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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 SEPTEMBER 30, 2001

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 November 1, 2001, the number of outstanding shares of the Registrant's Class A common stock, \$.001 par value, was 13,981,109. As of November 1, 2001, the number of outstanding shares of the Registrant's Class B common stock, \$.001 par value, was 25,063,461.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	<u>September 30, 2001</u>	<u>June 30, 2001</u>
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 108,443	\$ 116,520
Accounts receivable	5,730	6,443
Prepaid expenses and other current assets	7,722	7,720
	<u>121,895</u>	<u>130,683</u>
Total current assets	121,895	130,683
Equipment and furniture, net	9,277	8,089
Other assets	3,229	1,661
	<u>134,401</u>	<u>140,433</u>
	\$ 134,401	\$ 140,433
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,221	\$ 3,184
Accrued liabilities	8,058	10,472
Deferred revenue	2,816	4,069
	<u>12,095</u>	<u>17,725</u>
Total current liabilities	12,095	17,725
Stockholders' equity:		
Common stock	39	39
Additional paid-in capital	175,539	175,520
Accumulated other comprehensive (loss)	(110)	(615)
Accumulated deficit	(53,162)	(52,236)
	<u>122,306</u>	<u>122,708</u>
Total stockholders' equity	122,306	122,708
	<u>\$ 134,401</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 September 30,	
	2001	2000 (Restated)
Revenue:		
Royalties	\$ 4,728	\$ 8,864
Contract revenue	7,767	11,316
	12,495	20,180
Costs and expenses:		
Cost of contract revenue	—	—
Research and development	8,796	7,653
Sales and marketing	4,282	3,493
General and administrative	1,625	2,218
	14,703	13,364
Operating income (loss)	(2,208)	6,816
Other income, net	1,078	1,568
	(1,130)	8,384
Income (loss) before income taxes	(1,130)	8,384
Provision for income taxes	(203)	3,353
	(927)	5,031
Income (loss) before cumulative effect of a change in accounting principle	(927)	5,031
Cumulative effect of change in accounting principle, net of tax benefit	—	(741)
	\$ (927)	\$ 4,290
Per basic share amounts:		
Income (loss) before cumulative effect of a change in accounting principle	\$ (0.02)	\$ 0.13
Cumulative effect of change in accounting principle	—	\$ (0.02)
	\$ (0.02)	\$ 0.11
Per diluted share amounts:		
Income (loss) before cumulative effect of a change in accounting principle	\$ (0.02)	\$ 0.12
Cumulative effect of change in accounting principle	—	\$ (0.02)
	\$ (0.02)	\$ 0.10
Shares used in computing basic net income per share	38,912	38,520
Shares used in computing diluted net income per share	38,912	41,134

See accompanying notes.

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

	Three Months Ended September 30,	
	2001	2000 (Restated)
Operating activities:		
Net income (loss)	\$ (927)	\$ 4,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle, net of tax benefit	—	741
Depreciation	1,321	794
Other non-cash charges	(59)	34
Changes in operating assets and liabilities:		
Accounts receivable	713	(3,278)
Accounts payable	(1,963)	(317)
Other assets and liabilities, net	(5,237)	2,867
Net cash provided by (used in) operating activities	(6,152)	5,131
Cash used in investing activities—capital expenditures	(2,509)	(1,083)
Financing activities—net proceeds from issuance of common stock	22	3,088
Foreign currency translation adjustment	562	(204)
Net increase (decrease) in cash and cash equivalents	(8,077)	6,932
Cash and cash equivalents, beginning of period	116,520	84,359
Cash and cash equivalents, end of period	\$ 108,443	\$ 91,291

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.

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 or 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 payments 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 first quarter 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 quarter ended September 30, 2000 we recorded \$1.0 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 quarter ended September 30, 2001 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.

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,	
	2001	2000 (Restated)
Numerator:		
Net income (loss)	\$ (927)	\$ 4,290
Denominator:		
Weighted-average shares of common stock outstanding	38,941	38,549
Less: Weighted-average shares subject to repurchase	(29)	(29)
Shares used in computing basic net income per share	38,912	38,520
Effect of dilutive securities-employee stock options and shares subject to repurchase	—	2,614
Shares used in computing diluted net income per share	38,912	41,134
Basic net income per share	\$ (0.02)	\$ 0.11
Diluted net income per share	\$ (0.02)	\$ 0.10
Potentially dilutive securities excluded from diluted net income per share computation because they are anti-dilutive	8,571	—

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 first quarter of fiscal 2002 was \$422,000 and total comprehensive income for the comparable period in the prior year was \$4.1 million.

Note 4. Contingencies

As previously disclosed, 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. We subsequently amended our suit to cover two subsequently released Lexra products. The suit seeks injunctive relief and compensatory and enhanced damages together with costs and attorneys' fees. 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 April 25, 2001, the Court conducted a hearing to consider arguments from the parties regarding the appropriate interpretation of the disputed patent claim terms. The Court issued its ruling on September 14, 2001 concerning the claim terms in dispute. The Court's ruling sets forth the interpretation of the disputed terms that will govern all further proceedings in the District Court. Discovery is currently ongoing in the lawsuit, but the Court has not yet set a trial date. Lexra has moved for summary judgment of noninfringement, and its motion is scheduled to be heard in January 2002. In addition, Lexra has filed three separate requests with the Patent and Trademark Office seeking re-examination of one of the patents at issue in this litigation. We have filed our response to the first two of these requests with the Patent and Trademark Office and are awaiting action from the Patent Examiner. The Patent and Trademark Office has not yet determined whether it will take any action to re-examine the patent in response to Lexra's third re-examination request.

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 5. 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. FAS 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.

Note 6. Subsequent Events

In October 2001, we announced plans to eliminate 18 regular positions, or about 8% of our global workforce, in the second quarter of fiscal 2002 with the objective of reducing our operating expenses. These actions will result in a restructuring charge in the second quarter of fiscal 2002 of approximately \$500,000, comprised of employee severance and benefit payments.

In October 2001, we offered a voluntary stock option exchange program to our employees. Under the program, which commenced on October 18, 2001, employees will be able 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. 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.

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.

Results of Operations

Revenue. 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, generally 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 for a single 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 first quarter 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 quarter ended September 30, 2000 we recorded \$1.0 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 quarter ended September 30, 2001 that was included in the cumulative effect adjustment as of July 1, 2000.

Total revenue for the first quarter of fiscal 2002 was \$12.5 million compared to \$20.2 million for the comparable period in fiscal 2001. Total revenue excluding royalties from Nintendo 64 game products was \$11.1 million in the first quarter of fiscal 2002 and declined 24% during the first quarter of fiscal 2002 over the comparable period in fiscal 2001. Royalties for the first quarter of fiscal 2002 were \$4.7 million compared to \$8.9 million for the comparable period in fiscal 2001. The decrease was 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 decline significantly during the next few quarters and will be insignificant by the end of fiscal 2002. Royalties excluding royalties from Nintendo 64 game products were flat in the first quarter of fiscal 2002 over the comparable period in fiscal 2001. Contract revenue for the first quarter of fiscal 2002 was \$7.8 million compared to \$11.3 million for the same period in fiscal 2001. The decrease was primarily the result of our completing more single use application license agreements, which generally have lower fees, than in the similar period last year, when we completed more multiple or unlimited use license agreements, which generally have higher fees. In addition, fees related to engineering service contracts were lower in the first quarter of fiscal 2002. 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 was zero for both the first quarter of fiscal 2002 and 2001. 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 2002 were \$8.8 million compared with research and development expenses of \$7.7 million for the comparable period in fiscal 2001. The increase in research and development expenses was due to the addition of resources and tools to support various project development activities, including the addition of 35 employees to the development team during the past twelve months. These increases were partially offset by lower requirements for contractors needed to meet project milestones. We expect research and development expenses to remain relatively stable over the next few quarters as we are managing our expenses in response to the current business climate.

Sales and Marketing. Sales and marketing expenses for the first quarter of fiscal 2002 were \$4.3 million compared to \$3.5 million for the comparable period in fiscal 2001. The increase in sales and marketing expenses was due to additional resources hired to support our increasing licensing and third party tools and applications activities. To support this growth, we increased our sales and marketing staff to 55 persons as of September 30, 2001, from 45 persons as of September 30, 2000. We expect our sales and marketing expenses to remain relatively stable over the next few quarters, with the exception of expenses relating to third party tools, as these expenses are typically project milestone driven.

General and Administrative. General and administrative expenses for the first quarter of fiscal 2002 were \$1.6 million compared to \$2.2 million for the comparable period in fiscal 2001. The decrease in general and administrative expenses was primarily because fewer services were performed by 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.

Other Income, Net. For the first quarter of fiscal 2002, other income, net, was \$1.1 million compared to other income, net, of \$1.6 million for the comparable period in fiscal 2001. The decrease was primarily due to a decline in interest income due to lower interest rates.

Income Taxes. We recorded an income tax benefit of \$203,000 for the first quarter of fiscal 2002 compared to an income tax provision of \$3.4 million for the same period in fiscal 2001. The estimated annual income tax rate of 18% used in the first quarter of fiscal 2002 is lower than the effective tax rate of 38.5% in fiscal 2001 because of a projected recovery of previously paid US income tax reduced by current year foreign income tax.

Financial Condition

At September 30, 2001, we had cash and cash equivalents of \$108.4 million and total working capital of \$109.8 million.

Our operating activities used net cash of \$6.2 million for the three months ended September 30, 2001 compared to net cash provided of \$5.1 million for the comparable period in the prior year. During the three month period ended September 30, 2001, net cash used by operating activities consisted mainly of a decrease in other assets and liabilities. The decrease in other assets and liabilities in fiscal 2002 was primarily due to the tax provision and a decrease in payroll accruals. During the three months ended September 30, 2000, net cash provided by operations consisted primarily of net income and a net increase in other assets and liabilities, offset by an increase in accounts receivable. The net increase in other assets and liabilities in fiscal 2000 was primarily due to the tax provision for the first quarter of fiscal 2001. The increase in accounts receivable was due to fees owed us under licensing agreements.

Net cash used in investing activities was \$2.5 million for the three months ended September 30, 2001 compared to \$1.1 million for the comparable period in the prior year. 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 \$22,000 for the three months ended September 30, 2001 compared to \$3.1 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 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 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 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, while continuing to represent an important portion of our total revenue for the next few quarters, will continue to decline and will be immaterial 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 a large percentage

growth rate 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, we do not expect our contract revenue to continue to grow at the same rate as it has 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 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 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 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

As previously disclosed, 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. We subsequently amended our suit to cover two subsequently released Lexra products. The suit seeks injunctive relief and compensatory and enhanced damages together with costs and attorneys' fees. 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 April 25, 2001, the Court conducted a hearing to consider arguments from the parties regarding the appropriate interpretation of the disputed patent claim terms. The Court issued its ruling on September 14, 2001 concerning the claim terms in dispute. The Court's ruling sets forth the interpretation of the disputed terms that will govern all further proceedings in the District Court. Discovery is currently ongoing in the lawsuit, but the Court has not yet set a trial date. Lexra has moved for summary judgment of noninfringement, and its motion is scheduled to be heard in January 2002. In addition, Lexra has filed three separate requests with the Patent and Trademark Office seeking re-examination of one of the patents at issue in this litigation. We have filed our response to the first two of these requests with the Patent and Trademark Office and are awaiting action from the Patent Examiner. The Patent and Trademark Office has not yet determined whether it will take any action to re-examine the patent in response to Lexra's third re-examination request.

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.

ITEMS 2, 3, 4, 5 AND 6 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.

QuickLinks

PART I—FINANCIAL INFORMATION

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SIGNATURES

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