall apply:

(a) "*Annual Meeting*" means the Company's regularly scheduled annual meeting of stockholders, as provided for in the Company's bylaws.

(b) "*Board*" means the Board of Directors of the Company.

(c) "*Code*" means the Internal Revenue Code of 1986, as amended.

(d) "*Common Stock*" means the Common Stock of the Company.

(e) "*Company*" means MIPS Technologies, Inc., a Delaware corporation.

(f) "*Continuous Status as a Director*" means the absence of any interruption or termination of service as a Director.

(g) "*Director*" means a member of the Board.

(h) "*Employee*" means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient in and of itself to constitute "employment" by the Company.

(i) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(j) "*Fair Market Value*" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, the Fair Market Value of a Share of Common Stock shall be the closing sales price for such stock or the closing bid, if no sales were reported, as quoted on such system or exchange (or the exchange with the greatest volume of trading in Common Stock) on the day of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable;

(ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market System thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable, or;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(k) "*Option*" means a stock option granted pursuant to the Plan.

- (l) "*Optioned Stock*" means the Common Stock subject to an Option.
- (m) "*Optionee*" means an Outside Director who receives an Option.
- (n) "*Outside Director*" means a Director who is not an Employee.
- (o) "*Parent*" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (p) "*Plan*" means this Directors' Stock Option Plan.
- (q) "*Service Provider*" means an Employee, Director or consultant of the Company.
- (r) "*Share*" means a share of the Common Stock, as adjusted in accordance with Section 10 of the Plan.
- (s) "*Subsidiary*" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. *Stock Subject to the Plan.* Subject to the provisions of Section 10 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is 600,000 Shares plus an annual increase to be added each year on July 1 beginning on July 1, 1999 in an amount equal to the lesser of (i) 100,000 shares, (ii) the number of shares subject to option grants in the prior year ending June 30 or (iii) a lesser number determined by the Board (the "Pool") of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan.

4. Administration of and Grants of Options under the Plan.

(a) *Administrator.* Except as otherwise required herein, the Plan shall be administered by the Board, or by a compensation committee (the "Committee") appointed by the Board.

(b) *Procedure for Grants.* All grants of Options hereunder shall be automatic and non-discretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each Outside Director shall be automatically granted an Option to purchase 40,000 Shares (which number shall be subject to adjustment in the manner set forth in Section 10 hereof upon the occurrence of any event described therein) upon the date on which such person first becomes a Director (an "Initial Grant"), whether through election by the stockholders of the Company or by appointment by the Board to fill a vacancy.

(iii) On the date of each Annual Meeting during the term of this Plan, each Outside Director who has served as a Director for at least the previous six (6) months shall automatically receive an Option to purchase 10,000 Shares, which number shall be subject to adjustment in the manner set forth in Section 10 hereof upon the occurrence of any event described therein (a "Renewal Grant").

(iv) The terms of each Option granted hereunder shall be as follows:

(A) the term of the Option shall be ten (10) years.

(B) the Option shall be exercisable only while the Outside Director remains a Service Provider, except as set forth in Section 8 hereof.

(C) the exercise price per Share shall be 100% of the Fair Market Value per Share on the date of grant of the Option.

(D) the Initial Grant will vest and become exercisable as follows:

1/36th of the Shares subject to the Option shall vest on the first monthly anniversary of the Option's grant date, and 1/36th of the Shares subject to the Option shall vest each monthly anniversary thereafter, subject to the Outside Director continuing to be a Service Provider on such dates.

(E) the Renewal Grants will immediately vest and become exercisable on the Option's grant date.

(v) In the event that any Option granted under the Plan would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased upon exercise of Options to exceed the Pool, then each such automatic grant shall be for that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of Outside Directors on the automatic grant date. No further grants shall be made until such time, if any, as additional Shares become available for grant under the Plan through action of the stockholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

(c) *Powers of the Board.* Subject to the provisions and restrictions of the Plan, the Board or the Committee shall have the authority, in its discretion: (i) to determine, upon review of relevant information and in accordance with Section 2(j) of the Plan, the Fair Market Value of the Common Stock; (ii) to interpret the Plan; (iii) to prescribe, amend and rescind rules and regulations relating to the Plan; (iv) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted hereunder; and (v) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(d) *Effect of Board's Decision.* All decisions, determinations and interpretations of the Board or the Committee shall be final.

5. *Eligibility.* Options may be granted only to Outside Directors. All Options shall be automatically granted in accordance with the terms set forth in Section 4(b) hereof. An Outside Director who has been granted an Option may, if he or she is otherwise eligible, be granted an additional Option or Options in accordance with such provisions.

The Plan shall not confer on any Optionee any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.

6. *Term of Plan.* The Plan shall become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company as described in Section 16 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 12 of the Plan.

7. *Exercise Price and Consideration.*

(a) *Exercise Price.* The per Share exercise price for Optioned Stock shall be 100% of the Fair Market Value per Share on the date of grant of the Option.

(b) *Form of Consideration.* The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board and may consist entirely of: (i) cash, (ii) check, (iii) promissory note, (iv) other shares which (x) in the case of Shares acquired upon exercise of an Option either have been owned by the Optionee for

more than six (6) months on the date of surrender, or were not acquired directly or indirectly from the Company, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (v) authorization from the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (vi) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale or loan proceeds required to pay the exercise price, (vii) by delivering an irrevocable subscription agreement for the Shares which irrevocably obligates the Optionee to take and pay for the Shares not more than twelve (12) months after the date of delivery of the subscription agreement, (viii) any combination of the foregoing methods of payment, or (ix) such other consideration and method of payment for the issuance of Shares to the extent permitted by applicable law.

8. Exercise of Option.

(a) *Procedure for Exercise; Rights as a Stockholder.* Any Option granted hereunder shall be exercisable at such times as are set forth in Section 4(b) hereof; provided, however, that no Options shall be exercisable until stockholder approval of the Plan in accordance with Section 16 hereof has been obtained.

An Option may not be exercised for a fraction of a share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 7(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 10 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) *Rule 16b-3.* Options granted to Outside Directors must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act or any successor thereto and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

(c) *Termination of Status as a Service Provider.* If an Outside Director ceases to be a Service Provider, he or she may, but only within three (3) months after the date he or she ceases to be a Service Provider, exercise an Option to the extent that he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its ten (10) year term has expired. To the extent that the Optionee was not entitled to exercise an Option at the date of such termination, or if the Optionee does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) *Disability of Optionee.* Notwithstanding the provisions of Section 8(c) above, in the event an Optionee is unable to continue as a Service Provider as a result of the Optionee's total

and permanent disability (as defined in Section 22(e)(3) of the Code), he or she may, but only within six (6) months from the date of termination, exercise an Option to the extent that he or she was entitled to exercise it at the date of such termination. Notwithstanding the foregoing, in no event may the Option be exercised after its ten (10) year term has expired. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(e) *Death of Optionee.* In the event of the death of an Optionee, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of death. Notwithstanding the foregoing, in no event may the Option be exercised after its ten (10) year term has expired.

9. *Non-Transferability of Options.* The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

10. *Adjustments Upon Changes in Capitalization, Liquidation or Merger.*

(a) *Changes in Capitalization.* Subject to any required action by the stockholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per Share covered by each such outstanding Option or Right, shall be proportionately adjusted for any increase or decrease in the number of issued Shares of resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of Shares of stock of any class, or securities convertible into Shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Option.

(b) *Dissolution or Liquidation.* In the event of the proposed dissolution or liquidation of the Company, all outstanding Options will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.

(c) *Merger or Asset Sale.* In the event of a merger of the Company with or into another corporation or the sale of substantially all of the assets of the Company, outstanding Options may be assumed or equivalent options may be substituted by the successor corporation or a Parent or Subsidiary thereof (the "Successor Corporation"). If an Option is assumed or substituted for, the Option or equivalent option shall continue to be exercisable as provided in Section 4 hereof for so long as the Optionee is a Service Provider of the Company or of the Successor Corporation. Following such assumption or substitution, if the Optionee's status as a Service Provider of the Company or of the Successor Corporation, as applicable, is terminated other than upon a voluntary resignation by the Optionee, the Option or option shall become fully exercisable, including as to Shares for which it would not otherwise be exercisable. Thereafter, the Option or option shall remain exercisable in accordance with Sections 8(c) through (e) above.

If the Successor Corporation does not assume an outstanding Option or substitute for it an equivalent option, the Option shall become fully vested and exercisable, including as to Shares for which it would not otherwise be exercisable. In such event the Board shall notify the Optionee that the Option shall be fully exercisable for a period of fifteen (15) days from the date of such notice, and upon the expiration of such period the Option shall terminate.

For the purposes of this Section 10(c), an Option shall be considered assumed if, following the merger or sale of assets, the Option confers the right to purchase or receive, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

11. *Amendment and Termination of the Plan.*

(a) *Amendment and Termination.* The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation shall be made which would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with any applicable law or regulation, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) *Effect of Amendment or Termination.* Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated.

12. *Time of Granting Options.* The date of grant of an Option or Right shall, for all purposes, be the date determined in accordance with Section 4(b) hereof. Notice of the determination shall be given to each Outside Director to whom an Option is so granted within a reasonable time after the date of such grant.

13. *Conditions Upon Issuance of Shares.* Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

14. *Reservation of Shares.* The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

15. *Option Agreement.* Options shall be evidenced by written option agreements in such form as the Board shall approve.

16. *Stockholder Approval.* Continuance of the Plan shall be subject to approval by the stockholders of the Company at or prior to the first annual meeting of stockholders subsequent to the granting of an Option hereunder. Such stockholder approval shall be obtained in the manner and to the degree required under applicable state and federal law.

QuickLinks

EXHIBIT 10.10

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