<SUBMISSION-INFORMATION-FILE>
<TYPE> 10-Q </TYPE>
<CONFIRM-COPY> NO </CONFIRM-COPY>
<SROS> NASD </SROS>
<FILER>
<FILER-CIK> 0001059786 </FILER-CIK>
<FILER-CCC> xxxxxxx </FILER-CCC>
</FILER>
<SUBMISSION-CONTACT>
<CONTACT-NAME> EDGAR Advantage </CONTACT-NAME>
<CONTACT-PHONE> 800-688-1933 </CONTACT-PHONE>
</SUBMISSION-CONTACT>
<NOTIFY-INTERNET> </NOTIFY-INTERNET>
<RETURN-COPY> YES </RETURN-COPY>
<PERIOD> 03/31/2003 </PERIOD>
<TEMPLATE-NAME> Subtemplate3.frm </TEMPLATE-NAME>
</SUBMISSION-INFORMATION-FILE>

DOC 1
<Name> 10-Q
DOC 2
<Name> EX-99.1

DOC 1 : Header

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, 2003

OR

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

For the transition period from to .

Commission file number 000-24487

MIPS Technologies, Inc.
(Exact name of registrant as specified in its charter)

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

1225 CHARLESTON ROAD, MOUNTAIN VIEW, CA 94043-1353
(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

As of April 30, 2003, the number of outstanding shares of the Registrant’s Class A common stock, $.001 par value, was 15,499,010. As of April 30, 2003, the number of outstanding shares of the Registrant’s Class B common stock, $.001 par value, was 25,057,715.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2003 (unaudited)	June 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 76,051	$ 90,712
Short-term investments	11,475	5,000
Accounts receivable	2,880	6,046
Prepaid expenses and other current assets	4,861	9,883
Total current assets	95,267	111,641
Equipment and furniture, net	5,055	7,481
Intangible assets, net	3,926	4,301
Other assets	3,852	5,565
	$ 108,100	$ 128,988
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 539	$ 1,203
Accrued liabilities	10,330	8,979
Deferred revenue	2,369	2,911
Total current liabilities	13,238	13,093
Stockholders' equity:		
Common stock	40	39
Additional paid-in capital	179,656	177,253
Accumulated other comprehensive income	487	229
Deferred compensation	(1,497)	—
Accumulated deficit	(83,824)	(61,626)
Total stockholders' equity	94,862	115,895
	$ 108,100	$ 128,988

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,	
	2003	2002	2003	2002
Revenue:				
Royalties	$ 4,336	$ 4,135	$ 12,002	$ 13,580
Contract revenue	5,141	8,607	17,295	23,635
Total revenue	9,477	12,742	29,297	37,215
Costs and expenses:				
Cost of contract revenue	—	—	250	250
Research and development	7,636	8,446	25,250	25,315
Sales and marketing	3,403	4,916	10,505	13,270
General and administrative	2,321	1,948	6,167	5,506
Acquired in-process research and development	—	—	394	1,737
Restructuring	(16)	—	7,618	437
Total costs and expenses	13,344	15,310	50,184	46,515
Operating loss	(3,867)	(2,568)	(20,887)	(9,300)
Other income (expense), net	249	510	(12)	2,415
Loss before income taxes	(3,618)	(2,058)	(20,899)	(6,885)
Provision (benefit) for income taxes	443	(380)	1,299	(780)
Net loss	$ (4,061)	$ (1,678)	$ (22,198)	$ (6,105)
Net loss per basic and diluted share	$ (0.10)	$ (0.04)	$ (0.56)	$ (0.16)
Shares used in computing net loss per basic and diluted share	39,530	39,014	39,384	38,969

See accompanying notes.

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

	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
Operating activities:		
Net loss	$ (22,198)	$ (6,105)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,216	3,924
Restructuring costs	2,415	—
Write-off of investment in privately-held company — Lexra, Inc.	1,414	—
Acquired in-process research and development	394	—
Other non-cash charges	1,048	399
Changes in operating assets and liabilities:		
Accounts receivable	3,223	876
Accounts payable	(694)	(2,716)
Other assets and liabilities, net	6,935	(8,445)
Net cash used in operating activities	(4,247)	(12,067)
Investing activities:		
Purchases of short-term investments	(16,475)	(39,375)
Maturities of short-term investments	10,000	20,000
Capital expenditures	(1,209)	(2,528)
Purchases of intangible assets	(1,100)	(3,750)
Purchase of investment in privately-held company — Lexra, Inc.	—	(1,414)
Acquisition of Algorithmics Limited and an affiliated company, DFS3 Limited, net	(1,265)	—
Payment related to purchase of intangible assets in a prior period	(900)	—
Net cash used in investing activities	(10,949)	(27,067)
Financing activities:		
Net proceeds from issuance of common stock	567	842
Loan repayment	(302)	—
Net cash provided by financing activities	265	842
Foreign currency translation adjustment	270	195
Net decrease in cash and cash equivalents	(14,661)	(38,097)
Cash and cash equivalents, beginning of period	90,712	116,520
Cash and cash equivalents, end of period	$ 76,051	$ 78,423

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). Silicon Graphics, Inc. acquired our predecessor MIPS Computer Systems, Inc. in 1992 and continued the MIPS processor business through its MIPS Group. In December 1997, Silicon Graphics initiated a plan to separate the business of the MIPS Group from its other operations and 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. We were a majority owned subsidiary of Silicon Graphics from the closing of our initial public offering on July 6, 1998 until June 20, 2000, when 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, 2002 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, 2002, included in our 2002 Annual Report on Form 10-K.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 those estimates, and such differences may be material to the financial statements.

Revenue Recognition. 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 sale of a licensee’s products as royalty revenue. Royalty revenue 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 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. We do not recognize revenue under engineering services contracts in amounts exceeding the amount of milestone payments received.

Annual maintenance and support fees, renewable by the licensee, are classified as contract revenue and are amortized over the period of support, generally 12 months.

Cash and 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 ninety days or less at the time of acquisition. Short-term investments consist mainly of financial instruments that have original maturities of one year or less at the time of original acquisition. The fair values of cash and cash equivalents and short-term investments approximated their cost at March 31, 2003 and June 30, 2002.

Goodwill and Purchased Intangible Assets. We make estimates when we acquire businesses or acquire groups of assets for a single aggregate price. The purchase method of accounting for acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of the tangible and intangible assets acquired, including in-process research and development, or IPR&D. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition of a business and the fair value of the net tangible and intangible assets acquired. Goodwill is not amortized but is subject to annual impairment tests. The amounts and useful lives assigned to tangible and intangible assets, other than IPR&D, impact future amortization expense; the amount assigned to IPR&D is expensed immediately.

Employee Stock Option Plans

We have elected to follow Accounting Principles Board Opinion No. 25 (APB 25) in accounting for our employee stock options to purchase MIPS' common stock. Under APB 25, no compensation expense is recognized in our financial statements except in connection with the granting of restricted stock for nominal consideration and unless the exercise price of the employee stock options is less than the market price of the underlying stock on the date of grant.

Pro forma information regarding net income (loss) and net income (loss) per share has been determined as if we had accounted for our employee stock options and employee stock purchase plans under the fair value method prescribed by Statement of Financial Accounting Standards (SFAS) No. 123. For purposes of pro forma disclosures, the estimated fair value of the stock awards is amortized to expense over the vesting periods of such awards.

Our pro forma information is as follows for the three-month and nine-month periods ending March 31, 2003 and 2002 (in thousands, except per share data):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
Net income (loss), as reported	$ (4,061)	$ (1,678)	$ (22,198)	$ (6,105)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	160	—	428	—
Deduct: Total stock-based employee compensation expense (benefit) determined under fair value method, net of tax related effects	5,054	4,494	18,621	18,588
Proforma net income (loss)	$ (8,955)	$ (6,172)	$ (40,391)	$ (24,693)
Basic net income (loss) per share:				
As reported	$ (0.10)	$ (0.04)	$ (0.56)	$ (0.16)
Pro forma	$ (0.23)	$ (0.16)	$ (1.03)	$ (0.63)
Diluted net income (loss) per share:				
As reported	$ (0.10)	$ (0.04)	$ (0.56)	$ (0.16)
Pro forma	$ (0.23)	$ (0.16)	$ (1.03)	$ (0.63)

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, 2003	Three Months Ended March 31, 2002	Nine Months Ended March 31, 2003	Nine Months Ended March 31, 2002
Numerator:				
Net loss	$ (4,061)	$ (1,678)	$ (22,198)	$ (6,105)
Denominator:				
Weighted-average shares of common stock outstanding	40,055	39,039	39,876	38,995
Less: Weighted-average shares subject to repurchase	(525)	(25)	(492)	(26)
Shares used in computing net loss per basic and diluted share	39,530	39,014	39,384	38,969
Net loss per basic and diluted share	$ (0.10)	$ (0.04)	$ (0.56)	$ (0.16)

Note 3. Comprehensive Income (Loss)

Total comprehensive income (loss) 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 nine months of fiscal 2003 was $21.9 million and total comprehensive loss for the comparable period in the prior year was $5.9 million.

Note 4. Acquisition and Investment

In December 2001, we acquired a small equity interest in Lexra, Inc., a privately held company, and recorded an investment of $1.4 million.

In July 2002, we acquired Algorithmics Limited, a United Kingdom-based tool chain company, and an affiliated company, DFS3 Limited. The total purchase price for both companies was approximately $3.1 million and consisted of $800,000 in cash, the issuance of approximately 520,000 shares of our common stock valued at approximately $1.9 million, and acquisition-related costs of approximately $485,000. The value of the common stock has been recorded as deferred compensation and will be amortized to expense over a three-year period.

A charge of $394,000 for purchased in-process research and development expenses was recorded upon completion of the acquisition of the technology because technological feasibility of the acquired technology had not been established and no future alternative uses existed. The value of the projects was determined by estimating the present value of the net cash flows we believed would result from the acquired technology.

In December 2002, we recorded an impairment charge of $1.4 million as we wrote off the full value of our investment in Lexra, Inc.

Note 5. Purchased Intangible Assets

All of our purchased intangible assets, except goodwill, are subject to amortization. Purchased intangible assets subject to amortization consisted of the following as of March 31, 2003 and June 30, 2002 (in thousands):

	March 31, 2003			June 30, 2002		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Developed technology	$ 86	$ (29)	$ 57	$ 1,716	$ (286)	$ 1,430
Core/patent technology	4,185	(564)	3,621	2,924	(209)	2,715
Other	—	—	—	156	—	156
Purchased intangible assets	$ 4,271	$ (593)	$ 3,678	$ 4,796	$ (495)	$ 4,301

During the second quarter of fiscal 2002, we acquired from Lexra, Inc. certain technology related to our processor architectures and cores. We recorded a valuation of $1.7 million for developed technology and $2.9 million for core technology.

During the second quarter of fiscal 2003, we purchased certain patents and patent applications for an aggregate consideration of $1.1 million.

During the second quarter of fiscal 2003, as part of our restructuring activities discussed in Note 6, we determined that we would not seek to integrate into our product plans the developed technology we acquired from Lexra, Inc. in December 2001 and recorded an impairment charge of approximately $1.2 million, the remaining value of this asset.

Our intangible assets are being amortized over their useful lives, which range between two and ten years. Amortization expense related to purchased intangible assets was $148,000 for the three months ended March 31, 2003 and was $247,000 for the comparable period in fiscal 2002. Amortization expense related to purchased intangible assets was $622,000 for the first nine months of fiscal 2003 and was $247,000 for the comparable period in fiscal 2002.

The estimated future amortization expense of existing purchased intangible assets is approximately $148,000, $593,000,

$553,000, $550,000 and $550,000 for the remaining three months of fiscal year 2003 and for fiscal years 2004, 2005, 2006 and 2007, respectively, and approximately $1.3 million for years following fiscal 2007 until fiscal 2013.

Note 6. Restructuring Charge

In the second quarter of fiscal 2003, we closed our Denmark design center to consolidate our research and development activities in our headquarters in California and in our recently acquired design center in the United Kingdom. In addition, we implemented plans to eliminate 67 regular positions or about 30% of our global workforce by the end of fiscal 2003 across all functions with the objective of reducing our operating expenses. These actions resulted in a restructuring charge in the second quarter of fiscal 2003 of approximately $7.6 million. The restructuring charge included approximately $3.3 million of employee severance and related benefits, $1.7 million of facilities exit costs, primarily related to lease expenses net of anticipated sublease income, $2.5 million in asset write-offs and $174,000 in legal and other costs. These costs and activities were accounted for under EITF Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity.*

A summary of restructuring activities as of March 31, 2003 follows below (in thousands):

	Severance	Facilities	Intangible asset write-off	Other asset write-off	Other costs	Total
Initial charge in second quarter of fiscal 2003	$ 3,329	$ 1,653	$ 1,191	$ 1,287	$ 174	$ 7,634
Cash charges	(1,258)	(32)	—	—	(43)	(1,333)
Non-cash charges	—	—	(1,191)	(1,287)	—	(2,478)
Balance at December 31, 2002	2,071	1,621	—	—	131	3,823
Adjustments	(140)	—	—	34	90	(16)
Cash charges	(1,411)	(67)	—	—	(141)	(1,619)
Non-cash charges	130	(185)	—	(6)	125	64
Balance at March 31, 2003	$ 650	$ 1,369	$ —	$ 28	$ 205	$ 2,252

The $1.7 million estimated charge for vacating our Denmark design center consisted of our future obligations of $6.4 million under the facility operating lease expiring in March, 2010, partially offset by estimated sublease income of approximately $4.7 million. The sublease income estimates we have made with respect to the Denmark facility are based on current and expected real estate market conditions in nearby Copenhagen, Denmark, and necessarily entails a high level of management judgment. These market conditions can fluctuate greatly due to such factors as changes in property occupancy rates and the rental prices charged for comparable properties. We may be required to record significant additional charges or reverse currently accrued amounts in future periods if our actual experience in subleasing our Denmark facility is not consistent with our assumptions.

As part of our restructuring plan, we decided to reduce our investment in research and development, and we revised our product development plans. We determined that we would not seek to integrate into our product plans the developed technology we acquired from Lexra, Inc. in December 2001 and recorded an impairment charge of $1.2 million for the remaining value of this intangible asset in the second quarter of fiscal 2003.

Other assets written off as a part of the restructuring during the second quarter of fiscal 2003 included leasehold improvements and computer aided design software related to the Denmark facilities. Other costs are composed primarily of legal fees and other restructuring costs.

As of March 31, 2003, the remaining restructuring cost accrual was $2.3 million. The severance and benefit costs associated with 12 of the positions eliminated were paid as of December 31, 2002. The remaining severance as of March 31, 2003 of $650,000 related to the other 55 positions eliminated was paid as of April 2003. The operating lease accrual, net of estimated sublease income, is made up of lease payments to be paid through March 2010. Actual future cash requirements may differ materially from the amounts accrued at March 31, 2003, particularly if actual sublease income differs significantly from current estimates.

In the third fiscal quarter of fiscal 2003, we decreased the restructuring charge by a net amount of $16,000. The decrease was primarily due to lower employee benefit costs than originally anticipated, offset by an increase in other costs such as accounting and third party service fees and an increase in asset write-offs.

Note 7. Recent Accounting Pronouncements

In July 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit and Disposal Activities* effective for exit or disposal activities initiated after December 31, 2002. This statement revises the accounting for exit and disposal activities under EITF Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity*. Under SFAS No. 146 companies will record exit or disposal costs when they are “incurred” and can be measured at fair value, rather than when a commitment is made to an exit or disposal plan

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123 *Accounting for Stock-Based Compensation* to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. Our disclosure under SFAS No. 148 is included in Note 7. We have elected to continue to follow the intrinsic value method of accounting as prescribed by APB 25, *Accounting for Stock Issued to Employees*, to account for employee stock options.

In November 2002, the FASB issued Financial Interpretation No. 45 (FIN 45), *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor’s year-end. We currently do not have guarantees required to be disclosed under FIN 45 although we do have indemnification provisions in our license agreements for which no liability has been accrued. We do not expect the adoption of FIN 45 will have a material impact on our financial position, results of operation, or cash flow.

In January 2003, the FASB issued Financial Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51.* FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provision of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. We do not expect the adoption of FIN 46 will have a material effect on our operations results or financial condition.

Note 8. Subsequent Event

On April 30, 2003, in connection with the closure of our Denmark design center, our Swiss subsidiary, MIPS Technologies International AG, or MIPS AG, through which we conducted our operations in Denmark, terminated the employment of 55 employees. Of these, 45 employees filed claims against MIPS AG in the County Court of Ballerup Denmark. Subsequently, 13 of these employees have agreed to withdraw their claims. The remaining 32 employees of MIPS AG held, on the termination date, options to purchase an aggregate of 724,830 shares of our Class A common stock, of which options to purchase 413,552 shares were vested as of the termination date and 311,728 were unvested. The exercise price of these options ranged from $2.94 to $27.16 per share. Under our stock option plans, unvested options expire upon termination of employment and vested options expire three months after the termination of employment.

The terminated employees are seeking, primarily, the right to exercise, regardless of the termination of their employment, the options they held as of the date of their termination, which options expired on or within three months of the termination date. As such, they are claiming, under alleged principles of Danish employment law, the right to exercise such options, or in the alternative, money damages equal to the difference between the excess of the trading price of our Class A common stock shares over the exercise price of the options on whatever future date the employee designates as an effective exercise date of the option. The employees further claim that these effective rights to exercise should continue for the same period as the respective terms of the options on which they were based, that is, 10 years from the respective grant date of the underlying option.

Our Swiss subsidiary intends to defend itself vigorously in these matters.

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.

Critical Accounting Polices and 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. We regularly evaluate our accounting estimates and assumptions. We base our estimates and assumptions on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results inevitably will differ from the estimates, and such differences may require material adjustments to our financial statements.

Accrued *Facilities Restructuring Costs*. In October 2002, we implemented plans to restructure our company that included exiting our Denmark research facility, and we recorded a restructuring charge in the second quarter of fiscal 2003 to reflect the anticipated costs of the restructuring. Among other things, the anticipated costs included lease charges that were based on assumptions about future rental income that might be received on the property we vacated. If, in the future, it is determined that we have over-accrued for restructuring charges, the reversal of such over-accrual would have a favorable impact on our financial statements in the period this was determined and would be recorded as a credit to restructuring costs. Conversely, if it is determined that our accrual is insufficient, an additional charge would have an unfavorable impact on our financial statements in the period this was determined.

For a discussion of our other critical accounting policies, please see "Critical Accounting Policies and Estimates" in Item 7 of our Annual Report on Form 10-K for the year ended June 30, 2002.

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 is recognized in the quarter in which a report is received from a licensee detailing the shipments of products incorporating our intellectual property, which is 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.

Total revenue for the third quarter of fiscal 2003 was $9.5 million and for the first nine months of fiscal 2003 was $29.3 million compared to $12.7 million and $37.2 million for the comparable periods in fiscal 2002. Royalties for the third quarter of fiscal 2003 were $4.3 million and for the first nine months of fiscal 2003 were $12.0 million compared to $4.1 million and $13.6 million for the comparable periods in fiscal 2002. The increase in royalties in the third quarter was due primarily to an increase in the number of new customers shipping products incorporating our technology. The decrease in royalties in the nine-month period was due to lower royalties derived from sales of Nintendo products, which continue to decline and have been insignificant in fiscal 2003. Contract revenues for the third quarter of fiscal 2003 were $5.1 million and for the first nine months of fiscal 2003 were $17.3 million compared to $8.6 million and $23.6 million for the same periods in fiscal 2002. The decrease in contract revenues in both periods resulted from our completing only four new license agreements in the third quarter of fiscal 2003 and ten new agreements in the first nine months of fiscal 2003 compared to eight and twenty-four agreements in the same periods in 2002. In addition, these agreements were generally lower in value due to a shift in demand towards our 32-bit core designs than in the corresponding periods in fiscal 2002. We continue to experience a longer sales cycle compared to the comparable periods in fiscal 2002, which we believe is due to our customers lengthening their decision making process in response to current economic conditions. The amount of engineering service fees recognized in the third quarter and first nine months of fiscal 2003 increased compared to the same periods in the prior year as a result of more project milestones being completed. We expect that contract revenue will be greater than 50% of our total revenue for the fiscal year ending June 30, 2003.

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 both fiscal 2003 and fiscal 2002 was zero and for both the first nine months of fiscal 2003 and fiscal 2002 were $250,000. We expect that in future periods cost of contract revenue will continue to be immaterial.

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 2003 were $7.6 million and for the first nine months of fiscal 2003 were $25.3 million compared with research and development expenses of $8.4 million and $25.3 million for the comparable periods in fiscal 2002. The decrease in research and development expenses was primarily a result of the closure of our Denmark design center in December 2002 and the consolidation of our research and development activities into our California and United Kingdom locations. These restructuring activities resulted in a reduction of 57 employees in our research and development workforce.

Sales and Marketing. Sales and marketing expenses for the third quarter of fiscal 2003 were $3.4 million and for the first nine months of fiscal 2003 were $10.5 million compared to $4.9 million and $13.3 million for the comparable periods in fiscal 2002. The decrease in sales and marketing expenses for both periods was primarily due to lower spending on third party software development tools, as we deferred spending on MIPS compatible development tools such as compilers, debuggers, probes and operating systems. We expect that our sales and marketing expenses will vary from period to period as a result of third party tools providers attaining specified milestones that trigger our contractual payment obligations.

General and Administrative. General and administrative expenses for the third quarter of fiscal 2003 were $2.3 million and for the first nine months of fiscal 2003 were $6.2 million compared to $1.9 million and $5.5 million for the comparable periods in fiscal 2002. The increase in general and administrative expenses primarily reflects an increase in our directors and officers insurance rates compared to the prior year.

Acquired In-Process Research and Development. In July 2002, we completed the acquisition of Algorithmics Limited, a United Kingdom-based tool chain company, and an affiliated company, DFS3 Limited, for cash and stock consideration. We recorded a charge of $394,000 for purchased in-process research and development expenses upon completion of the acquisition because technological feasibility of the acquired technology had not been established and no future alternative uses existed. The fair value of the projects was determined by estimating the present value of the net cash flows we believed would result from the acquired technology.

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 fair value of the projects was determined by estimating the present value of the net cash flows we believed would result from the acquired technology.

Restructuring. In the second quarter of fiscal 2003, we closed our Denmark design center and consolidated our research and development activities in our headquarters in California and in our recently acquired design center in the United Kingdom. In addition, we implemented plans to eliminate 67 regular positions or about 30% of our global workforce by the end of fiscal 2003 across all functions with the objective of reducing our operating expenses. These actions resulted in a restructuring charge in the second quarter of fiscal 2003 of approximately $7.6 million. The restructuring charge included approximately $3.3 million of employee severance and related benefits, $1.7 million of facilities exit costs, primarily related to lease expenses net of anticipated sublease income, $2.5 million in asset write-offs and $174,000 in legal and other costs. These costs and activities were accounted for under EITF Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity.*

A summary of restructuring activities as of March 31, 2003 follows below (in thousands):

	Severance	Facilities	Intangible asset write-off	Other asset write-off	Other costs	Total
Initial charge in second quarter of fiscal 2003	$ 3,329	$ 1,653	$ 1,191	$ 1,287	$ 174	$ 7,634
Cash charges	(1,258)	(32)	—	—	(43)	(1,333)
Non-cash charges	—	—	(1,191)	(1,287)	—	(2,478)
Balance at December 31, 2002	2,071	1,621	—	—	131	3,823
Adjustments	(140)	—	—	34	90	(16)
Cash charges	(1,411)	(67)	—	—	(141)	(1,619)
Non-cash charges	130	(185)	—	(6)	125	64
Balance at March 31, 2003	$ 650	$ 1,369	$ —	$ 28	$ 205	$ 2,252

The $1.7 million estimated charge for vacating our Denmark design center consisted of our future obligations of $6.4 million under the facility operating lease expiring in March, 2010, partially offset by estimated sublease income of approximately $4.7 million. The sublease income estimates we have made with respect to the Denmark facility are based on current and expected real estate market conditions in nearby Copenhagen, Denmark, and necessarily entails a high level of management judgment. These market conditions can fluctuate greatly due to such factors as changes in property occupancy rates and the rental prices charged for comparable properties. We may be required to record significant additional charges or reverse currently accrued amounts in future periods if our actual experience in subleasing our Denmark facility is not consistent with our assumptions.

As part of our restructuring plan, we decided to reduce our investment in research and development, and we revised our product development plans. We determined that we would not seek to integrate into our product plans the developed technology we acquired from Lexra, Inc. in December 2001 and recorded an impairment charge of $1.2 million for the remaining value of this intangible asset in the second quarter of fiscal 2003.

Other assets written off as a part of the restructuring during the second quarter of fiscal 2003 included leasehold improvements and computer aided design software related to the Denmark facilities. Other costs are composed primarily of legal fees and other restructuring costs.

As of March 31, 2003, the remaining restructuring cost accrual was $2.3 million. The severance and benefit costs associated with 12 of the positions eliminated were paid as of December 31, 2002. The remaining severance as of March 31, 2003 of $650,000 related to the other 55 positions eliminated was paid as of April 2003. The operating lease accrual, net of estimated sublease income, is made up of lease payments to be paid through March 2010. Actual future cash requirements may differ materially from the amounts accrued at March 31, 2003, particularly if actual sublease income differs significantly from current estimates.

In the third fiscal quarter of fiscal 2003, we decreased the restructuring charge by a net amount of $16,000. The decrease was primarily due to lower employee benefit costs than originally anticipated, offset by an increase in other costs such as accounting and third party service fees and an increase in asset write-offs.

Other Income (Expense), Net. Other income (expense), net, for the third quarter of fiscal 2003 was net income of $249,000 and for the first nine months of fiscal 2003 was a net expense of $12,000 compared to net income of $510,000 and $2.4 million for the comparable periods in fiscal 2002. The decrease in other income for both periods was primarily due to a decline in interest income resulting from lower interest rates and lower investment balances. Additionally, we recorded an impairment charge of $1.4 million in the second quarter of fiscal 2003 as we wrote off the full value of our investment in Lexra, Inc.

Income Taxes. We recorded an income tax provision of $443,000 for the third quarter of fiscal 2003 and $1.3 million for the first nine months of fiscal 2003 compared to an income tax benefit of $380,000 and $780,000 for the same periods in fiscal 2002. The estimated annual effective tax rate for the third quarter and first nine months of fiscal 2003 differs from the applicable statutory rate primarily due to losses for which no current benefit is available and to foreign income taxes. The estimated annual effective tax benefit for the third quarter of fiscal 2002 and the first nine months of fiscal 2002 was lower than the applicable statutory rate primarily due to a recovery of previously paid U.S. income tax reduced by foreign income taxes.

Financial Condition

At March 31, 2003, we had cash and cash equivalents of $76.1 million and total working capital of $82.0 million.

Our operating activities used net cash of $4.2 million for the nine months ended March 31, 2003 compared to net cash used of $12.1 million for the comparable period in the prior year. During the nine-month period ended March 31, 2003, the amount of our net loss was partially offset by non-cash expenses such as depreciation and amortization and the write-off of the full value of our investment in Lexra, Inc., as well as restructuring costs. Decreases in accounts receivable and prepaids and other assets, and an increase in our accruals further offset our net loss. The decrease in accounts receivable was the result of our completing fewer licensing agreements near the end of the third quarter in fiscal 2003. The decrease in prepaids and other assets is due to the receipt of an income tax receivable, a valuation allowance placed against our deferred tax assets, and annual amortization of prepaid insurance. The increase in accruals was primarily due to accrued restructuring costs, which are expected to be funded by available cash, and could result in cash expenditures through March 2010, the termination of our Denmark facility lease.

During the nine-month period ended March 31, 2002, net cash used by operating activities consisted mainly of our net loss, including a restructuring charge, combined with a net increase in other assets and a decrease in accounts payable and accruals, partially offset by depreciation. The net increase in other assets pertained to the acquisition of long-term license of computer aided design tools. The decrease in accounts payable was due to the timing of asset purchases and related payments. The decrease in accruals was primarily due to a decrease in our tax provision resulting from estimated payments and the rate of tax benefit for the first nine months of fiscal 2002.

Net cash used in investing activities was $10.9 million for the nine months ended March 31, 2003 compared to $27.1 million for the comparable period in the prior year. Net cash used in investing activities during the nine-month period ended March 31, 2003 included purchases and maturities of short-term investments as well as purchases of equipment and computer aided design tools used in our development activities and the acquisition of Algorithmics, Ltd., in addition to the purchase of patents and patent applications and the final payment related to purchases of intangible assets from Lexra, Inc. in December 2001. Net cash used in investing activities for the nine-month period ended March 31, 2002 included purchases and maturities of short-term investments as well as purchases of equipment and computer aided design tools used in development, as well as the purchase of intangible assets from and an equity interest in Lexra, Inc. Capital expenditures have been, and future expenditures are anticipated to be, primarily for facilities and equipment to support our operations and licensing of computer aided design tools used in development.

Net cash provided by financing activities was $265,000 for the nine months ended March 31, 2003 compared to $842,000 for the comparable period in the prior year. Net cash provided by financing activities during the nine-month period ended March 31, 2003 was attributable to purchases under our employee stock plans offset in part by the repayment of a loan, which was assumed in connection with the Algorithmics Ltd. acquisition. Net cash provided in the nine-month period ended March 31, 2002 resulted primarily from purchases under our employee stock plans.

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 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. Additional equity financing may be dilutive to holders of our common stock, and debt financing, if available, may involve restrictive covenants. Moreover, strategic relationships, if necessary to raise additional funds, may require that we relinquish our rights to certain of our technologies. Our failure to raise capital when needed could have a material adverse effect on our business, results of operations and financial condition.

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.

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 securities analysts and investors. In that 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:

- our ability to identify attractive licensing opportunities and then enter into new licensing agreements on terms that are acceptable to us;
- the financial terms and delivery schedules of our contractual arrangements with our licensees, which may provide for significant up-front payments, payments based on the achievement of certain milestones or extended payment terms;
- the relative mix of contract revenue and royalties;
- the demand for and average selling prices of semiconductor products that incorporate our technology;
- 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;
- uncertain economic and market conditions.

We may not experience growth in our contract revenue. A significant portion of our total revenues is generated by license fees paid for access to our technology and engineering service fees, and these contract revenues have represented an increasingly greater percentage of total revenue in recent years. 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 cannot predict whether or when contract revenue will grow. 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.

We depend on design wins to expand our revenue base. In the past, a substantial portion of our total revenues was generated by royalties from Nintendo and NEC relating to Nintendo 64 video game players and related cartridges. As expected, these royalties have declined substantially and are now insignificant. Our ability to generate non-Nintendo royalty revenues is uncertain and will depend in large part on whether our processors and related designs are selected by our licensees and their customers 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 or digital television set top boxes, 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.

We depend on royalties from the sale of products incorporating our technology, and we have limited visibility as to the timing and amount of such sales. Our success in achieving design wins with our customers does not assure us of future revenue, as our revenue from these customers depends on our receipt of royalties from the sales of products that use our technology. Frequently, these sales 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. 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.

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 acceptable terms, including:

- potential competition with the internal design teams of semiconductor companies and digital consumer and business product manufacturers;
- competition from other semiconductor intellectual property providers;
- 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. 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; and
- the introduction of products by our competitors embodying new technologies or features.

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, in part, 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 significant 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 sufficient to cover or in excess of 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 with ours.

Some 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.

We may encounter difficulties with future acquisitions, which could harm our business. As part of our business strategy, in the future we may seek to acquire or invest in businesses or technologies that we believe can complement or expand our business, enhance our technical capabilities or that may otherwise offer growth opportunities. Any future acquisitions may require debt or equity financing, or the issuance of shares in the transaction, any of which could increase our leverage or be dilutive to our existing stockholders. We may not be able to complete acquisitions or strategic customer transactions on terms that are acceptable, or at all. We may incur charges related to acquisitions or investments that are completed. For instance, we recorded an in-process research and development charge in the first quarter of fiscal 2003 and the second quarter of fiscal 2002 as a result of our acquisition of certain technology. We will also face challenges integrating acquired businesses and operations and assimilating and managing the personnel of the acquired operations. The difficulties of this integration may be further complicated by geographic distances. The integration of acquired businesses may not be successful and could result in disruption to other parts of our business. Acquisitions involve a number of other risks and challenges, including:

- diversion of management's attention;
- potential loss of key employees and customers of the acquired companies;
- exposure to unanticipated contingent liabilities of acquired companies; and
- use of substantial portions of our available cash to consummate the acquisition and/or operate the acquired business.

Any of these and other factors could harm our ability to realize the anticipated benefits of an acquisition.

We may also make investments in other companies, particularly private companies, such as the investment we made in Lexra, Inc. in the second quarter of fiscal 2002, where we feel these investments offer strategic opportunities. These investments tend to be inherently risky because the companies are frequently in the development stage and depend on future third party investments to finance their operations. If the companies in which we invest do not secure the requisite financing or secure it at a lower enterprise valuation than was in effect when we invested, we may be required to take an impairment charge to reduce the carrying value of our investment, such as the impairment charge of $1.4 million we recorded in the second quarter of fiscal 2003 for the total value of an investment in Lexra, Inc.

We have recorded long-lived assets, and our results of operations would be adversely affected if their value becomes impaired. In both the first and second quarters of fiscal 2003 and the second quarter of fiscal 2002, we acquired certain core and developed technologies and patent and patent applications, and the purchase price of these long-lived assets is being amortized over schedules based on their useful lives. If we complete additional acquisitions in the future, our purchased intangible assets amortization charge could increase, and we may be required to record substantial amounts of goodwill. As a result of our adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we evaluate our long-lived assets, including purchased assets, for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable from its estimated future cash flows. In the second quarter of fiscal 2003, we recorded an impairment charge of $1.2 million for purchased developed technology acquired in December 2001. In the future, if we determine that our long-lived assets are impaired, we will have to recognize additional charges for this impairment. While we do not currently expect to record additional long-lived assets impairment charges, we cannot be sure that we will not be required to do so in the future.

We may incur additional restructuring charges in the future, which could harm our results of operations. In the second quarter of fiscal 2003, we closed our Denmark design center and reorganized our sales and marketing functions, which resulted in our recording of a restructuring charge of $7.6 million in the second quarter of fiscal 2003. If, as a result of changes in rental property market conditions, we determine that the facilities restructuring accrual is insufficient, we would be required to take an additional charge, which would harm our results of operations. We cannot assure you this restructuring of our operations will be sufficient to appropriately align our operating expenses with our revenue expectations. If we have not sufficiently reduced operating expenses, we may be required to engage in additional restructuring activities, which could result in additional restructuring charges. Further, recent accounting pronouncements may affect the timing of recording any future restructuring costs as well as the amounts recorded. These restructuring charges could harm our results of operations.

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 our licensees' 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. We cannot assure you that we will retain our key officers and employees. 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 make it difficult to meet key objectives, such as timely and effective project milestones and product introductions which could adversely affect our business, results of operations and financial condition. In addition, our restructurings and the effects on our business of the ongoing economic slowdown may have an adverse effect on employee morale and creates concern among existing employees about job security and, as a result, key employees may be more likely to seek other employment opportunities.

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, 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.

ITEM 4. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Regulations under the Securities Exchange Act of 1934 require public companies to maintain “disclosure controls and procedures,” which are defined to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Our chief executive officer and our chief financial officer, based on their evaluation of the effectiveness of our disclosure controls and procedures within 90 days before the filing date of this report, concluded that our disclosure controls and procedures were effective for this purpose.

(b) Changes in Internal Controls. There were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls subsequent to the evaluation date referred to above.

(c) Limitations on the Effectiveness of Controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 30, 2003, in connection with the closure of our Denmark design center, our Swiss subsidiary, MIPS Technologies International AG, or MIPS AG, through which we conducted our operations in Denmark, terminated the employment of 55 employees. Of these, 45 employees filed claims against MIPS AG in the County Court of Ballerup Denmark. Subsequently 13, of these employees have agreed to withdraw their claims. The remaining 32 employees of MIPS AG held, on the termination date, options to purchase an aggregate of 724,830 shares of our Class A common stock, of which options to purchase 413,552 shares were vested as of the termination date and 311,278 were unvested. The exercise price of these options ranged from $2.94 to $27.16 per share. Under our stock option plans, unvested options expire upon termination of employment and vested options expire three months after the termination of employment.

The terminated employees are seeking, primarily, the right to exercise, regardless of the termination of their employment, the options they held as of the date of their termination, which options expired on or within three months of the termination date. As such, they are claiming, under alleged principles of Danish employment law, the right to exercise such options, or in the atlernate, money damages equal to the difference between the excess of the trading price of our Class A common stock shares over the exercise price of the options on whatever future date the employee designates as an effective exercise date of the option. The employees further claim that these effective rights to exercise should continue for the same period as the respective terms of the options on which they were based, that is, 10 years from the respective grant date of the underlying option.

Our Swiss subsidiary intends to defend itself vigorously in these matters.

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

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K
None

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

SIGNATURES

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

MIPS Technologies, Inc.
a Delaware corporation

By: /s/ KEVIN C. EICHLER
Kevin C. Eichler
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: May 9, 2003

FORM 10-Q CERTIFICATION

I, John E. Bourgoin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MIPS Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

By: /s/ JOHN E. BOURGOIN
John E. Bourgoin
President and Chief Executive Officer,
MIPS Technologies, Inc.

I, Kevin C. Eichler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MIPS Technologies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

By: /s/ KEVIN C. EICHLER
Kevin C. Eichler
Vice President and Chief Financial Officer,
MIPS Technologies, Inc.

DOC 2 : Header

Exhibit 99.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, John E. Bourgoin, certify, to the best of my knowledge, that based upon a review of the Quarterly Report on Form 10-Q of MIPS Technologies, Inc. for the three months ended March 31, 2003 (the "*Form 10-Q*"), the Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of MIPS Technologies, Inc. for the three month period covered by the Form 10-Q.

Date: May 9, 2003

By: /s/ JOHN E. BOURGOIN
John E. Bourgoin
President and Chief Executive Officer,
MIPS Technologies, Inc.

I, Kevin C. Eichler, certify, to the best of my knowledge, that based upon a review of the Quarterly Report on Form 10-Q of MIPS Technologies, Inc. for the three months ended March 31, 2003 (the*"Form 10-Q"*), the Form 10-Q fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of MIPS Technologies, Inc. for the three month period covered by the Form 10-Q.

Date: May 9, 2003

By: /s/ KEVIN C. EICHLER
Kevin C. Eichler
Vice President and Chief Financial Officer,
MIPS Technologies, Inc