
**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 ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED March 31, 2009

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)

Registrant's 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2009, the number of outstanding shares of the registrant's common stock, \$0.001 par value, was 45,005,733.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MIPS TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

| | <u>March 31,</u> <u>2009</u> | <u>June 30,</u> <u>2008</u> |
|---|---------------------------------|--------------------------------|
| | <u>(unaudited)</u> | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,064 | \$ 13,938 |
| Accounts receivable, net | 7,837 | 9,866 |
| Unbilled receivables | 1,564 | 4,596 |
| Short term restricted cash | 19,539 | 22,649 |
| Prepaid expenses and other current assets | 1,545 | 2,154 |
| Total current assets | 51,549 | 53,203 |
| Equipment, furniture and property, net | 11,594 | 16,307 |
| Intangible assets, net | 12,360 | 18,324 |
| Goodwill | 29,336 | 40,624 |
| Long term restricted cash | — | 7,385 |
| Other assets | 17,173 | 16,901 |
| Total assets | <u>\$ 122,012</u> | <u>\$ 152,744</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,055 | \$ 3,441 |
| Accrued liabilities | 35,746 | 51,963 |
| Short-term debt | 6,587 | 18,641 |
| Deferred revenue | 4,079 | 4,283 |
| Total current liabilities | 48,467 | 78,328 |
| Long-term liabilities: | | |
| Long-term debt | 8,750 | — |
| Other long term liabilities | 23,209 | 29,496 |
| Total long term liabilities | 31,959 | 29,496 |
| Stockholders' equity: | | |
| Common stock | 44 | 44 |
| Additional paid-in capital | 256,414 | 252,263 |
| Accumulated other comprehensive income | 10,538 | 15,224 |
| Accumulated deficit | (225,410) | (222,611) |
| Total stockholders' equity | 41,586 | 44,920 |
| Total liabilities and stockholders' equity | <u>\$ 122,012</u> | <u>\$ 152,744</u> |

See accompanying notes.

MIPS TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(In thousands, except per share data)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|------------|--------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| Royalties | \$ 10,901 | \$ 12,556 | \$ 35,686 | \$ 35,590 |
| Contract revenue | 11,805 | 14,767 | 39,635 | 40,336 |
| Total revenue | 22,706 | 27,323 | 75,321 | 75,926 |
| Cost of Contract Revenue | 4,325 | 9,407 | 17,761 | 22,110 |
| Gross Margin | 18,381 | 17,916 | 57,560 | 53,816 |
| Costs and expenses: | | | | |
| Research and development | 7,809 | 9,315 | 21,955 | 27,821 |
| Sales and marketing | 4,211 | 6,056 | 13,610 | 17,796 |
| General and administrative | 4,744 | 6,559 | 15,693 | 21,437 |
| Acquired in-process research and development | — | — | — | 6,350 |
| Restructuring | 959 | 1,279 | 6,438 | 1,279 |
| Total operating expenses | 17,723 | 23,209 | 57,696 | 74,683 |
| Operating income (loss) | 658 | (5,293) | (136) | (20,867) |
| Other expense, net | (1,142) | (762) | (3,455) | (1,488) |
| Loss before income taxes | (484) | (6,055) | (3,591) | (22,355) |
| Provision for (benefit from) income taxes | 323 | (1,798) | (792) | 1,018 |
| Net loss | \$ (807) | \$ (4,257) | \$ (2,799) | \$ (23,373) |
| Net loss per share basic and diluted | \$ (0.02) | \$ (0.10) | \$ (0.06) | \$ (0.53) |
| Common shares outstanding, basic and diluted | 44,682 | 43,992 | 44,534 | 43,887 |

See accompanying notes.

MIPS TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

| | Nine Months Ended March 31, | |
|---|--------------------------------|------------------|
| | 2009 | 2008 |
| Operating activities: | | |
| Net loss | \$ (2,799) | \$ (23,373) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 2,747 | 2,692 |
| Stock-based compensation | 3,558 | 6,142 |
| Acquired in-process research and development | — | 6,350 |
| Amortization of intangibles | 3,300 | 6,527 |
| Impact of exchange rate on restricted cash | 1,385 | (1,957) |
| Amortization of loan fees | 96 | 1,480 |
| Other non-cash charges | 215 | 1,015 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,756 | 4,216 |
| Prepaid expenses and other current assets | 328 | 1,138 |
| Other assets | 522 | 769 |
| Accounts payable | (1,049) | 317 |
| Accrued liabilities | 2,457 | (6,270) |
| Deferred revenue | 619 | (307) |
| Long-term liabilities | (4,494) | 664 |
| Net cash provided by (used in) operating activities | <u>10,641</u> | <u>(597)</u> |
| Proceeds from sales of marketable investments | — | 25,940 |
| Capital expenditures | (884) | (2,053) |
| Acquisition of Chipidea, net of cash acquired | — | (120,944) |
| Restricted cash | — | (27,163) |
| Net cash used in investing activities | <u>(884)</u> | <u>(124,220)</u> |
| Net proceeds from issuance of common stock | 846 | 2,360 |
| Proceeds from debt, net | 16,236 | 19,222 |
| Repayments of debt | (19,278) | (1,021) |
| Borrowings under capital lease obligations | — | 546 |
| Repayments of capital lease obligations | (422) | (115) |
| Net cash provided by (used in) financing activities | <u>(2,618)</u> | <u>20,992</u> |
| Effect of exchange rate on cash | <u>(13)</u> | <u>(34)</u> |
| Net increase (decrease) in cash and cash equivalents | 7,126 | (103,859) |
| Cash and cash equivalents, beginning of period | <u>13,938</u> | <u>119,039</u> |
| Cash and cash equivalents, end of period | <u>\$ 21,064</u> | <u>\$ 15,180</u> |
| Supplemental disclosures of cash transaction: | | |
| Payment of restricted cash by escrow agent to former shareholders of Chipidea | \$ 9,175 | \$ — |

See accompanying notes.

MIPS TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED

Note 1. Description of Business and Basis of Presentation.

MIPS Technologies, Inc. is a leading global supplier of semiconductor design intellectual property (IP) and analog IP. We believe MIPS Technologies is the only company that provides a combined portfolio of processors, analog IP and software tools for the system on chip, or SoC market. We operate with two business groups, Processor Business Group (PBG) and Analog Business Group (ABG). Our technology is broadly used in markets such as mobile consumer electronics, digital entertainment, wired and wireless communications and networking, office automation, security, microcontrollers, and automotive. We offer our customers high-performance, easy-to-use functionality at a fraction of the cost and time to market that internal development would require. Our PBG customers pay us license fees for architectural and product rights, as well as royalties based on processor unit shipments.

The addition of Chipidea in August 2007, now operating as the ABG of MIPS Technologies, has allowed us to grow the base of products we offer to a larger set of customers. Analog and mixed signal IP are used in most SoCs. These are the same integrated circuits that usually require a microprocessor core, permitting us to sell both kinds of products to the same customers for the same applications in many circumstances. Analog and mixed signal IP are difficult to develop, and the number of well-trained engineers in this field is much smaller than for digital circuitry. With the acquisition of Chipidea, we have gained a particularly strong team of such designers for the development and sale of commercial analog IP.

Basis of Presentation.

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, 2008 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, 2008, included in our 2008 Annual Report on Form 10-K.

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 adjustments) necessary to present fairly the financial position, results of operations and cash flows for each interim period shown.

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.

Accounts Receivable. Accounts receivable includes amounts billed and currently due from customers, net of the allowance for doubtful accounts. The allowance for doubtful accounts was \$1.4 million and \$2.3 million at March 31, 2009 and June 30, 2008, respectively.

Reclassifications. Certain balances in our fiscal 2008 consolidated financial statements have been reclassified to conform to the presentation in fiscal 2009.

Note 2. Computation of Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares that were outstanding during the period. Diluted earnings per share is computed giving effect to all dilutive potential common shares that were outstanding for any periods presented in these financial statements.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|-------------|--|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| Net loss | \$ (807) | \$ (4,257) | \$ (2,799) | \$ (23,373) |
| Denominator: | | | | |
| Weighted-average shares of common stock outstanding | 44,682 | 44,017 | 44,534 | 43,914 |
| Less: Weighted-average shares subject to repurchase | — | (25) | — | (27) |
| Shares used in computing net loss per basic share | 44,682 | 43,992 | 44,534 | 43,887 |
| Net loss per basic share | \$ (0.02) | \$ (0.10) | \$ (0.06) | \$ (0.53) |
| Shares used in computing loss per diluted share | 44,682 | 43,992 | 44,534 | 43,887 |
| Net loss per diluted share | \$ (0.02) | \$ (0.10) | \$ (0.06) | \$ (0.53) |
| Potentially dilutive securities excluded from net loss per diluted share ^(A) | 12,260 | 13,764 | 18,795 | 10,812 |

(A) For the three months ended March 31, 2009 and 2008 and the nine months ended March 31, 2009 and 2008, potentially dilutive securities were excluded from net loss per share because they are anti-dilutive.

Note 3. Comprehensive Income (loss)

Total comprehensive loss includes net loss and other comprehensive income, which primarily comprises unrealized gains and losses from foreign currency adjustments. Total comprehensive loss for the third quarter of fiscal 2009 was \$2.0 million and for first nine months of fiscal 2009 was \$7.5 million compared to total comprehensive loss of \$3.6 million and \$8.9 million for the comparable periods in the prior year.

Note 4. Acquisition and Goodwill*Chipidea Acquisition*

On August 27, 2007, we completed the acquisition of Chipidea, a privately held supplier of analog and mixed signal IP based in Lisbon, Portugal. We acquired all of the outstanding stock of Chipidea for \$147 million in cash, of which \$14.7 million is held in escrow to satisfy indemnification claims that may arise.

In connection with the acquisition, \$12.5 million of consideration was set aside in an escrow account denominated in Euro (remaining amount approximates \$4.2 million at March 31, 2009). Under the terms of the escrow agreement, payments are due 12 months and 24 months from the acquisition date based on the shareholders continuing to provide services to us under the terms of the escrow agreements. We paid \$6.9 million to the former shareholders on the first anniversary of the acquisition in August 2008. In addition, we paid one former shareholder an additional \$2.3 million in September 2008 as his services were terminated from the company in September 2008. The remaining balance is due to the other former shareholders of Chipidea on the second anniversary of the acquisition under the terms of the escrow agreements. The consideration payable to former shareholders has been ratably expensed in the Statement of Operations as payments are contingent upon continued provision of services to us. The unpaid consideration has been recorded as deferred purchase price consideration liability. A restricted cash account has been established for the funding of this payment and is recorded in short term restricted cash.

Contingent Consideration. In connection with the acquisition, Chipidea made certain representations and warranties to us, and Chipidea's former shareholders agreed to indemnify us against damages which might arise from a breach of those representations and warranties. Under the terms of the acquisition, the former Chipidea shareholders set aside \$14.7 million of cash consideration for payment of possible indemnification claims made by us. Accordingly, a liability for this contingent cash consideration has been recorded in accrued liabilities and this amount has been considered in the purchase price. Under the terms of the acquisition, this amount has been set aside in an escrow account and was scheduled to be released on the one year anniversary of the acquisition date. In August 2008, we made certain claims under the indemnification escrow agreement. A restricted cash account has been established for the funding of this payment and is recorded in short term restricted cash. In August 2008, we made certain claims for indemnification from the escrow account, and as discussed in Note 17, in April 2009 we entered into a settlement agreement for our retention of \$1.0 million in cash from this account at which time we agreed to release the remaining balance of the escrow account to Chipidea's former shareholders.

The changes in the carrying amount of goodwill by operating segment for the nine months ended March 31, 2009, were as follows:

| | Processor Business Group | Analog Business Group | Total |
|---------------------------------|---|----------------------------------|--------------|
| | | (In thousands) | |
| Balances at June 30, 2008 | \$ 565 | \$ 40,059 | 40,624 |
| Goodwill adjustments (1) | — | (5,215) | (5,215) |
| Currency translation adjustment | — | (6,073) | (6,073) |
| Balances at March 31, 2009 | 565 | 28,771 | 29,336 |

- (1) Adjustments to goodwill primarily represent changes in assumed pre-acquisition income tax liabilities accounted for under FIN 48. To the extent that actual amounts differ from the estimated amounts recorded, the differences may result in future adjustments to goodwill.

Note 5. Purchased Intangible Assets

The balances of acquisition related intangible assets consisted of the following as of March 31, 2009:

| March 31, 2009 | | | | |
|------------------------------------|---|---------------------------------|-------------------------------------|---------------------------|
| | Weighted Average Amortization Period (in months) | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| (In thousands, except months) | | | | |
| Developed and core technology | 70 | \$ 14,229 | \$ (8,694) | \$ 5,535 |
| Customer relationships and backlog | 56 | 12,386 | (6,323) | 6,063 |
| Other | 63 | 1,452 | (690) | 762 |
| Total | 65 | \$ 28,067 | \$ (15,707) | \$ 12,360 |

The balances of acquisition related intangible assets consisted of the following as of June 30, 2008:

| June 30, 2008 | | | | | |
|------------------------------------|---|-------------------------------------|-------------------------------------|------------------------------|-----------------------------------|
| | Weighted Average Amortization Period (in months) | Gross Carrying Value | Accumulated Amortization | Impairment Losses | Net Carrying Value |
| (In thousands, except months) | | | | | |
| Developed and core technology | 70 | \$ 28,116 | \$ (7,997) | \$ (12,164) | \$ 7,955 |
| Customer relationships and backlog | 56 | 15,286 | (5,351) | (692) | 9,243 |
| Other | 63 | 3,041 | (579) | (1,336) | 1,126 |
| Total | 65 | \$ 46,443 | \$ (13,927) | \$ (14,192) | \$ 18,324 |

Developed and core technology are being amortized over their useful lives of 5 to 15 years. Customer relationships and backlog are being amortized over their useful lives of 1 to 7 years. Other intangible assets are being amortized over their useful lives of 3 to 5 years.

Estimated future amortization expense related to acquisition related intangible assets as of March 31, 2009 is as follows:

| | In thousands |
|----------------|---------------------|
| Fiscal Year | |
| Remaining 2009 | \$ 890 |
| 2010 | 3,561 |
| 2011 | 3,105 |
| 2012 | 2,669 |
| 2013 | 860 |
| Thereafter | 1,275 |
| Total | \$ 12,360 |

Note 6. Debt

The components of debt are as follows (in thousands):

| | <u>March 31, 2009</u> | <u>June 30, 2008</u> |
|--|-----------------------|----------------------|
| Credit agreement | \$ 12,500 | \$ 16,000 |
| Bank lines of credit | 2,713 | 2,476 |
| Other | 124 | 165 |
| Total Debt | 15,337 | 18,641 |
| Less: current portion | (6,587) | (18,641) |
| Long term debt, net of current portion | <u>\$ 8,750</u> | <u>\$ —</u> |

Credit Agreement

On July 3, 2008, we entered into a loan and security agreement with Silicon Valley Bank (“SVB”). The loan and security agreement provides for a \$15 million term loan and a revolving credit facility in an amount up to \$10 million. The proceeds borrowed on July 3, 2008, which included the full amount of the \$15 million term loan, together with approximately \$1.2 million of borrowings under the revolving credit facility, were used to repay all outstanding loans under our existing revolving credit agreement with Jeffries Finance LLC. The borrowing availability under the revolving credit facility varies according to MIPS’ accounts receivable and recurring royalty revenues and other terms and conditions described in the loan and security agreement. The revolving credit facility is also available for the issuance of letters of credit, cash management services and foreign exchange contracts. The revolving credit facility will mature on July 2, 2009, while the term loan is to be repaid in 48 equal monthly payments of principal plus accrued interest. In December 2008, we amended our credit facility agreement with SVB, providing us more flexibility to fund the international operations of our subsidiaries. As of March 31, 2009, outstanding balances under these facilities were \$12.5 million for the term loan and \$1.2 million for the revolving credit facility. We borrowed the full amount available under the \$15 million term loan facility and paid off approximately \$2.5 million in the nine months ended March 31, 2009. We had \$8.8 million available to borrow under the revolving credit line at March 31, 2009. Loans under this facility are secured by virtually all of our assets with the exception of IP, and the facility contains affirmative and negative covenants that impose restrictions on the operation of our business. At the Company’s election, borrowings under the facility bear interest at prime rate plus 0.50% and borrowings under the revolving credit agreement bear interest at prime plus 0.25% as defined in the credit facility agreement. The prime rate at March 31, 2009 was 3.25%.

Bank Lines of Credit

We have bank line of credit agreements with several Portuguese banks with a total aggregate available credit of approximately \$1.5 million as of March 31, 2009. The interest rates on these agreements range from 3.89% to 4.35% and the agreements have expiration dates ranging from May 21, 2009 to July 9, 2009, with automatic renewal provisions for additional 90-day periods for the credit lines other than a credit line in the amount of 0.2 million Euros that expires in May 2009. As of March 31, 2009, we have outstanding borrowings of \$1.5 million and no credit line available under these agreements.

Other

We have a non-interest bearing loan with a Portuguese governmental agency. The short-term portion of this loan is approximately \$0.1 million at March 31, 2009.

As of March 31, 2009, we have entered into letters of credit for approximately \$1.4 million with various financial institutions in Portugal, Belgium and France in association with certain building leases and government grants.

Note 7. Restructuring

We record restructuring activities in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146) and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144).

In August 2008 we announced a plan to reduce the Company's operating costs by a reduction in employee headcount in the Company's facilities in United States, Israel, Portugal and closing our facilities in Belgium and France. In the third quarter of fiscal 2009, approximately \$0.6 million of severance and benefits costs were recorded as restructuring expense for ABG in connection with this restructuring plan. These costs primarily related to ABG costs of \$0.5 million of severance costs and \$0.1 million of facilities closure and other costs. We have incurred approximately \$6.0 million in restructuring charges through the third quarter of fiscal 2009 in connection with the August restructuring plan of which \$5.7 million related to ABG and \$0.3 million related to PBG. The August restructuring plan has now been substantially completed. In addition to the August 2008 restructuring plan charges, we also incurred \$0.4 million in PBG restructuring charges in severance costs in the third quarter of fiscal 2009 in connection with certain executive departures.

The following table provides a summary of the restructuring activities and related liabilities included in accrued liabilities as of March 31, 2009:

| | Severance and related benefits | Other exit- related costs | Total |
|-------------------------------------|---|--------------------------------------|--------------|
| | | (in thousands) | |
| Balance at June 30, 2008 | \$ — | \$ 236 | \$ 236 |
| Current changes | 4,699 | 232 | 4,931 |
| Cash payments | (3,348) | (170) | (3,518) |
| Amount included in accounts payable | — | (5) | (5) |
| Impact of foreign currency | (24) | (21) | (45) |
| Non-cash charges | — | (84) | (84) |
| Balance at September 30, 2008 | 1,327 | 188 | 1,515 |
| Current changes | 274 | 274 | 548 |
| Cash payments | (557) | (90) | (647) |
| Amount included in accounts payable | — | (78) | (78) |
| Impact of foreign currency | (23) | 8 | (15) |
| Non-cash charges | — | (37) | (37) |
| Balance at December 31, 2008 | 1,021 | 265 | 1,286 |
| Current changes | 878 | 81 | 959 |
| Cash payments | (948) | (106) | (1,054) |
| Amount included in accounts payable | (35) | (5) | (40) |
| Impact of foreign currency | (50) | (11) | (61) |
| Non-cash charges | — | (20) | (20) |
| Balance at March 31, 2009 | \$ 866 | \$ 204 | \$ 1,070 |

Note 8. Other Income (Expense), Net

The components of other income (expense), net are as follows (in thousands):

| | Three months ended March 31, | | Nine months ended March 31, | |
|--------------------------|-------------------------------------|-----------------|------------------------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest income | \$ 31 | \$ 89 | \$ 147 | \$ 1,266 |
| Interest expense | (600) | (585) | (1,429) | (1,417) |
| Other | (573) | (266) | (2,173) | (1,337) |
| Total other expense, net | <u>\$ (1,142)</u> | <u>\$ (762)</u> | <u>\$ (3,455)</u> | <u>\$ (1,488)</u> |

Note 9. Equipment, Furniture and Property

The components of equipment, furniture and property are as follows (in thousands):

| | March 31, 2009 | June 30, 2008 |
|--|-----------------------|----------------------|
| Equipment | \$ 13,879 | \$ 16,363 |
| Land and buildings | 7,292 | 8,661 |
| Furniture and fixtures | 3,543 | 3,913 |
| Leasehold improvements | 805 | 812 |
| | <u>25,519</u> | <u>29,749</u> |
| Accumulated depreciation and amortization | <u>(13,925)</u> | <u>(13,442)</u> |
| Total Equipment, furniture and property, net | <u>\$ 11,594</u> | <u>\$ 16,307</u> |

Note 10. Other Long-Term Assets

The components of other long-term assets are as follows (in thousands):

| | March 31, 2009 | June 30, 2008 |
|--|-----------------------|----------------------|
| Investments in other companies | \$ 2,144 | \$ 2,157 |
| Engineering design software licenses | 13,366 | 11,458 |
| Investments related to employee deferred compensation plan | 1,374 | 2,070 |
| Other long-term assets | 289 | 1,216 |
| Total Other Long-Term Assets | \$ 17,173 | \$ 16,901 |

Note 11. Accrued and Other Long-Term Liabilities

The components of accrued liabilities are as follows (in thousands):

| | March 31, 2009 | June 30, 2008 |
|---|-----------------------|----------------------|
| Accrued compensation and employee-related expenses | \$ 6,388 | \$ 6,457 |
| Income taxes payable | 749 | (48) |
| Payable to Chipidea shareholders | 15,356 | 15,212 |
| Capital lease obligations, short term | 978 | 8,044 |
| Deferred purchase price consideration | 2,316 | 6,123 |
| Liabilities related to engineering design software licenses | 4,643 | 5,212 |
| Restructuring related liabilities | 628 | — |
| Short-term deferred tax liability | 61 | — |
| Other accrued liabilities | 4,627 | 10,963 |
| Total Accrued Liabilities | \$ 35,746 | \$ 51,963 |

The components of other long-term liabilities are as follows (in thousands):

| | March 31, 2009 | June 30, 2008 |
|---|-----------------------|----------------------|
| Deferred compensation | \$ 1,506 | \$ 2,530 |
| Long-term restructuring related liabilities | 442 | — |
| Long-term deferred tax liability | 3,511 | 7,548 |
| Long-term income tax liability | 3,888 | 11,758 |
| Long-term liabilities related to engineering design software licenses | 5,646 | 4,056 |
| Long-term lease obligation | 6,086 | 817 |
| Other long-term liabilities | 2,130 | 2,787 |
| Total Other long term liabilities | \$ 23,209 | \$ 29,496 |

Note 12. Commitments and Contingencies

Purchase Commitments with Suppliers

We have outstanding purchase orders for ongoing operations of approximately \$11.3 million as of March 31, 2009. Payments of these obligations are subject to the provision of services or products.

On February 27, 2009, the Company entered into a new operating lease for the headquarter for a period of seven years commencing May 29, 2009, with an option to renew for additional five years. At March 31, 2009, the Company's future minimum payments for operating lease obligations are as follows:

| | In thousands |
|----------------|---------------------|
| Fiscal Year | |
| Remaining 2009 | \$ 534 |
| 2010 | 1,340 |
| 2011 | 1,418 |
| 2012 | 1,306 |
| 2013 | 1,016 |
| Thereafter | 2,216 |
| Total | <u>\$ 7,830</u> |

Litigation

From time to time, we receive communications from third parties asserting patent or other rights allegedly covering our products and technologies. Based upon our evaluation, we may take no action or we may seek to obtain a license, redesign an accused product or technology, initiate a formal proceeding with the appropriate agency (e.g., the U.S. Patent and Trademark Office) and/or initiate litigation. There can be no assurance in any given case that a license will be available on terms we consider reasonable or that litigation can be avoided if we desire to do so. If litigation does ensue, the adverse third party will likely seek damages (potentially including treble damages) and may seek an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted, which could result in our having to stop the sale of some of our products or to increase the costs of selling some of our products. Such lawsuits could also damage our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the sale of some or all of our products, could have a material adverse affect on us. Even if we were to initiate litigation, such action could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to our intellectual property rights or the intellectual property rights of others can always be avoided or successfully concluded.

Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could have a material adverse effect on us.

Note 13. Stock-Based Compensation

The following table shows total stock-based employee compensation expense included in the condensed consolidated statement of operations for the three months ended March 31, 2009 and 2008 and nine months ended March 31, 2009 and 2008 (in thousands):

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|-------------------------------------|-------------|------------------------------------|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Costs and expenses: | | | | |
| Research and development | \$ 437 | \$ 604 | 1,102 | 2,262 |
| Sales and marketing | 281 | 577 | 1,112 | 1,875 |
| General and administrative | 367 | 618 | 1,344 | 2,135 |
| Total stock-based compensation expense | \$ 1,085 | \$ 1,799 | 3,558 | 6,272 |

There was no capitalized stock-based employee compensation cost as of March 31, 2009 or 2008. There were no material recognized tax benefits during the first six months of either fiscal 2009 or fiscal 2008.

Note 14. Income Taxes

We recorded an income tax expense of \$0.3 million for the three months ended March 31, 2009 and a benefit of \$0.8 million for the nine months ended March 31, 2009. We recorded an income tax benefit of \$1.8 million and an expense of \$1.0 million for the comparable periods in fiscal 2008. For the Processor Business Group, we continued to recognize a valuation allowance against the U.S. deferred tax assets as we believe that it is more likely than not that the deferred tax assets will not be recognized.

Our estimated annual income tax for fiscal 2009 primarily consists of tax benefits from the loss generated by the Analog Business Group and releases of unrecognized tax benefits that are no longer applicable, partially offset by US deferred tax from goodwill amortization, foreign tax, and withholding tax. Our estimated annual income tax for fiscal 2008 primarily consists of US federal, state, foreign income taxes, withholding taxes, offset in part by certain foreign tax credits and general business tax credits.

The total amount of gross unrecognized tax benefits as of March 31, 2009 and June 30, 2008 was approximately \$7.9 and \$13.8 million, respectively. The decrease was primarily due to the release of unrecognized tax benefits related to international tax exposures that are no longer applicable. Approximately \$5.3 million of acquisition related unrecognized tax benefits were released to goodwill and approximately \$1.3 million of unrecognized tax benefits were released to the income tax provision as a benefit for the nine months ended March 31, 2009.

We accrue interest and penalties related to uncertain tax positions as a component of the provision for income taxes. Accrued interest and penalties relating to income tax on the unrecognized tax benefits as of March 31, 2009 and June 30, 2008 was approximately, \$0.9 million and \$1.5 million, respectively, with approximately \$21,000 and \$96,000 being included as a component of provision for income taxes for the three and nine months ended March 31, 2009. Also, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$1.7 million as of March 31, 2009 and \$3.0 million as of June 30, 2008.

Although we file U.S. federal, U.S. state, and tax returns in several overseas tax jurisdictions, our major tax jurisdictions are the United States and Portugal. Our fiscal 2005 and subsequent tax years remain subject to examination by the IRS for U.S. federal tax purposes, and our calendar 2005 and subsequent tax years remain subject to examination by the appropriate governmental agencies for Portuguese tax purposes. The Company has determined that it is reasonably possible that the total amount of uncertain tax benefits relating to certain foreign tax liabilities will change in the next 12 months due to various statute of limitations expiring. The amount of unrecognized tax benefits that could change is approximately \$0.5 million.

Note 15. Operating Segments and Geographic information

We evaluate our reportable segments in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). Our Chief Executive Officer has been identified as our Chief Operating Decision Maker (CODM). The CODM allocates resources to the segments based on their business prospects, competitive factors, net revenue and operating results.

Prior to fiscal year 2008, we operated in one reportable business group. In the first quarter of fiscal 2008, following the acquisition of Chipidea, we organized into two business groups, the Processor Business Group (PBG) and the Analog Business Group (ABG). These segments were determined based upon our internal organization and management structure and are the primary way in which the CODM is provided with financial information. The CODM evaluates segment performance based on net revenues and operating income, excluding certain items. These excluded costs are certain corporate expenses such as impairment costs related to intangible assets, general and administrative expenses, selling costs, IT costs, certain corporate marketing costs, the amortization of purchased intangible assets associated with the Chipidea acquisition, employee share-based compensation expense, certain acquisition costs related to the purchase of Chipidea and restructuring costs. Our costs and operating results are analyzed in the two reportable business groups. The results of each segment have been prepared using consistent accounting policies with those of MIPS as a whole. Segment information is presented based upon our management's organizational structure as of March 31, 2009. Future changes to the internal financial structure may result in changes to the reportable segments disclosed.

The major segments we serve are as follows:

- (i) Processor Business Group:

The PBG provides industry-standard processor architectures and cores for digital consumer and business applications. This group designs and licenses high performance 32- and 64-bit architectures and cores, which offer smaller dimensions and greater energy efficiency in embedded processors. Markets served by the PBG segment include digital set-top, digital televisions, DVD recordable devices, broadband access devices, digital cameras, laser printers, portable media players, microcontrollers and network routers.

(ii) Analog Business Group:

The ABG includes the Chipidea operation and provides analog and mixed-signal IP that produces cost-efficient System-on-Chip (SoC) applications and turnkey solutions. The ABG IP portfolio covers many fundamental functions in the analog and mixed-signal electronic space, including data conversion, clock management, power management, radio connectivity, physical connectivity, and voice audio and video processing. The market segments served by the ABG segment are wireless communications, power line communications, data communications, video, audio and voice signal processing, xDSL modems, set-top boxes, multimedia and digital consumer electronics.

The following is a summary of net revenue, gross margin and operating income (loss). Prior period segment information has been reclassified to conform to the current period presentation (in thousands):

| | Three Months Ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2009 | 2008 |
| Processor Business Group | | |
| Net revenue | \$ 17,663 | \$ 18,110 |
| Gross margin | 17,401 | 17,666 |
| Operating income | 11,230 | 9,846 |
| Analog Business Group | | |
| Net revenue | 5,043 | 9,213 |
| Gross margin | 1,765 | 2,555 |
| Operating income | 347 | 1,588 |
| All Other | | |
| Net revenue | — | — |
| Gross margin | (785) | (2,305) |
| Operating loss | (10,919) | (16,727) |
| Total | | |
| Net revenue | 22,706 | 27,323 |
| Gross margin | 18,381 | 17,916 |
| Operating income (loss) | 658 | (5,293) |
| Interest income | 31 | 89 |
| Interest expense | (600) | (585) |
| Other expense, net | (573) | (266) |
| Loss before income taxes | (484) | (6,055) |
| Provision for (benefit from) income taxes | 323 | (1,798) |
| Net loss | \$ (807) | \$ (4,257) |

| | Nine months ended | |
|---|-------------------|-------------|
| | March 31, | |
| | 2009 | 2008 |
| Processor Business Group | | |
| Net revenue | \$ 57,578 | \$ 54,665 |
| Gross margin | 56,706 | 53,373 |
| Operating income | 38,281 | 29,231 |
| Analog Business Group | | |
| Net revenue | 17,743 | 21,261 |
| Gross margin | 3,879 | 5,775 |
| Operating loss | 505 | 2,949 |
| All Other | | |
| Net revenue | — | — |
| Gross margin | (3,025) | (5,332) |
| Operating loss | (38,922) | (53,047) |
| Total | | |
| Net revenue | 75,321 | 75,926 |
| Gross margin | 57,560 | 53,816 |
| Operating loss | (136) | (20,867) |
| Interest income | 147 | 1,266 |
| Interest expense | (1,429) | (1,417) |
| Other expense, net | (2,173) | (1,337) |
| Loss before income taxes | (3,591) | (22,355) |
| Provision for (benefit from) income taxes | (792) | 1,018 |
| Net loss | \$ (2,799) | \$ (23,373) |

Management does not allocate long-lived assets to the corporate function when evaluating the performance of the business groups.

Note 16. Recent Accounting Pronouncements

In April 2008, the FASB finalized Staff Position ("FSP") No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). The position amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB SFAS 142, *Goodwill and Other Intangible Assets*. The position applies to intangible assets that are acquired individually or with a group of other assets and both intangible assets acquired in business combinations and asset acquisitions. FSP 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact of the pending adoption of FSP 142-3 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the impact that SFAS 141R will have on our financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosure, about fair value measurements. SFAS 157 is effective for fiscal year ending June 30, 2009. Adoption of this standard did not have material impact to us. Cash and cash equivalents comprised of money market funds.

Note 17. Subsequent Event

On April 28, 2009, we entered into a settlement agreement in connection with the indemnification escrow agreement relating to our purchase of Chipidea. On April 30, 2009, in connection with this settlement, we received \$1.0 million in consideration for our release of all claims under the terms of the Chipidea acquisition. The balance of the escrow account was released with this settlement agreement. As discussed in Note 4, a restricted cash account was established for the funding of the escrow agreement in connection with the acquisition.

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. Forward-looking statements within this Quarterly Report on Form 10-Q include our expectations for future levels of operating expenses as well as other expenses and 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 "Risk Factors", and other risks affecting our business. We undertake no obligation to update any forward-looking statements included in this discussion.

Overview

In the third quarter of fiscal 2009 we made a determination with regard to the ABG to either improve the financial performance or investigate the potential divestiture of the unit, and progress has been made on both of those strategic alternatives. The Company replaced the Vice President of the ABG in January 2009 and subsequently the underlying financial performance, specifically bookings, has improved. In addition the Company has had discussions with third parties about the possible sale of the business unit. While no definitive sale agreement has been reached, the possibility of a divestiture remains.

We ended our third quarter of fiscal 2009 with cash and investments of \$21.1 million, up approximately \$0.5 million from the prior quarter and up approximately \$7.1 million from June 30, 2008. Our aggregate loan balance outstanding as of March 31, 2009 was \$15.3 million which includes \$1.6 million of debt associated with our Analog Business unit in Portugal and the balance due under our credit facility in the United States through Silicon Valley Bank.

Our third quarter results were impacted by the slowdown in the worldwide economy. Total revenue of \$22.7 million in the third quarter of fiscal 2009 was lower than the \$26.4 million reported in the prior quarter and down from the \$27.3 million reported in the same quarter a year ago. Total third quarter revenue from the PBG was \$17.7 million and revenue from the ABG was \$5.0 million. Our fourth quarter results may continue to be impacted by the slowdown in the worldwide economy. We expect our fourth quarter royalty revenue may decline from our third quarter results by 10% to 20%. However, based on the relatively positive future guidance provided by many of our publically traded licensees we believe our fourth quarter license revenue could be relatively flat with our third quarter revenue. There is still significant macroeconomic uncertainty that could impact the achievement of our fourth quarter revenue totals.

Royalty revenue in the third quarter of fiscal 2009 was \$10.9 million, a decrease of 16% from the \$13.0 million reported in the prior quarter and a decrease of 13% from the \$12.6 million reported in the same quarter a year ago. Our processor licensees reported shipments of 107 million units during our third quarter of fiscal 2009, approximately 15% lower than the 126 million units shipped in the prior quarter and a decrease of approximately 7% compared with the 115 million units shipped in third quarter of fiscal 2008. As royalties reported by our customers are one quarter in arrears, shipments and revenue reported in our third quarter represented our customer shipments from the quarter ended December 31, 2008.

Contract and license revenue in the third quarter of fiscal 2009 was \$11.8 million, a decrease of 12% from the \$13.4 million reported in the prior quarter and 20% lower than the \$14.8 million reported in the same quarter a year ago. License revenue from the processor business was \$7.0 million with 8 new license agreements signed during the quarter. Contract and License revenue from the analog business was \$5.0 million generated from existing contracts along with a portion of the 19 new license agreements signed during the quarter.

Our third quarter gross margin of \$18.4 million decreased \$2.2 million or 11% compared to second quarter results primarily as a result of lower royalty revenues. However, our blended gross margin for the third quarter was 81% which is up from 78% in the second quarter of fiscal 2009 and 65% in the fourth quarter of fiscal 2008.

Our operating expense in the third quarter of fiscal 2009 was \$17.7 million, including a restructuring charge of \$1.0 million as compared to our operating expense in the second quarter of fiscal 2009 which was \$15.7 million including a restructuring charge of \$0.5 million. Our operating expense in the second quarter of fiscal 2009 benefitted from approximately \$0.5 million of cost savings due to refunds or updated estimates of expenses. In addition, ABG engineers spent more time on roadmap projects in the third quarter of 2009 as compared to prior quarters, leading to higher development costs in the third quarter and lower cost of sales. Included in our operating expenses in the third quarter of fiscal 2009 were approximately \$1.1 million in stock based compensation expense and \$0.9 million in deferred purchase price consideration due to former shareholders of Chipidea.

Our initial estimated range of restructuring expense relating to the August 2008 corporate restructuring plan as reported in our 2008 Annual Report on Form 10-K was \$6.5 million to \$7.5 million. We have incurred approximately \$6.0 million in restructuring charges through the third quarter in connection with the August 2008 plan and are substantially complete with those activities. Actual costs were lower than estimated costs primarily due to the weakening of the euro relative to the dollar and to the related impact on severance and contract termination costs in our European operations. In addition to the \$6.0 million of restructuring charges we incurred with the August 2008 plan, we also incurred \$0.4 million in restructuring charges in the third quarter of 2009 in connection with certain executive departures.

Our Operating Segments

We operate with two business groups, the Processor Business Group (PBG) and the Analog Business Group (ABG). These segments were determined based upon our internal organization and management structure and are the primary way in which the CODM is provided with financial information.

The major segments we serve are as follows:

(i) Processor Business Group:

The PBG provides industry-standard processor architectures and cores for digital consumer and business applications. This group designs and licenses high performance 32- and 64-bit architectures and cores, which offer smaller dimensions and greater energy efficiency in embedded processors. Markets served by the PBG segment include digital set-top boxes, digital televisions, DVD recordable devices, broadband access devices, digital cameras, laser printers, portable media players, microcontrollers and network routers.

(ii) Analog Business Group:

The ABG includes the Chipidea operation and provides analog and mixed-signal IP that produces cost-efficient System-on-Chip (SoC) applications and turnkey solutions. The ABG IP portfolio covers all fundamental functions in the analog and mixed-signal electronic space, including data conversion, clock management, power management, radio connectivity, physical connectivity, and voice audio and video processing. Market segments served by the ABG segment are wireless communications, power line communications, data communications, video, audio and voice signal processing, xDSL modems, set-top boxes, multimedia and digital consumer electronics.

Our reportable segments are the same as our operating segments. The following tables provide a summary of our net revenue and operating loss by segment (in thousands):

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2009 | 2008 |
| Processor Business Group | | |
| Net revenue | \$ 17,663 | \$ 18,110 |
| Gross margin | 17,401 | 17,666 |
| Operating income | 11,230 | 9,846 |
| Analog Business Group | | |
| Net revenue | 5,043 | 9,213 |
| Gross margin | 1,765 | 2,555 |
| Operating income | 347 | 1,588 |
| All Other | | |
| Net revenue | — | — |
| Gross margin | (785) | (2,305) |
| Operating loss | (10,919) | (16,727) |
| Total | | |
| Net revenue | 22,706 | 27,323 |
| Gross margin | 18,381 | 17,916 |
| Operating income (loss) | 658 | (5,293) |
| Interest income | 31 | 89 |
| Interest expense | (600) | (585) |
| Other expense, net | (573) | (266) |
| Loss before income taxes | (484) | (6,055) |
| Provision for (benefit from) income taxes | 323 | (1,798) |
| Net loss | \$ (807) | \$ (4,257) |

| | Nine months ended March 31, | |
|---|--------------------------------|-------------|
| | 2009 | 2008 |
| Processor Business Group | | |
| Net revenue | \$ 57,578 | \$ 54,665 |
| Gross margin | 56,706 | 53,373 |
| Operating income | 38,281 | 29,231 |
| Analog Business Group | | |
| Net revenue | 17,743 | 21,261 |
| Gross margin | 3,879 | 5,775 |
| Operating loss | 505 | 2,949 |
| All Other | | |
| Net revenue | — | — |
| Gross margin | (3,025) | (5,332) |
| Operating loss | (38,922) | (53,047) |
| Total | | |
| Net revenue | 75,321 | 75,926 |
| Gross margin | 57,560 | 53,816 |
| Operating loss | (136) | (20,867) |
| Interest income | 147 | 1,266 |
| Interest expense | (1,429) | (1,417) |
| Other expense, net | (2,173) | (1,337) |
| Loss before income taxes | (3,591) | (22,355) |
| Provision for (benefit from) income taxes | (792) | 1,018 |
| Net loss | \$ (2,799) | \$ (23,373) |

PBG

PBG net revenue of \$17.7 million in the third quarter of fiscal 2009 decreased by 3 percent compared to net revenue of \$18.1 million in the third quarter of fiscal 2008. Net revenue decreased primarily as a result of a \$1.6 million decrease in royalty revenue partially offset by an increase of contract revenue of \$1.2 million. PBG net revenue of \$57.6 million for the nine months ended March 31, 2009 increased by 5% compared to net revenue of \$54.7 million for the nine months ended March 31, 2008 as a result of a \$2.9 million increase in contract revenue.

PBG gross margin of \$17.4 million in the third quarter of fiscal 2009 decreased by 2 percent compared to gross margin of \$17.7 million in the second quarter of fiscal 2008. PBG gross margin of \$56.7 million for the nine months ended March 31, 2009 increased by 6 percent compared to gross margin of \$53.4 million for the comparable period a year ago. Since PBG cost of sales are historically an insignificant percentage of revenue totals, changes in gross margin totals were primarily due to changes in revenue.

PBG operating income of \$11.2 million in the third quarter of fiscal 2009 increased by 14 percent compared to operating income of \$9.8 million in the third quarter of fiscal 2008. Operating income increased as a result of the decrease in PBG operating expenses for the quarter ended March 31, 2009 as compared to the same period of the prior year. PBG operating income of \$38.3 million for the nine months ended March 31, 2009 increased by 30 percent compared to operating income of \$29.2 million for the comparable period a year ago. Operating income increased primarily as a result of the increases in PBG revenue coupled with decreases in PBG operating expenses during fiscal year 2009. The decrease in PBG operating expenses is primarily due to reduced headcount from the restructuring efforts and a reduction in outside services and consulting expenses.

ABG

ABG net revenue of \$5.0 million in the third quarter of fiscal 2009 decreased 45 percent compared to net revenue of \$9.2 million in the third quarter of fiscal 2008. ABG revenue of \$17.7 million during the nine months ended March 31, 2009 decreased by 17% compared to the net revenue of \$21.3 million in same period of the prior year. The revenue decreases for both periods was primarily due to the continuing deterioration in global economic conditions along with the disruptions associated with our restructuring efforts announced during the first quarter of fiscal 2009.

ABG gross margin of \$1.8 million in the third quarter of fiscal 2009 decreased from a gross margin of \$2.6 in the third quarter of fiscal 2008. ABG gross margin for the nine months ended March 31, 2009 decreased to \$3.9 million from a gross margin of \$5.8 million. Gross margins decreased in both periods primarily due to the decrease in ABG revenue, partially offset by cost savings resulting from our restructuring efforts.

ABG operating income decreased to \$0.3 million in the third quarter of fiscal 2009 as compared to \$1.6 million during the third quarter of fiscal 2008. The ABG operating income for nine months ended March 31, 2009 is \$0.5 million compared to \$2.9 million during the comparable period a year ago. These decreases in operating income are primarily due to a decrease in the ABG revenue for the comparable periods.

All Other Category

The All Other Category included costs associated with Corporate activities such as selling, General and administrative costs and other costs not allocated to the business units.

All Other negative gross margin was \$0.8 million in the third quarter of fiscal 2009 compared to negative gross margin of \$2.3 million in the third quarter of fiscal 2008. All Other negative gross margin of \$3.0 million for the nine months ended March 31, 2009 decreased compared to negative gross margin of \$5.3 million for the same period of the prior year. The decrease in negative gross margin was primarily due to the decrease in intangible asset amortization in fiscal 2009 as compared to fiscal 2008, primarily as a result of the impairment write-off the company recorded in the fourth quarter of fiscal 2008. The amount of the decrease in the nine month period in fiscal 2009 partially offset by having only approximately seven months of amortization in fiscal 2008 as compared to nine months in fiscal 2009 based on the timing of the Chipidea acquisition in fiscal 2008.

All Other operating loss of \$10.9 million decreased by 35% in the third quarter of fiscal 2009 compared to operating loss of \$16.7 million in the third quarter of fiscal 2008. All Other operating loss of \$38.9 million for the nine months ended March 31, 2009 decreased by 43% compared to operating loss of \$53.0 million in the same period of fiscal 2008. These losses are primarily driven by intangible asset amortization costs, general and administrative costs, selling costs, IT costs, certain corporate marketing costs, stock compensation costs and Chipidea acquisition costs. The decrease in costs in fiscal 2009 as compared to the comparable periods in fiscal 2008 is primarily due to the substantial amount of non-recurring outside service and integration costs we incurred in fiscal 2008 in connection with the Chipidea acquisition, as well as reduced corporate expenses in fiscal 2009 as a result of restructuring efforts and cost saving measures that the company has put in place.

Results of Operations

Revenue. Total revenue consists of royalties and contract revenue. Royalties are based upon sales by licensees of products incorporating our technology. Contract revenue consists of technology license fees generated from new and existing license agreements for developed technology and engineering service fees generated from contracts for technology under development or configuration of existing IP. 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 during a specified period, and whether the license granted covers a particular design or a broader architecture.

Our revenue in the three-month and nine-month periods ended March 31, 2009 and March 31, 2008 was as follows (in thousands, except percentages):

| | Three Months Ended March 31, | | | Nine Months Ended March 31, | | |
|------------------------------------|------------------------------|------------------|-------------------|-----------------------------|------------------|-------------------|
| | 2009 | 2008 | Change in Percent | 2009 | 2008 | Change in Percent |
| Revenue | | | | | | |
| Royalties | \$ 10,901 | \$ 12,556 | (13)% | 35,686 | \$ 35,590 | 0% |
| <i>Percentage of Total Revenue</i> | 48 % | 46 % | | 47 % | 47 % | |
| Contract Revenue | \$ 11,805 | \$ 14,767 | (20)% | 39,635 | \$ 40,336 | (2)% |
| <i>Percentage of Total Revenue</i> | 52 % | 54 % | | 53 % | 53 % | |
| Total Revenue | <u>\$ 22,706</u> | <u>\$ 27,323</u> | <u>(17)%</u> | <u>\$ 75,321</u> | <u>\$ 75,926</u> | <u>(1)%</u> |

Royalties. The decrease in royalties in the third quarter of fiscal 2009 from the comparable period in fiscal 2008 is primarily due to a 7% decrease in unit volumes shipped by our royalty paying licensees. This decrease is a result of the weakness of the general economy.

Royalties in the first nine months of fiscal 2009 were relatively flat from the comparable period in fiscal 2008.

Contract Revenue. The 20% decrease in contract revenue was due to decrease of ABG revenue in the quarter ended March 31, 2009 as compared to the third quarter of fiscal 2008, partially offset by an increase in PBG contract revenue in the same period. In the third quarter of fiscal 2009, ABG contract revenues were \$4.8 million compared to \$9.0 million in third quarter of fiscal 2008. Revenue from ABG contracts is generally recognized on a percentage of completion basis over the period of contract performance. The ABG revenue decrease was offset in part by a \$1.2 million increase in PBG contract revenue. There were 8 new PBG license agreements in the third quarter of fiscal 2009 compared to 6 in the third quarter of fiscal 2008.

Contract revenue for the nine months ended March 31, 2009 was down 2% from the comparable period in fiscal 2008. The decrease was the net effect of an increase of \$2.9 million in PBG contract revenue due to the favorable size and timing of PBG deals that closed in 2009 as compared to 2008, and a decrease of \$3.6million in ABG contract revenue primarily due to the weakness of the worldwide economy.

In our Processor Business Group, we entered into a number of unlimited use license agreements with our customers. Under these agreements, customers generally pay a larger fixed up-front fee to use one or more of our cores in unlimited SoC designs during the term of the agreement, which can be up to 7 years. We recognize all license revenues under these unlimited use license agreements upon execution of the agreement provided all revenue recognition criteria had been met. Contract revenue from unlimited use license agreements was unchanged at \$2.1 million in third quarter of fiscal 2009 and \$2.1 million in third quarter of fiscal 2008. Contract revenue from unlimited use license agreements was \$8.3 million in the first nine months of fiscal 2009 as compared with \$7.9 million in same period of fiscal 2008.

Comparison of Gross Margin and Operating Expenses

The following is a summary of certain consolidated statement of operations data for the periods indicated:

| | Three Months Ended March 31, | | |
|----------------------------|---|-------------|----------------------------------|
| | 2009 | 2008 | Change in Percent |
| | (in thousands, except for percentages) | | |
| Cost of Sales | \$ 4,325 | \$ 9,407 | (54)% |
| Gross Margin | \$ 18,381 | \$ 17,916 | 3% |
| Gross Margin Percentage | 81% | 66% | |
| Research and Development | \$ 7,809 | \$ 9,315 | (16)% |
| Sales and Marketing | \$ 4,211 | \$ 6,056 | (30)% |
| General and Administrative | \$ 4,744 | \$ 6,559 | (28)% |
| Restructuring | \$ 959 | \$ 1,279 | (25)% |

| | Nine Months Ended March 31, | | |
|--|---|-------------|----------------------------------|
| | 2009 | 2008 | Change in Percent |
| | (in thousands, except for percentages) | | |
| Cost of Sales | \$ 17,761 | \$ 22,110 | (20)% |
| Gross Margin | \$ 57,560 | \$ 53,816 | 7% |
| Gross Margin Percentage | 76% | 71% | |
| Research and Development | \$ 21,955 | \$ 27,821 | (21)% |
| Sales and Marketing | \$ 13,610 | \$ 17,796 | (24)% |
| General and Administrative | \$ 15,693 | \$ 21,437 | (27)% |
| Acquired in-process research & development | \$ — | \$ 6,350 | (100)% |
| Restructuring | \$ 6,438 | \$ 1,279 | 403 % |

Cost of Sales. ABG revenue is generated by projects which include the development of technology that is directly related to the requirements of particular licensees and license agreements and, accordingly entails a higher cost of sales as compared to PBG. PBG cost of sales has historically been insignificant as the majority of our PBG revenue is derived from royalties and licenses which have insignificant related costs. Cost of sales generally include salaries and related employee costs, depreciation, and the amortization of intangible assets.

Due to the impairment write-off we completed in June 2008, our intangible asset amortization costs have decreased in fiscal 2009 as compared to fiscal 2008. In addition, due to our restructuring efforts and other cost cutting measures, our headcount and expenses have decreased in fiscal 2009 as compared to 2008, resulting in lower cost of sales expenses in fiscal 2009.

Gross Margin. Gross margin as a percentage of net revenue increased to 81% in the third quarter of fiscal 2009 compared to 66% in the comparable quarter in fiscal 2008. Gross margin for nine months ended March 31, 2009 as a percentage of net revenue increased to 76% compared to 71% percent in the comparable period in fiscal 2008. The increase in gross margin for both periods was primarily due to the decrease in ABG revenue as a percentage of total revenue. In addition, our intangible asset amortization costs are lower in fiscal 2009, and we also have lower headcount attributed to cost of sales in fiscal 2009 due to our restructuring efforts.

Research and Development. Research and development expenses include salaries and contractor and consultant fees, as well as costs related to workstations, software, computer aided design tools, and stock-based compensation expense. The costs we incur with respect to internally developed technology and engineering services are included in research and development expenses as they are incurred and are not directly related to any particular licensee, license agreement or license fee.

The \$1.5 million decrease in research and development expenses for the third quarter of fiscal 2009 compared to the same period in fiscal 2008 was primarily due to \$1.0 million decrease in stock compensation expense and \$0.5 million decrease in salary expense.

The \$5.9 million decrease in research and development expenses for the nine months ended March 31, 2009 compared to the same period in fiscal 2008 was primarily due to \$3.2 million decrease in salary and benefit expenses, \$1.2 million decrease in stock compensation expense, \$1.0 million decrease in depreciation expenses, \$0.9 decrease in outside services and consulting fees, and \$0.2 million decrease in travel expenses, partially offset by a \$0.3 million increase in deferred purchase price consideration amounts due to the founders of Chipidea and a \$0.3 million increase in bonus expense.

Sales and Marketing. Sales and marketing expenses include salaries, commissions and costs associated with third party independent software development tools, direct marketing, other marketing efforts and stock-based compensation expense. Our sales and marketing efforts are directed at establishing and supporting our licensing relationships.

The \$1.8 million decrease in sales and marketing expense for third quarter of fiscal 2009 over the comparable period in fiscal 2008 was primarily due to \$1.1 million decrease in salary, benefits and bonus expense, \$0.3 million decrease in stock compensation expense, \$0.2 million decrease in travel and entertainment expense and \$0.2 million decrease in other expenses such as supplies and maintenance and outside services.

The \$4.2 million decrease in sales and marketing expense for the nine months ended March 31, 2009 over the comparable period fiscal 2008 was primarily due to \$2.1 million decrease in salary and benefit expense, \$0.8 million decrease in stock compensation expense, \$0.5 million decrease in supplies, maintenance and marketing expense, \$0.4 million decrease travel related expense and \$0.4 million decrease in consulting and outside services.

General and Administrative. General and administrative expenses comprise salaries, legal fees including those associated with the establishment and protection of our patent, trademark and other intellectual property rights which are integral to our business and expenses related to compliance with the reporting and other requirements of a publicly traded company including directors and officers liability insurance, accounting and audit fees, in addition to stock-based compensation expense.

The \$1.8 million decrease in general and administrative expenses for the third quarter of fiscal 2009 compared to the same period in fiscal 2008 was primarily due to \$1.0 million decrease in outside services and consulting, \$0.4 million decrease in bonus expense, \$0.2 million decrease in stock compensation expense and \$0.2 million decrease in travel related expenses.

The \$5.7 million decrease in general and administrative for the nine months ended March 31, 2009 compared to the same period in fiscal 2008 was primarily due \$5.3 million decrease in outside services expense primarily due to the costs associated with Chipidea acquisition and related integration efforts, a \$0.8 million decrease in deferred purchase price consideration amounts due to the founders of Chipidea, \$0.5 million decrease in stock compensation expense, partially offset by a \$0.9 million increase in facilities, supplies, maintenance and depreciation expense in fiscal 2009 primarily resulting from having 9 months of Chipidea operations in fiscal 2009 as opposed to only approximately seven months in fiscal 2008.

Acquired In-process Research and Development. In August 2007, we completed the acquisition of Chipidea, a privately held supplier of analog and mixed signal intellectual property. The fair value of the in-process technology was determined by estimating the present value of the net cash flows we believed would result from the acquired technology. Because technological feasibility of certain of the acquired technology had not been established and no future alternative use for the in-process technology existed at the time of the acquisition, we recorded a charge of \$6.4 million in the first nine months of fiscal 2008.

Restructuring Expense. In August 2008 we announced a plan to reduce the Company's operating costs by a reduction in employee headcount in the Company's facilities in United States, Israel, Portugal, and the closing of our facilities in Belgium and France facilities. In the third quarter of fiscal 2009, approximately \$0.6 million of severance and benefits costs were recorded as restructuring expense in connection with the August 2008 restructuring plan. In addition, we incurred approximately \$0.4 million of additional restructuring expenses in the third quarter in connection with additional restructuring efforts relating to the departure of certain company executives. For the nine months ended March 31, 2009 approximately \$6.4 million of severance and benefits costs, asset disposal and other costs was recorded as restructuring expenses.

Other Income (expense), Net. Other income (expense), net for the third quarter of fiscal 2009 was an expense of \$1.1 million as compared to expense of \$0.8 million for the comparable period in fiscal 2008. The decrease in other expense was primarily due to weakening euro as compared with the dollar in fiscal 2009. Interest expense was \$0.6 million in the third quarters of each of fiscal 2009 and 2008.

Income Taxes. We recorded an income tax expense of \$0.3 million for the three months and a benefit of \$0.8 million for the nine months ended March 31, 2009. We recorded an income tax benefit of \$1.8 million and an expense of \$1.0 million for the comparable periods in fiscal 2008. For the Processor Business Group, we continued to recognize a valuation allowance against the U.S. deferred tax assets as we believe that it is more likely than not that the deferred tax assets will not be recognized.

Our estimated annual income tax for fiscal 2009 primarily consists of tax benefits from the loss generated by the Analog Business Group and releases of unrecognized tax benefits that are no longer applicable, partially offset by US deferred tax from goodwill amortization, foreign tax, and withholding tax. Our estimated annual income tax for fiscal 2008 primarily consists of US federal, state, foreign income taxes, withholding taxes, offset in part by certain foreign tax credits and general business tax credits.

Liquidity and Capital Resources

At March 31, 2009, we had cash and cash equivalents of \$21.1 million, an increase of approximately \$7.1 million from June 30, 2008.

On July 3, 2008, we entered into a new credit facility with Silicon Valley Bank (SVB). This new facility includes a four year term loan of \$15 million and a revolving credit line allowing us to borrow up to \$10 million for which related borrowings will be due on July 2, 2009. In December 2008, we amended our credit facility agreement with SVB, providing us more flexibility to fund the international operations of our subsidiaries. As of March 31, 2009, outstanding balances under this facility were \$12.5 million for the term loan and \$1.2 million for the revolving credit facility. We borrowed the full amount available under the \$15 million term loan facility and paid off approximately \$2.5 million in the nine months ended March 31, 2009. We had \$8.8 million available to borrow under the revolving credit line at March 31, 2009. Loans under this facility are secured by virtually all of our assets with the exception of IP, and the facility contains affirmative and negative covenants that impose restrictions on the operation of our business. Proceeds of \$16.2 million from this new facility were used to pay off our prior loan balance.

On August 13, 2008, we announced a restructuring plan designed to reduce approximately \$5.0 million in costs of sales and operating expenses per quarter. With the reduction in interest and principle payments associated with the new loan and the operating cost reductions being implemented in fiscal 2009, our liquidity position improved in each of the first, second and third quarters of fiscal 2009 as we were able to generate positive cash of approximately \$2.3 million in the first quarter of fiscal 2009, approximately \$4.3 million in the second quarter of fiscal 2009 and approximately \$0.5 million in the third quarter of fiscal 2009.

For complete statements of cash flows for the nine months ended March 31, 2009 and 2008, see our consolidated financial statements.

Net cash provided by operating activities was \$10.6 million for the nine months ended March 31, 2009. Our loss in the first nine months of fiscal 2009 of \$2.8 million was substantially offset by non-cash charges of \$3.6 million of stock based compensation, \$3.3 million relating to amortization of acquired intangible assets and \$2.7 million of depreciation expense. In addition, we generated operating cash in connection with a decrease in our accounts receivable balance at March 31, 2009 compared to June 30, 2008. This decrease was primarily due to our mix of sales in the third quarter of fiscal 2009 including more upfront customer payments as compared to the quarter ended June 30, 2008 coupled with lower contract revenue in the third quarter of 2009 as compared to the fourth quarter of 2008.

Net cash used in operating activities was \$0.6 million for the nine months ended March 31, 2008, primarily due to our net loss partially offset by non-cash charges including stock-based compensation under SFAS No. 123R, depreciation, amortization of intangible assets, and acquired in-process research and development costs. In addition, cash was used by a decrease in our income taxes payable and a decrease in accrued liabilities due to the payment of accrued invoices for acquisition and integration costs. These uses of cash were partially offset by cash provided by collections from existing Chipidea receivables acquired in connection with the Chipidea acquisition and a decrease in our long-term assets due to normal amortization.

Net cash used in investing activities was \$0.9 million for the nine months ended March 31, 2009 as a result of capital expenditures in the period.

Net cash used in investing activities was \$124.2 million for the nine months ended March 31, 2008 which was primarily due to cash used for our acquisition of Chipidea and the establishment of restricted cash accounts for the amounts held in escrow related to the Chipidea acquisition. This use of cash was offset in part by \$25.9 million of cash provided from the proceeds of the sale of our marketable investments.

Net cash used in financing activities was \$2.6 million for the nine months ended March 31, 2009. This usage was due to the net payment of \$3.0 million of debt in the nine months ended March 31, 2009 and capital lease payments of \$0.4 million, offset by \$0.8 million in proceeds from the issuance of common stock.

Net cash provided by financing activities was \$21.0 million for the nine months ended March 31, 2008, primarily attributable to the loan of \$20 million under our prior revolving credit agreement and activity under our employee stock plans, offset in part by cash paid for loan origination fees and loan repayments.

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

- from time to time we have certain significant payments to suppliers including CAD system vendors required under long term purchase agreements. These payments vary and can be up to \$2 million per quarter.
- from time to time we have certain significant payments to investors relating to prior acquisitions. These payments can range up to \$1.0 million a quarter, excluding payments from funds previously set aside in escrow accounts.
- divestitures or investments.
- our ability to generate new business and meet revenue targets.
- our ability to continue to generate cash flow from operations.
- financing activities under borrowing arrangements. Our borrowing availability with SVB varies according to our accounts receivable and recurring royalty revenues and other terms and conditions described in the loan and security agreement.
- the costs associated with capital expenditures and our land and building in Portugal.
- level and timing of restructuring activities. In August 2008, we announced a corporate restructuring to better integrate the ABG and reduce overall cost structure. In addition, in Q3 2009, we had restructuring activities associated with certain executive departures. See Note 7 of the Notes to Condensed Consolidated Financial Statements for additional details on our restructuring activities.

We believe that we have sufficient cash and borrowing capabilities to meet our projected operating and capital requirements for the foreseeable future and at least the next twelve months. 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. Our failure to raise capital when needed could have a material adverse effect on our business, results of operations and financial condition.

Our contractual obligations as of March 31, 2009 were as follows:

| | Payments due by period (in thousands) | | | | |
|---|---------------------------------------|---------------------|------------------|-----------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating lease obligations (1) | \$ 7,830 | \$ 1,556 | \$ 2,330 | \$ 2,712 | \$ 1,232 |
| Capital lease obligations (2) | 9,790 | 1,422 | 1,995 | 1,578 | 4,795 |
| Purchase obligations (3) | 11,460 | 5,814 | 5,646 | — | — |
| Short Term Debt (4) | 7,016 | 7,016 | — | — | — |
| Other short-term liabilities reflected on our Balance Sheet (5) | 21,497 | 21,497 | — | — | — |
| Long Term Debt (6) | 9,153 | — | 7,893 | 1,260 | — |
| Other long-term liabilities and obligations (7) | 1,506 | — | 1,506 | — | — |
| Total | \$ 68,252 | \$ 37,305 | \$ 19,370 | \$ 5,550 | \$ 6,027 |

- (1) We lease office facilities and equipment under noncancelable operating leases that expire through 2016. In connection with the lease for our Mountain View headquarters, we have entered into a letter of credit as a security deposit with a financial institution for \$0.3 million, which is guaranteed by a time-based certificate of deposit. In addition, we have entered into letters of credit of approximately \$1.4 million with various financial institutions in Portugal, Belgium, Norway, and France in association with certain building leases and government grants.
- (2) Commitments due under our capital leases for equipment and property.
- (3) Outstanding purchase orders for ongoing operations. Payments of these obligations are subject to the provision of services or products. Since December 31, 2008, purchase obligations have decreased by approximately \$1.4 million largely due to amortization from existing CAD licenses.
- (4) Short term debt includes \$5.4 million of principal and interest due under our SVB term loan and revolving credit facility, \$1.5 million due under various credit lines and \$0.1 million primarily due to a loan with a government agency in Portugal and the related future interest payment.
- (5) Short term liabilities includes: \$15.1 million related to an escrow account related to the Chipidea acquisition completed in August 2007, \$4.2 million liabilities related to an escrow account for the consideration contingent due upon continued employment of certain employees related to the Chipidea acquisition, \$0.8 million due to shareholders of a company acquired by Chipidea prior to August 2007, and \$1.4 million in payables for computer aided design licenses not included under outstanding purchase orders.
- (6) Long term debt includes \$9.2 million of principal and interest due under the SVB term loan.
- (7) Long-term liabilities and obligations include: \$1.5 million due to employees under a deferred compensation plan, under which distributions are elected by the employees.

The table above excludes liabilities, aggregating \$3.9 million, estimated under FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" as we are unable to reasonably estimate the ultimate amount or timing of settlement.

Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with U.S. generally accepted accounting principles, 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. We believe there have been no significant changes to the items we disclosed as our critical accounting policies and estimates in our discussion and analysis of financial condition and results of operations in our 2008 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe there have been no significant changes to the discussion of quantitative and qualitative disclosures about market risk in our 2008 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Our chief executive officer and our chief financial officer have concluded, based on the evaluation of the effectiveness of our disclosure controls and procedures by our management, with the participation of our chief executive officer and our chief financial officer, as of the end of the period covered by this report, that our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) or 15(d)-15(e) under the Exchange Act) were not effective as of March 31, 2009, because of the material weakness described in Part II, Item 9A, in our 2008 Annual Report on Form 10-K. In that section, we describe a material weakness in our internal control over financial reporting as a result of errors found during the preparation of our financial statements with regards to the process of accounting for income taxes.

Management began implementing a remediation plan for this material weakness during fiscal 2007. Our remediation plan includes: a) reduction in the turnover of internal and external tax professionals, b) consideration and implementation of additional review of tax provision and reconciliations by qualified personnel experienced in application of tax rules and regulations and accounting for income taxes, and c) consultation with tax experts in a timely manner. Though we have made progress in hiring qualified tax personnel and have set in place additional review procedures, that plan is still in progress. We expect to complete the implementation of the controls included in this remediation plan during fiscal 2009. Competition for highly qualified tax personnel remains intense in the Bay Area. Our inability to attract and retain personnel with adequate experience and skills could make it difficult to timely complete the remediation plan.

Other than the changes as part of the remediation plan discussed above, there were no changes in our internal control over the financial reporting (as such term is defined under Rule 13a-15(f) under the Exchange Act) that occurred during the third quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we receive communications from third parties asserting patent or other rights allegedly covering our products and technologies. Based upon our evaluation, we may take no action or we may seek to obtain a license, redesign an accused product or technology, initiate a formal proceeding with the appropriate agency (e.g., the U.S. Patent and Trademark Office) and/or initiate litigation. For additional information regarding intellectual property litigation, see Part I, Item 1A. Risk factors—“We may be subject to claims of infringement”.

ITEM 1A. RISK FACTORS

Our success is subject to numerous risks and uncertainties, including those discussed below. These factors could hinder our growth, cause us to sustain losses or have other adverse effects on us, which could individually or collectively cause our stock price to decline. The following list is not exhaustive and you should carefully consider these risks and uncertainties before investing in our common stock.

Our financial results could be negatively impacted by economic conditions. The U.S. economy and other global economies are in a recession and we cannot predict when global economic conditions will cease to deteriorate. The markets served by the Company, and those of our customers, can be highly cyclical, and our financial results, both our royalty revenue and our ability to secure new contracts, could be impacted by consumer spending in the U.S. and global economies. The semiconductor industry appears to be facing particularly challenging economic trends and our prospects and results are influenced in a significant way by conditions in this industry. Royalty revenues depend significantly on worldwide economic conditions, including business and consumer spending, which have recently deteriorated significantly in many countries and regions, including the United States, and may remain depressed indefinitely. Contract revenues depend on the willingness of our potential customers to invest in new products, and may be impacted by weak economic conditions in consumer spending and infrastructure spending. Some of the factors that could influence the levels of consumer and infrastructure spending include continuing increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could have a material adverse effect on demand for our products and services, and on our financial condition and operating results.

The recent financial crisis could negatively affect our business, results of operations, and financial condition. The recent financial crisis affecting the banking system and financial markets and the ongoing weakness of financial institutions have resulted in a tightening in the credit markets; a low level of liquidity in many financial markets; and extreme volatility in credit, fixed income, and equity markets. There could be a number of follow-on effects from the recent financial crisis on our business, including insolvency issues with our customers or suppliers.

During the first quarter of fiscal 2008, we completed the acquisition of Chipidea, and there are numerous risks associated with this acquisition. In August 2007, we completed the acquisition of Chipidea, a Portuguese company that supplies analog and mixed signal intellectual property for the digital consumer, wireless and connectivity markets. The purchase price for this acquisition was \$147 million in cash paid at closing.

This is a substantially larger acquisition than any that we have previously completed and involves technology and products that are largely new to us. Many of the risks discussed below under “We may encounter difficulties with future acquisitions that could harm our business” may be enhanced as a result of the Chipidea acquisition. Among the many risks associated with the acquisition are the following:

- the challenges and expense associated with integrating and managing a large acquired business, which challenge will be further complicated by the geographical distance between our headquarters in California and the Chipidea headquarters in Portugal;
- our dependence on the MIPS management team to manage the Chipidea business, and integrate it with our existing business;
- the ongoing risk of the loss of key personnel whose ongoing employment with us could be important to our ability to continue to advance the Chipidea technology and to effectively market and sell its products;
- diversion of our management team’s attention as we seek to capitalize on the opportunities presented by this acquisition may adversely affect our ability to operate our existing business.

To date we have not achieved the advantages that we envisioned when we decided to complete this acquisition. In the fourth quarter of fiscal 2008 we recorded substantial charges for the impairment of goodwill and intangible assets from this acquisition, as our updated forecasts for the business showed lower near and long term profitability than we had estimated at the time of completing the acquisition. Supporting the licensing of analog and mixed signal IP is relatively more labor intensive than that of our microprocessor IP business, and we cannot be assured of our ability to achieve operating results from this business that correspond to those that we can achieve in our existing business. In the third quarter of fiscal 2009, we made a determination with regard to the ABG to either improve the financial performance or investigate the potential divestiture of the unit, and progress has been made on both of those strategic alternatives. In addition, the Company has had discussions with third parties about the possible sale of the business unit. While no definitive sale agreement has been reached, the possibility of a divestiture remains. If we are not as successful as we anticipated with the Chipidea business, our future operating results and financial position would be adversely affected.

Our capacity to meet financial obligations depends on our ability to generate positive cash flow. We used all of our available cash and short term investments to complete the acquisition of Chipidea and we now have significant debt. This use of cash, coupled with negative cash flow in our Analog Business Group, dramatically reduces our liquidity, and if we encounter difficulty in generating cash from the operation of our business we may be required to curtail our operations or take other acts that could adversely affect our ability to be successful over the longer term. Our term loan with Silicon Valley Bank in the amount of \$15 million is due and payable in monthly installments over four years and has a revolving credit line in the amount of \$10 million. Under the terms of a Loan and Security Agreement we must pay off all amounts due under the Revolving Credit Agreement or extend the agreement on or before July 2, 2009. At March 31, 2009, we owed approximately \$12.5 million under the term loan and approximately \$1.2 million under the Revolving Credit Agreement. Loans under the new facility are secured by virtually all of our assets, and the facility contains affirmative and negative covenants that impose restrictions on the operation of our business. Certain restrictive covenants may limit our ability to fund the international operations of our subsidiaries and therefore may substantially and negatively impact our ability to conduct business overseas or may accelerate the timing of when principal payments are due. In addition, we cannot be assured that we will be able to repay this debt on or before its due date. We will be required to make interest payments for so long as this debt is outstanding. This incurrence of long term debt could adversely affect our operating results and financial condition and the sale of equity securities could be on terms that are dilutive to our existing stockholders. Further, the covenants contained in the credit facility may prevent us from taking advantage of opportunities that are otherwise available to us or could cause an earlier acceleration of the facility. We may not be able to obtain favorable credit terms related to any debt that we may incur in the future.

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. In addition, our revenue components are difficult to predict and may fluctuate significantly from period to period. Because our revenues are somewhat independent of our expenses 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 very 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. Our acquisition of Chipidea will increase the challenge that we face in planning and predicting our future operating results. 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;
- our ability to successfully conclude licensing agreements of any significant value in a given quarter, particularly as we have become more reliant on larger transactions in PBG;
- 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 demand for products that incorporate our technology;
- our ability to develop, introduce and market new intellectual property;
- the establishment or loss of licensing relationships with semiconductor companies or digital consumer, wireless, connectivity 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 semiconductor companies and digital consumer, wireless, connectivity and business product manufacturers; and
- uncertain economic and market conditions.

The success of our business depends on sustaining or growing our contract revenue. Contract revenue consists of technology license fees paid for access to our developed technology and engineering service fees related to technology under development. Our ability to secure the licenses from which our contract revenues are derived depends on our customers, including semiconductor companies, digital consumer, wireless, connectivity and business product manufacturers, adopting our technology and using it in the products they sell. Our PBG contract revenue declined 12% in fiscal 2006, increased by 42% in fiscal 2007 and declined by 23% in fiscal 2008. In addition, our PBG contract revenue increased by 15% in the first nine months of fiscal 2009 as compared to the same period of fiscal 2008. In our PBG, we entered into a number of unlimited use license agreements with our customers. Under these agreements, customers generally pay a larger fixed up-front fee to use a number of our cores in unlimited SoC designs during the term of the agreement, which is generally between 4 and 7 years. The number of licensed cores can vary from one core to every core currently available. We recognize all license revenues under these unlimited use license agreements upon execution of the agreement, provided all revenue recognition criteria had been met. Contract revenue from unlimited use license agreement was 69% in fiscal 2008, 49% in fiscal 2007, and 32% in fiscal 2006 of the total PBG license and contract revenue. Additionally, contract revenue from unlimited use license agreements was \$8.3 million in first nine months of fiscal 2009 as compared with \$7.9 million in first nine months of fiscal 2008. Historically, a license-based business can have strong quarters or weak quarters depending on the number and size of the license deals closed during the quarter. We cannot predict whether we can maintain our current contract revenue levels or if 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. If we cannot maintain or grow our contract revenue or if our customers do not adopt our technology and obtain corresponding licenses, our results of operations will be adversely affected.

Our ability to achieve design wins may be limited unless we are able to develop enhancements and new generations of our intellectual property. Our future success will depend, in part, on our ability to develop enhancements and new generations of our processors, cores or 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 IP product offerings 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, wireless, connectivity and business products;
- our ability to anticipate and timely respond to changes in semiconductor manufacturing processes;
- changing customer preferences in the digital consumer, wireless, connectivity and business products markets;
- the emergence of new standards in the semiconductor industry and for digital consumer, wireless, connectivity 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 IP product offerings 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 IP product offerings 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.

In our Processor business 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. As royalties reported by our customers are one quarter in arrears, shipments and revenue reported in our third quarter represented our customer shipments from the quarter ended December 31, 2008. Due to the recent slowdown in the semiconductor and consumer electronics segments, our royalties will likely be negatively impacted in our fourth quarter of fiscal 2009. Our receipt of royalties from our licensees depends on our customers incorporating our technology into their products, their bringing these products to market, and the success of these products. In the case of our semiconductor customers, the amount of such sales is further dependent upon the sale of the products by their customers into which our customers' products are incorporated. Thus, our ability to achieve design wins and enter into licensing agreements does not assure us of future revenue. Any royalties that we are eligible to receive 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. 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; and
- 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 rely on our customers to correctly report to us the number or dollar value of products incorporating our technology that they have sold, as these sales are the basis for the royalty payments that they make to us. We have the right under our licensing agreements to perform a royalty audit of the customer's sales so that we can verify the accuracy of their reporting, and if we determine that there has been an over-reported or under-reported amount of royalty, we account for the results when they are identified.

If we do not compete effectively in the market for SoC intellectual property cores and related designs, our business will be adversely affected. Competition in the market for SoC intellectual property and related designs is intense. Our products compete with those of other designers and developers of IP product offerings, as well as those of semiconductor manufacturers whose product lines include digital, analog and/or mixed signal designs for embedded and non-embedded applications. In addition, we may face competition from the producers of unauthorized clones of our processor and other technology designs. The market for embedded processors in particular has recently faced downward pricing pressures on products. We cannot assure you that we will be able to compete successfully or that competitive pressure 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 intellectual property 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 incur restructuring charges in the future, which could harm our results of operations. On August 13, 2008, we announced a plan to reduce the Company's operating costs by a reduction in employee headcount. This plan involves the termination of employees in our facilities in the United States, Israel and Europe. We have incurred substantially all costs associated with this plan through March 31, 2009 in the amount of approximately \$6.0 million. In addition, in our third quarter of fiscal 2009, we incurred approximately \$0.4 million of additional restructuring charges in connection with executive departures. These restructuring activities may not be sufficient to appropriately align our operating expenses with our revenue expectations. If we have not sufficiently reduced operating expenses or if revenues are below our expectations, we may be required to engage in additional restructuring activities, which could result in additional restructuring charges. These restructuring charges could harm our results of operations. Further, our restructuring plans could result in a potential adverse effect on employee capabilities that could harm our efficiency and our ability to act quickly and effectively in the rapidly changing technology markets in which we sell our products.

Our operations in foreign countries are subject to political and economic risks. With the acquisition of Chipidea we have substantially expanded our operations outside the United States. In addition to the main Chipidea facilities in Portugal, we also have operations in China, France, Macau, Norway, Switzerland and Poland as well as sales offices in China, Germany, Japan, Israel, Korea and Taiwan. Our operations in countries outside the U.S. subject us to risks, including:

- changes in tax laws, trade protection measures and import or export licensing requirements;
- potential difficulties in protecting our intellectual property;
- changes in foreign currency rates;
- restrictions, or taxes, on transfers of funds between entities or facilities in different countries; and
- changes in a given country's political or economic conditions.

As a result of one or more of these risks, our operating costs could increase substantially, our flexibility in operating our business could be impaired, our taxes could increase, and our sales could be adversely affected. Any of these items could have an adverse affect on our financial condition or results of operations.

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. This dependence is enhanced with our acquisition of Chipidea, as our ability to successfully operate this business in the future will depend significantly on our ability to retain key Chipidea management and employees. We cannot assure that we will retain our key officers and employees. Competition for qualified personnel, particularly those with significant experience in the semiconductor, analog, mixed signal 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.

Our results of operations could vary as a result of the methods, estimates, and judgments that we use in applying our accounting policies. The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on our results of operations (see "Critical Accounting Estimates" in Part I, Item 7 of our Form 10-K for the year ended June 30, 2008). Such methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties, and assumptions, and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations.

Changes in effective tax rates or adverse outcomes from examination of our income tax returns could adversely affect our results. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries with low statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or regulations or the interpretation of tax laws or regulations. We operate in countries other than the United States and occasionally face inquiries and examinations regarding tax matters in these countries. There can be no assurance that the outcomes from examinations will not have an adverse effect on our operating results and financial condition.

We may be subject to litigation and other legal claims that could adversely affect our financial results. From time to time, we are subject to litigation and other legal claims incidental to our business. In addition, it is standard practice for us to include some form of indemnification of our licensees in our core and architecture license agreements, and from time to time we respond to claims by our licensees with respect to these obligations. It is possible that we could suffer unfavorable outcomes from litigation or other legal claims, including those made with respect to indemnification obligations, that are currently pending or that may arise in the future. Any such unfavorable outcome could materially adversely affect our financial condition or results of operations.

We may be subject to claims of infringement. Significant litigation regarding intellectual property rights exists in our industry. As we grow our business and expand into new markets that other companies are developing in, the risk that our technology may infringe upon the intellectual property rights of others increases. 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 on acceptable terms to us 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.

From time to time, we receive communications from third parties asserting patent or other rights allegedly covering our products and technologies. Based upon our evaluation, we may take no action or we may seek to obtain a license, redesign an accused product or technology, initiate a formal proceeding with the appropriate agency (e.g., the U.S. Patent and Trademark Office) and/or initiate litigation. There can be no assurance in any given case that a license will be available on terms we consider reasonable or that litigation can be avoided if we desire to do so. If litigation does ensue, the adverse third party will likely seek damages (potentially including treble damages) and may seek an injunction against the sale of our products that incorporate allegedly infringed intellectual property or against the operation of our business as presently conducted, which could result in our having to stop the sale of some of our products or to increase the costs of selling some of our products. Such lawsuits could also damage our reputation. The award of damages, including material royalty payments, or the entry of an injunction against the sale of some or all of our products, could have a material adverse affect on us. Even if we were to initiate litigation, such action could be extremely expensive and time-consuming and could have a material adverse effect on us. We cannot assure you that litigation related to our intellectual property rights or the intellectual property rights of others can always be avoided or successfully concluded.

Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could have a material adverse effect on us.

Our intellectual property may be misappropriated or expire, and we may be unable to obtain or enforce intellectual property rights. We rely on a combination of protections provided by contracts, including confidentiality and nondisclosure agreements, copyrights, patents, trademarks, and common-law rights, such as trade secrets, to protect our intellectual property. We cannot assure you 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. 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. As part of our business strategy, we license our technology in multiple geographies including in countries whose laws do not provide as much protection for our intellectual property as the laws of the United States and where we may not be able to enforce our rights. In addition, intellectual property rights which we have obtained in particular geographies may and do expire from time to time. As a result, we cannot be certain that we will be able to prevent other parties from designing and marketing unauthorized MIPS compatible products that others will not independently develop or otherwise acquire the same or substantially equivalent technologies as ours, or that others will not use information contained in our expired patents to successfully compete against us. 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 also cannot assure you that any of our patent applications to protect our intellectual property will be approved, and patents that have issued do expire over time. Recent judicial decisions and proposed legislation in the United States may increase the cost of obtaining patents, limit the ability to adequately protect our proprietary technology, and have a negative impact on the enforceability of our patents. In addition, effective trade secret protection may be unavailable or limited in certain countries. If we are unable to protect, maintain or enforce our intellectual property rights, our technology may be used without the payment of license fees and royalties, which could weaken our competitive position, reduce our operating results and increase the likelihood of costly litigation.

We have recorded long-lived assets, and our results of operations would be adversely affected if their value becomes impaired. Although we took a substantial charge in the fourth quarter of fiscal 2008 for the impairment of goodwill and acquired intangible assets associated with the Chipidea acquisition and prior acquisitions, we continue to carry substantial amounts of acquired intangible assets and goodwill. If we complete additional acquisitions in the future, our acquired intangible asset amortization expenses could further increase, and we may be required to record additional amounts of goodwill. In addition, we have made investments in certain private companies which could become impaired if the operating results of those companies change adversely. We evaluate our long-lived assets, including acquired intangible assets, goodwill and investments in private companies 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 future, if we make a further determination that our long-lived assets are impaired, we will have to recognize additional charges for the impairment. We cannot be sure that we will not be required to record additional long-lived asset impairment charges in the future. Our determination of fair value of long-lived assets relies on management's assumptions of our future revenues, operating costs, and other relevant factors. If management's estimates of future operating results change or if there are changes to other assumptions such as the discount rate applied to future cash flows, the estimate of the fair value of our reporting units could change significantly, which could result in additional goodwill impairment charges.

We cannot be assured that our recent restructurings will sufficiently reduce our expenses relative to future revenue and may have to implement additional restructuring plans in order to reduce our operating costs. We have implemented restructuring plans in the past to reduce our operating costs, including plans announced in January and August 2008. We also implemented additional restructuring efforts in the third quarter of fiscal 2009 in connection the departure of certain company executives. We may not realize fully the anticipated benefits of the restructuring plans, which may lead to additional future restructurings to align our expenses with our anticipated revenue. If we are required to do so, we likely would incur additional amounts of material restructuring charges.

The amount of our other income (expense), net could be adversely affected by macroeconomic conditions and other factors. The amount of other income (expense), net in our consolidated statements of operations is subject to fluctuations in foreign currency exchange rates, fluctuations in interest rates and changes in our cash and cash equivalent balances. These changes are, to a large extent, beyond our control and we have limited ability to predict them.

ITEM 6. EXHIBITS

(a) Exhibits

10.1 Industrial Lease dated February 27, 2009 (incorporated herein by reference to Exhibit 99.01 to the Company's Form 8-K filed on March 3, 2009).

[31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)

[32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*](#)

*As contemplated by SEC Release No. 33-8212, these exhibits are furnished with this Quarterly Report on Form 10-Q and are not deemed filed with the Securities and Exchange commission and are not incorporated by reference in any filing of MIPS Technologies, Inc. under the Securities Act of 1933 or the Securities Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any such filings.

ITEMS 2, 3 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

May 5, 2009

By: /s/ MAURY AUSTIN

Maury Austin
Vice President and Chief Financial Officer
(Principal Financial Accounting Officer)

FORM 10-Q CERTIFICATION

I, John E. Bourgoïn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MIPS Technologies, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under such supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: May 5, 2009

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

FORM 10-Q CERTIFICATION

I, Maury Austin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MIPS Technologies, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under such supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: May 5, 2009

By: /s/ MAURY AUSTIN
Maury Austin
Vice President and Chief Financial Officer,
MIPS Technologies, Inc.

**CERTIFICATION OF CHIEF EXECUTIVE 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. Bourgoïn, certify, that to my knowledge, the Quarterly Report on Form 10-Q of MIPS Technologies, Inc. for the quarter ended March 31, 2009 (the "Form 10-Q"), to which this certificate is an exhibit fully complies with the requirements of Section 13(a) or 15(d) 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 5, 2009

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

A signed original of this written statement required by Section 906 has been provided by MIPS Technologies and will be retained by it and furnished to the Securities Exchange Commission or its staff upon request.

**CERTIFICATION OF 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, Maury Austin, certify, that to my knowledge, the Quarterly Report on Form 10-Q of MIPS Technologies, Inc. for the quarter ended March 31, 2009 (the "Form 10-Q"), to which this certificate is an exhibit fully complies with the requirements of Section 13(a) or 15(d) 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 5, 2009

By: /s/ MAURY AUSTIN
Maury Austin
Vice President and Chief Financial Officer,
MIPS Technologies, Inc

A signed original of this written statement required by Section 906 has been provided by MIPS Technologies and will be retained by it and furnished to the Securities Exchange Commission or its staff upon request.
