
**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, 2010

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)

955 EAST ARQUES AVENUE, SUNNYVALE, CA 94085-4521

(Address of principal executive offices)

Registrant's telephone number, including area code: **(408) 530-5000**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 (Do not check if smaller reporting company) 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, 2010, the number of outstanding shares of the registrant's common stock, \$0.001 par value, was 45,955,256.

PART I – FINANCIAL INFORMATION

- [Item 1.](#) [Financial Statements \(Unaudited\):](#)
 - [Condensed Consolidated Balance Sheets](#)
 - [Condensed Consolidated Statements of Operations](#)
 - [Condensed Consolidated Statements of Cash Flows](#)
 - [Notes to Condensed Consolidated Financial Statements](#)
- [Item 2.](#) [Management’s Discussion and Analysis of Results of Operations and Financial Condition](#)
- [Item 3.](#) [Quantitative and Qualitative Disclosures About Market Risk](#)
- [Item 4.](#) [Controls and Procedures](#)

PART II – OTHER INFORMATION

- [Item 1.](#) [Legal Proceedings](#)
 - [Item 1A.](#) [Risk Factors](#)
 - [Item 6.](#) [Exhibits](#)
 - [Signatures](#)
-

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MIPS TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31, 2010 (unaudited)	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,049	\$ 44,507
Short-term investments	23,163	—
Accounts receivable, net	3,621	2,461
Short term restricted cash	—	264
Prepaid expenses and other current assets	974	1,302
Total current assets	55,807	48,534
Equipment, furniture and property, net	1,968	2,608
Intangible assets, net	302	385
Goodwill	565	565
Other assets	8,372	11,314
Assets of discontinued operations	—	4,479
Total Assets	\$ 67,014	\$ 67,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,778	\$ 2,305
Accrued liabilities	9,354	8,568
Debt – short-term	8,750	4,986
Deferred revenue	1,889	2,011
Total current liabilities	21,771	17,870
Long-term liabilities:		
Debt – long-term	—	7,813
Other long-term liabilities	7,309	9,603
Total long-term liabilities	7,309	17,416
Liabilities of discontinued operations	—	5,938
Stockholders' equity:		
Common stock	45	45
Preferred stock	—	—
Additional paid-in-capital	262,387	258,273
Accumulated other comprehensive income	619	392
Accumulated deficit	(225,117)	(232,049)
Total stockholders' equity	37,934	26,661
Total Liabilities and Stockholders' Equity	\$ 67,014	\$ 67,885

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,	
	2010	2009	2010	2009
Revenue:				
Royalties	\$ 12,100	\$ 10,664	\$ 33,244	\$ 34,849
License and contract revenue	5,406	6,999	14,431	22,730
Total revenue	17,506	17,663	47,675	57,579
Operating Expenses:				
Cost of sales	75	74	309	530
Research and development	6,315	5,401	17,913	16,047
Sales and marketing	3,889	2,419	10,840	7,768
General and administrative	3,282	3,672	9,993	11,937
Restructuring	—	374	—	644
Total operating expenses	13,561	11,940	39,055	36,926
Operating income	3,945	5,723	8,620	20,653
Other income (expense), net	(136)	(83)	201	(544)
Income before income taxes	3,809	5,640	8,821	20,109
Provision for income taxes	748	2,421	1,889	11,874
Net income from continuing operations	3,061	3,219	6,932	8,235
Loss from discontinued operations, net of tax	—	(4,026)	—	(11,033)
Net income (loss)	\$ 3,061	\$ (807)	\$ 6,932	\$ (2,798)
Net income per share, basic – continuing operations	\$ 0.07	\$ 0.07	\$ 0.15	\$ 0.18
Net loss, basic – discontinued operations	\$ —	\$ (0.09)	\$ —	\$ (0.24)
Net income (loss) per share, basic	0.07	(0.02)	0.15	(0.06)
Net income per share, diluted – continuing operations	\$ 0.07	\$ 0.07	\$ 0.15	\$ 0.18
Net loss per share, diluted – discontinued operations	\$ —	\$ (0.09)	\$ —	\$ (0.24)
Net income (loss) per share, diluted	\$ 0.07	\$ (0.02)	\$ 0.15	\$ (0.06)
Common shares outstanding, basic	45,560	44,682	45,339	44,534
Common shares outstanding, diluted	46,472	44,719	46,148	44,755

See accompanying notes.

MIPS TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	Nine Months Ended March 31,	
	2010	2009
Operating activities:		
Net income – continuing operations	\$ 6,932	\$ 8,235
Adjustments to reconcile net income to cash provided by operations:		
Depreciation	1,181	1,627
Stock-based compensation	2,695	3,156
Amortization of intangible assets	83	83
Gain on exchange of investment	(611)	—
Other non-cash charges	130	96
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,160)	185
Prepaid expenses and other current assets	651	(91)
Other assets	2,959	541
Accounts payable	(331)	126
Accrued liabilities	1,009	678
Deferred revenue	(72)	252
Long-term liabilities	(2,344)	1,332
Net cash provided by operating activities – continuing operations	11,122	16,220
Net cash used in operating activities – discontinued operations	(1,412)	(5,579)
Net cash provided by operating activities	9,710	10,641
Investing activities:		
Purchases of marketable securities	(27,014)	—
Proceeds from sale and maturity of marketable securities	4,491	—
Capital expenditures	(1,009)	(884)
Net cash used in investing activities	(23,532)	(884)
Financing activities:		
Net proceeds from issuance of common stock	1,415	846
Proceeds from debt, net	—	16,236
Repayments of debt	(4,049)	(19,278)
Repayments of capital lease obligations	—	(422)
Net cash used in financing activities	(2,634)	(2,618)
Effect of exchange rates on cash	(2)	(13)
Net increase (decrease) in cash and cash equivalents	(16,458)	7,126
Cash and cash equivalents, beginning of period	44,507	13,938
Cash and cash equivalents, end of period	28,049	21,064
Less cash and cash equivalents, discontinued operations	—	1,032
Cash and cash equivalents, continuing operations	\$ 28,049	\$ 20,032
Supplemental disclosure of cash transaction:		
Release of restricted cash by escrow agent to former shareholders of Chipidea	\$ 4,509	\$ 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 provider of industry-standard processor architectures and cores that power some of the world's most popular products for the home entertainment, communications, networking and portable multimedia markets. 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. Our customers are global semiconductor companies and system original equipment manufacturers (system OEMs). 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 customers pay us license fees for architectural and product rights, as well as royalties based on processor unit shipments.

On May 7, 2009, we completed the sale of our Analog Business Group (ABG) to an unrelated third party for \$22 million in cash. In connection with this divestiture, we have classified the financial statements of the ABG as discontinued operations. The ABG was initially formed through MIPS' acquisition of Chipidea Microelectronica S.A. (Chipidea) in August 2007.

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, 2009 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, 2009, included in our 2009 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, the 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.

Discontinued operations. In fiscal 2009, we completed the sale of our ABG and therefore it is no longer part of our ongoing operations. Accordingly, we have separately classified the results of operations, assets and liabilities, and cash flows of the discontinued operations of ABG on our Statements of Operations, Balance Sheets and Statements of Cash Flows, respectively, for all periods presented.

Cash and Cash Equivalents and Short-Term Investments. Cash and cash equivalents consist mainly of cash, money market funds, and other highly liquid investments which have original maturities of three months or less at the time of acquisition. Investments with original maturities of greater than 90 days at the time of acquisition but less than one year from the balance sheet date are classified short-term investments. The fair value of cash and cash equivalents approximates their carrying value at March 31, 2010.

We determine the fair values for short-term investments (that principally consist of marketable debt and equity securities) using industry standard pricing services, data providers and other third-party sources and by internally performing valuation analyses (see Note 4). In determining if and when a decline in value below the adjusted cost of marketable debt and equity securities is other-than-temporary, we evaluate on an ongoing basis the market conditions, trends of earnings, financial condition, credit ratings, any underlying collateral and other key measures for our investments. We assess other-than-temporary impairment of equity securities in accordance with the latest guidance issued by the Financial Accounting Standards Board. We did not record any other-than-temporary impairment for marketable debt or equity securities in the first nine months of fiscal 2010.

Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains or losses reported, net of tax, in stockholders' equity as part of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest and other income, net. Realized gains and losses, if any, are recorded on the specific identification method and are included in interest and other income, net. We review our investments in marketable securities for possible other-than-temporary impairments on a regular basis. If any loss on investment is believed to be other-than-temporary, a charge will be recognized. In evaluating whether a loss on a debt security is other-than-temporary, we consider the following factors: 1) our intent to sell the security, 2) if we intend to hold the security, whether it is more likely than not that we will be required to sell the security before recovery of the security's amortized cost basis and 3) even if we intend to hold the security, whether or not we expect the security to recover the entire amortized cost basis. Due to the high credit quality and short term nature of our investments, there have been no other-than-temporary impairments recorded to date. The classification of funds as short-term is based on the securities being available for use in operations or other purposes.

Other Investment. Our investment in a non-marketable security of a private company (included in other assets in the balance sheet) is accounted for by using the cost method. This equity investment is periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred.

Accounts Receivable. Accounts receivable includes amounts billed and currently due from customers, net of the allowance for doubtful accounts.

Reclassifications. Certain reclassifications have been made in our fiscal 2009 consolidated financial statements to conform to the current year's presentation of financial information.

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 income (loss) per share (in thousands, except per share amounts):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Numerator:				
Net income from continuing operations	\$ 3,061	\$ 3,219	\$ 6,932	\$ 8,235
Net loss from discontinued operations	—	(4,026)	—	(11,033)
Net income (loss)	\$ 3,061	\$ (807)	\$ 6,932	\$ (2,798)
Denominator:				
Weighted-average shares of common stock outstanding	45,560	44,682	45,339	44,534
Effect of dilutive securities-employee stock options and shares subject to repurchase	912	37	809	221
Shares used in computing diluted net income (loss) per share	46,472	44,719	46,148	44,755
Net income per share, basic - from continuing operations	\$ 0.07	\$ 0.07	\$ 0.15	\$ 0.18
Net loss per share, basic - from discontinued operations	\$ —	\$ (0.09)	\$ —	\$ (0.24)
Net income (loss) per share, basic	\$ 0.07	\$ (0.02)	\$ 0.15	\$ (0.06)
Net income per share, diluted - from continuing operations	\$ 0.07	\$ 0.07	\$ 0.15	\$ 0.18
Net loss per share, diluted - from discontinued operations	\$ —	\$ (0.09)	\$ —	\$ (0.24)
Net income (loss) per share, diluted	\$ 0.07	\$ (0.02)	\$ 0.15	\$ (0.06)
Potentially dilutive securities excluded from diluted net income (loss) per share because they are anti-dilutive (A)	8,675	12,260	9,412	12,770

- (A) For the three months and nine months ended March 31, 2010 and 2009, we excluded 8.7 million and 9.4 million shares, respectively, underlying outstanding weighted average stock options from the calculation of diluted earnings per common share because the exercise prices of these stock options were greater than or equal to the average market value of the common shares. Some portion, or all, of the shares underlying these options would be included in the calculation of earnings per share in future periods when we report net income if the average market value of the common shares increases and is greater than the exercise price of these options.

For the three and nine months ended March 31, 2010, potentially dilutive securities were excluded from net loss per share because they are anti-dilutive.

Note 3. Comprehensive Income (Loss)

Total comprehensive income (loss) includes net income (loss) and other comprehensive income (loss), which primarily comprises adjustments from foreign currency adjustments and changes in unrealized gains (losses) on short-term investments. Total comprehensive income for the third quarter of fiscal 2010 was \$3.2 million and total comprehensive income for nine months of fiscal 2010 was \$7.2 million compared to total comprehensive loss of \$2.1 million and total comprehensive loss of \$7.5 million for the comparable periods in the prior year.

Note 4. Fair Value

In October 2009, we invested in short term investments which principally consist of marketable debt and equity securities. Our financial assets are measured and recorded at fair value, except for equity investments in privately-held companies. These equity investments are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. Our non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when an event or circumstance indicates that a decline in value may have occurred.

Fair Value Hierarchy

The measurements of fair value were established based on a fair value hierarchy that prioritizes the utilized inputs. This hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. The guidance for fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Our Level 1 assets consist of U.S. Treasury bills, marketable equity securities and money market funds.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Our Level 2 assets consist of time deposits, commercial paper, corporate bonds and government agency bonds.

Level 3 - Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

We had no Level 3 assets as of March 31, 2010.

The following table presents our cash equivalents and short-term investments by the above pricing levels as of March 31, 2010 (in thousands):

	Fair value measurement at reporting dates using			
	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds (1)	\$ 9,091	\$ 9,091	\$ —	\$ —
Commercial Paper	4,997	—	4,997	—
Corporate Bonds	4,838	—	4,838	—
Treasury Bills	4,488	4,488	—	—
Government Agency	7,001	—	7,001	—
Time deposits	1,000	—	1,000	—
Marketable equity securities	839	839	—	—
Total short-term investments	\$ 23,163	\$ 5,327	\$ 17,836	\$ —

(1) At March 31, 2010, \$9.1 million of money market funds was included in cash and cash equivalents in our condensed consolidated balance sheet.

Available-for-sale securities held by the Company as of March 31, 2010 were as follows (in thousands):

	March 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate Bonds	\$ 4,842	\$ 3	\$ (7)	\$ 4,838
Commercial Paper	4,997	—	—	4,997
Treasury Bills	4,489	—	(1)	4,488
Government Agency	7,014	—	(13)	7,001
Time deposits	1,000	—	—	1,000
Marketable Equity securities	660	179	—	839
Total short-term investments	\$ 23,002	\$ 182	\$ (21)	\$ 23,163

All contractual maturities of the Company's available-for-sale marketable securities at March 31, 2010 were within one year.

Note 5. Goodwill and Purchased Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired through past business combinations. Our goodwill balance of \$565,000 is primarily attributable to the First Silicon Solutions acquisition and did not change in fiscal 2009 and in the first nine months of fiscal 2010.

The balances of our acquisition related intangible assets, all relating to developed and core technology, were as follows (in thousands):

	March 31, 2010	June 30, 2009
Gross Carrying Value	\$ 1,100	\$ 1,100
Accumulated Amortization	(798)	(715)
Net Carrying Value	\$ 302	\$ 385

Our intangible assets are being amortized over their useful lives of 10 years.

Estimated future amortization expense related to acquisition related intangible assets is as follows:

	in thousands
Fiscal Year	
Remaining 2010	\$ 27
2011	110
2012	110
2013	55
Total	\$ 302

Note 6. Discontinued Operations

In connection with our divestiture of ABG, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify the purchaser against certain breaches of representations and warranties and other liabilities. To date, we have not incurred any losses in respect of claims asserted by the purchaser in connection with this transaction. Our potential liability to the purchaser is subject to certain limitations, including limitations on the time period during which claims may be asserted and the amounts for which we are liable. However, there can be no assurance that we will not incur future liabilities to the purchaser in connection with this transaction or that the amount of such liabilities will not be material.

The results from discontinued operations (exclusive of the gain on disposition) are as follows for the three-months and nine-months ended March 31 (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Revenue	\$ —	\$ 5,043	\$ —	\$ 17,744
Expenses	—	(10,581)	—	(35,648)
Restructuring expense	—	(585)	—	(5,795)
Loss from discontinued operations, before tax	—	(6,123)	—	(23,699)
Tax benefit of discontinued operations	—	(2,097)	—	(12,666)
Loss from discontinued operations, net of tax	\$ —	\$ (4,026)	\$ —	\$ (11,033)

The summarized balance sheets of discontinued operations consisted of the following (in thousands):

	March 31, 2010	June 30, 2009
Assets:		
Restricted cash	\$ —	\$ 4,442
Other current assets	—	37
Total assets of discontinued operations	\$ —	\$ 4,479
Liabilities:		
Founders escrow liabilities	\$ —	\$ 4,442
Accounts payable and other current liabilities	—	1,496
Total liabilities of discontinued operations	\$ —	\$ 5,938

The restricted cash balance at June 30, 2009 related to the founder's escrow liability that we incurred with our acquisition of Chipidea in August 2007. As per the terms of our acquisition, in August 2009, this balance was released in full to the founders of Chipidea. The other liabilities of the discontinued operations at June 30, 2009 primarily related to severance costs. We paid approximately \$1.4 million of those costs in the first quarter of fiscal 2010. The payments relating to discontinued operations have been reflected as cash outflows from the discontinued operations in our Statement of Cash Flows for the nine months ended March 31, 2010.

Note 7. Debt

	March 31, 2010	June 30, 2009
Credit agreement	\$ 8,750	\$ 11,563
Bank lines of credit	—	1,236
Total Debt	8,750	12,799
Less current portion	(8,750)	(4,986)
Long term debt, net of current portion	\$ —	\$ 7,813

Term Loan and Revolving Credit Agreement. As of March 31, 2010, we had an outstanding loan balance of \$8.8 million relating to a \$15 million term loan with Silicon Valley Bank (SVB) that we entered into in July 2008. In April 2010, we repaid the full outstanding balance that we owed to SVB under the term loan. With anticipation of repayment, the outstanding loan balance of \$8.8 million was classified as short-term as of March 31, 2010. In addition, in July 2009, we repaid the full outstanding balance of \$1.2 million that we owed to SVB under a revolving line of credit. We renewed the revolving line of credit in the first quarter of fiscal 2010, enabling us to borrow up to \$10 million through September 20, 2010. 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. As of March 31, 2010, we were in compliance with the debt covenants. At the Company's election, borrowings under the facility bear interest at SVB's prime rate plus 0.50% and borrowings under the revolving credit agreement bear interest at SVB's prime rate plus 0.25% as defined in the credit facility agreement. SVB's prime rate at March 31, 2010 was 4.0%.

Note 8. Restructuring

There was no restructuring activity in the three or nine month periods ended March 31, 2010.

The \$0.4 million in restructuring charges for severance costs in the third quarter of fiscal 2009 was primarily driven by certain executive departures and the \$0.6 million in the restructuring charges for the nine months ended March 31, 2009 related to severance and benefit costs primarily resulting from reductions in our sales personnel and certain executive departures. All of our restructuring expense in 2009 related to severance and benefit costs and all terminations were completed by June 30, 2009.

Note 9. 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,	
	2010	2009	2010	2009
Interest income	\$ 33	\$ 31	\$ 114	\$ 136
Interest expense	(102)	(141)	(343)	(519)
Gain (loss) on investment	(36)	—	569	(7)
Other	(31)	27	(139)	(154)
Total other income (expense), net	\$ (136)	\$ (83)	\$ 201	\$ (544)

Note 10. Equipment, Furniture and Property

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

	March 31, 2010	June 30, 2009
Equipment	\$ 9,586	\$ 9,679
Furniture and fixtures	2,112	2,104
Leasehold improvements	623	530
Accumulated depreciation and amortization	12,321	12,313
Equipment, furniture and property, net	<u>(10,353)</u>	<u>(9,705)</u>
	<u>\$ 1,968</u>	<u>\$ 2,608</u>

Note 11. Other Long-Term Assets

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

	March 31, 2010	June 30, 2009
Investment in other company	\$ 371	\$ 417
Long-term engineering design software licenses	5,880	9,045
Cash surrender value of insurance contracts tied to our deferred compensation plan	1,837	1,549
Other	284	303
Total other assets	<u>\$ 8,372</u>	<u>\$ 11,314</u>

Note 12. Accrued and Other Long-Term Liabilities

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

	March 31, 2010	June 30, 2009
Accrued compensation and employee-related expenses	\$ 3,937	\$ 2,991
Income taxes payable	939	—
Obligations related to engineering design software licenses	2,810	3,131
Other accrued liabilities	1,668	2,446
Total accrued liabilities	<u>\$ 9,354</u>	<u>\$ 8,568</u>

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

	March 31, 2010	June 30, 2009
Deferred compensation	\$ 1,954	\$ 1,655
Long-term income tax liability	1,102	1,307
Long-term obligations related to engineering design software licenses	1,835	4,587
Long-term deferred revenue	2,070	2,021
Other	348	33
Total long-term liabilities	<u>\$ 7,309</u>	<u>\$ 9,603</u>

Note 13. Commitments and Contingencies

Purchase Commitments with Suppliers. Commitments for purchases of products or services to be received in future periods totaled \$1.8 million at March 31, 2010, all of which are due by March 31, 2011. These commitments are exclusive of engineering design software license contracts of \$4.6 million that are reflected in the Company's accrued liabilities and other long term liabilities (see Note 12).

Operating Lease Commitments. At March 31, 2010, the Company's future minimum payments for operating lease obligations are as follows:

	In thousands
Fiscal Year	
Remaining 2010	\$ 295
2011	1,136
2012	903
2013	732
2014	711
Thereafter	1,414
Total	<u>\$ 5,191</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 patent or other rights or the patent or other 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 14. Stock-Based Compensation

The following table shows total stock-based employee compensation expense included in the condensed consolidated statements of operations for the three and nine month periods ended March 31, 2010 and 2009 (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Operating expenses:				
Research and development	\$ 297	\$ 437	\$ 1,030	\$ 1,102
Sales and Marketing	221	172	679	710
General and administrative	282	367	986	1,344
Total stock-based compensation expense	\$ 800	\$ 976	\$ 2,695	\$ 3,156

Stock based compensation included in discontinued operations was \$0.1 million and \$0.4 million for the three months and nine months ended March 31, 2009, respectively. There was no stock based compensation from discontinued operations in the three or nine months ended March 31, 2010. In the three months and nine months ended March 31, 2010, we issued 40,007 and 510,508 shares of common stock from employee stock option exercises, respectively.

Note 15. Income Taxes

The amounts related to discontinued operations have been excluded from prior periods as discontinued operations are separately classified for fiscal 2009 periods.

We recorded an income tax expense of \$0.7 million and \$1.9 million for the three-month and nine-month periods ended March 31, 2010, respectively. We recorded an income tax expense of \$2.4 million and \$11.9 million for the comparable periods ended March 31, 2009. We continue to recognize a valuation allowance against net 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 2010 primarily consists of U.S. state, foreign, and withholding taxes, offset by tax refunds from tax incentives in certain jurisdictions, and benefits from previously unrecognized tax benefits. U.S. federal income tax has been offset by foreign tax credits. Included in the current year tax expense is \$1.0 million withholding tax related to the pending repatriation of undistributed earnings from one of our foreign subsidiaries, for which a U.S. foreign tax credit will be available in the future. However, this deferred tax asset is subject to a valuation allowance. The tax expense recognized for the quarter ended March 31, 2010 is lower than that of the same period ended March 31, 2009 primarily due to tax refunds from tax incentives in certain jurisdictions, and benefits from previously unrecognized tax benefits.

There were no material changes to our estimated liabilities for uncertainty in income taxes reserves in our quarter ended March 31, 2010. The total amount of gross unrecognized tax benefits was approximately \$3.6 million and \$3.8 million as of March 31, 2010 and June 30, 2009, respectively. 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, 2010 and June 30, 2009 was approximately \$0.3 million. Also, the total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$0.5 million and \$0.6 million as of March 31, 2010 and June 30, 2009, respectively.

Although we file tax returns in several overseas tax jurisdictions, our major tax jurisdiction is the United States where we file US federal and state returns. Our fiscal 2006 and subsequent tax years remain subject to examination by the IRS for US federal tax purposes. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

Note 16. Subsequent events

On April 7, 2010, we repaid the full outstanding balance that we owed to Silicon Valley Bank (SVB) under the term loan agreement (see Note 7).

Note 17. Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update No. 2009-13 (ASU 2009-13), which addresses the accounting for multiple-deliverable revenue arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. ASU 2009-13 is effective for revenue arrangements entered into or materially modified beginning in fiscal years on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements, if any.

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

Revenue for the third quarter of fiscal 2010 was \$17.5 million, representing a 15% increase compared to the second quarter of fiscal 2010 and a 1% decrease compared to the third quarter of fiscal 2009.

Royalty revenue in the third quarter of fiscal 2010 was \$12.1 million, a 6% increase compared to the second quarter of fiscal 2010 and a 13% increase compared to the third quarter of fiscal 2009. Total royalty units shipped in the third quarter of fiscal 2010 were 135 million, a 7% increase compared to our second quarter of fiscal 2010 and a 26% increase from our third quarter of fiscal 2009. As our royalty revenue is reported one quarter in arrears, shipments and revenue reported in our third quarter of fiscal 2010 represented our customer shipments from the quarter ended December 31, 2009.

License and contract revenue in the third quarter of fiscal 2010 was \$5.4 million, a 42% increase compared to the second quarter of fiscal 2010 and a 23% decrease compared to the third quarter of fiscal 2009. In the third quarter of fiscal 2010, we completed nine new license agreements, including a new license agreement with a large mobile handset chip supplier, representing our anchor customer in the mobile handset market.

Our operating income for the third quarter of fiscal 2010 increased to \$3.9 million from \$2.1 million in our second quarter of fiscal 2010 and decreased from \$5.7 million in our third quarter of fiscal 2009. The increase in operating performance for our third quarter of fiscal 2010 compared to the second quarter of fiscal 2010 was a direct result of increased royalty and license revenue. The increase in sequential revenue was partially offset by an increase in our research and development expense of \$0.5 million, primarily from additional software and tool development costs for mobile and Android related end applications.

We recorded a tax provision of \$0.7 million in the quarter ended March 31, 2010 consisting mainly of state and foreign tax expenses.

Our cash, cash equivalents and short term investments as of March 31, 2010 were \$51.2 million compared to \$48.0 million at December 31, 2009. The increase in cash, cash equivalents and short term investments was primarily a result of cash provided from operations. In our third quarter of fiscal 2010, we continued to repay our term loan, reducing the principal balance by \$0.9 to \$8.8 million at March 31, 2010. In April 2010, we repaid our remaining debt obligation resulting in the company having no debt obligations subsequent to the repayment.

Discontinued Operations

On May 7, 2009, we entered into a simultaneous sale and close agreement with an unrelated third party to sell our Analog Business Group (ABG) for \$22 million in cash. As a result of the sale, the assets and liabilities related to ABG are presented as assets and liabilities of discontinued operations, respectively, and the results of ABG's operations are classified as discontinued operations on our statements of operations for all periods presented.

In connection with our divestiture of ABG, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify the purchaser against certain breaches of representations and warranties and other liabilities. To date, we have not incurred any losses in respect of claims asserted by the purchaser in connection with this transaction. Our potential liability to the purchaser is subject to certain limitations, including limitations on the time period during which claims may be asserted and the amounts for which we are liable. However, there can be no assurance that we will not incur future liabilities to the purchaser in connection with this transaction or that the amount of such liabilities will not be material.

The results from discontinued operations (exclusive of the gain on disposition) are as follows for the three-month and nine-month periods ended March 31 (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2010	2009	2010	2009
Revenue	\$ —	\$ 5,043	\$ —	\$ 17,744
Expenses	—	(10,581)	—	(35,648)
Restructuring expense	—	(585)	—	(5,795)
Loss from discontinued operations, before tax	—	(6,123)	—	(23,699)
Tax benefit of discontinued operations	—	(2,097)	—	(12,666)
Loss from discontinued operations, net of tax	\$ —	\$ (4,026)	\$ —	\$ (11,033)

The summarized balance sheets of discontinued operations consisted of the following (in thousands):

	March 31, 2010	June 30, 2009
Assets:		
Restricted cash	\$ —	\$ 4,442
Other current assets	—	37
Total assets of discontinued operations	\$ —	\$ 4,479
Liabilities:		
Founders escrow liabilities	\$ —	\$ 4,442
Accounts payable and other current liabilities	—	1,496
Total liabilities of discontinued operations	\$ —	\$ 5,938

The restricted cash balance at June 30, 2009 related to the founder's escrow liability that we incurred with our acquisition of Chipidea in August 2007. As per the terms of our acquisition, in August 2009, this balance was released in full to the founders of Chipidea. The other liabilities of the discontinued operations at June 30, 2009 primarily related to severance costs. We paid approximately \$1.4 million of those costs in the first quarter of fiscal 2010. The payments relating to discontinued operations have been reflected as cash outflows from the discontinued operations in our Statements of Cash Flows for the nine months ended March 31, 2010.

Results of Operations

Revenue. Total revenue consists of royalties and contract revenue. Royalties are based upon sales by licensees of products incorporating our technology. License and 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, 2010 and March 31, 2009 was as follows (in thousands, except percentages):

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2010	2009	Change in Percent	2010	2009	Change in Percent
Revenue						
Royalties	\$ 12,100	\$ 10,664	13%	33,244	\$ 34,849	(5)%
<i>Percentage of Total Revenue</i>	69%	60%		70%	61%	
License and Contract Revenue	\$ 5,406	\$ 6,999	-23%	14,431	\$ 22,730	(37)%
<i>Percentage of Total Revenue</i>	31%	40%		30%	39%	
Total Revenue	\$ 17,506	\$ 17,663	-1%	\$ 47,675	\$ 57,579	(17)%

Royalties. The increase in royalty revenue in the third quarter of fiscal 2010 from the comparable period in fiscal 2009 is primarily due to increase in unit volumes shipped by our royalty paying licensees.

Royalties in the first nine months of fiscal 2010 were down 5% from the comparable period in fiscal 2009 due to a decrease in the average selling price of royalty units. The average selling price decreased primarily due to certain customers having lower volume based per unit pricing terms in the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009 based on volume or time based discounts as per the terms of their contracts.

License and Contract Revenue. The decrease of 23% in license and contract revenue in the third quarter of fiscal 2010 from the comparable period in fiscal 2009 was due to more licenses in fiscal 2009 containing multiple cores or unlimited usage terms as compared to fiscal 2010. There were nine new license agreements executed in the third quarter of fiscal 2010 compared to eight in the third quarter of fiscal 2009.

License and contract revenue for the nine months ended March 31, 2010 was down 37% from the comparable period in fiscal 2009. The decrease was due to the size and terms of deals, where more deals in fiscal 2009 contained multiple cores or unlimited usage terms as compared to fiscal 2010.

From time to time we enter into unlimited use license agreements with some of our customers under which customers 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 generally range from 4 to 7 years. We recognize all license revenues under these unlimited use license agreements upon execution of the agreement, provided all revenue recognition criteria have been met. Contract revenue from unlimited use license agreements was \$2.5 million and \$6.1 million in the first three months and nine months of fiscal 2010 as compared with \$2.1 million and \$8.3 million in the same period of fiscal 2009.

Operating Expenses

The following is a summary of certain consolidated statement of operations data for the periods indicated (in thousands, except percentages):

	Three Months Ended March 31,			Nine Months Ended March 31,		
	2010	2009	Change in Percent	2010	2009	Change in Percent
Operating Expenses						
Cost of Sales	\$ 75	\$ 74	1%	\$ 309	\$ 530	-42%
Research and Development	\$ 6,315	\$ 5,401	17%	\$ 17,913	\$ 16,047	12%
Sales and Marketing	\$ 3,889	\$ 2,419	61%	\$ 10,840	\$ 7,768	40%
General and Administrative	\$ 3,282	\$ 3,672	-11%	\$ 9,993	\$ 11,937	-16%
Restructuring	\$ —	\$ 374	-100%	\$ —	\$ 644	-100%

Cost of Sales. Cost of sales includes costs associated with acquired third party software used in our products and salaries associated with the development costs of certain customer contracts.

Cost of sales for the third quarter of fiscal 2010 was relatively flat compared to the third quarter of fiscal 2009.

The \$0.2 million decrease in cost of sales for the nine months ended March 31, 2010 compared to the same period in fiscal 2009 was primarily due to more customer development costs incurred in fiscal 2009 as compared to 2010.

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 \$0.9 million increase in research and development expense for third quarter of fiscal 2010 over the comparable period in fiscal 2009 was primarily due to a \$0.7 million increase in compensation related expense due to increased headcount in the research and development function. In addition, supplies and maintenance and outside services expenses increased by \$0.5 million with more utilization of third party vendors. These increases were primarily due to additional software and tool development costs for mobile and Android technologies and were partially offset by lower depreciation expense with more equipment fully depreciated, lower facilities expense as a result of our headquarter office relocation and lower stock compensation expense.

The \$1.9 million increase in research and development expense for the nine months ended March 31, 2010 compared to the same period in fiscal 2009 was primarily due to a \$1.3 million increase in compensation related expense due to increased headcount in the research and development function. In addition, supplies and maintenance and outside services expenses increased by \$1.0 million with more utilization of third party vendors. These increases were largely due to our investments in mobile and Android technologies and were partially offset by lower depreciation expense with more equipment fully depreciated, lower facilities expense as a result of our headquarter office relocation and lower stock compensation expense.

Sales and Marketing. Sales and marketing expenses include salaries, commissions and costs associated with third party independent software 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 \$1.5 million increase in sales and marketing expense for third quarter of fiscal 2010 over the comparable period in fiscal 2009 was primarily due to a \$1.4 million increase in expenses reflecting higher salaries and our increased effort in sales and marketing of our products. There was also a \$0.2 million increase in outside service related expense in marketing with higher utilization of third party vendors. These increases were partially offset by a reduction of \$0.1 million in compensation related expenses due to decreased staffing levels.

The \$3.1 million increase in sales and marketing expense for the nine months ended March 31, 2010 compared to the same period in fiscal 2009 was primarily due to a \$4.4 million increase in expenses reflecting higher salaries and our increased effort in sales and marketing of our products. There was also a \$0.6 million increase in outside service related expense in marketing with higher utilization of third party vendors. This increase was partially offset by a \$1.3 million reduction in compensation related expenses due to decreased staffing levels, a \$0.2 million decrease in facilities expense as a result of our headquarter office relocation and a \$0.4 million decrease in stock compensation expense.

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, and stock-based compensation expense.

The \$0.4 million decrease in general and administrative expense for the third quarter of fiscal 2010 over the comparable period in fiscal 2009 was primarily due to a decrease in outside service expenses, including legal and audit fees.

The \$1.9 million decrease in general and administrative expense for the nine months ended March 31, 2010 compared to the same period in fiscal 2009 was primarily due to a \$1.3 million decrease in outside service expenses, including legal and audit fees, a \$0.2 million decrease in compensation related expense due to decreased staffing levels, a \$0.4 million decrease in consulting expense, a \$0.4 million decrease in stock compensation expense and a \$0.4 million decrease in depreciation and facilities expenses. These decreases were partially offset by a \$0.5 million severance expense we incurred in the second quarter of 2010 in connection with the departure our former CEO and a \$0.3 million increase in recruiting fees associated with hiring a new CEO.

Restructuring. In fiscal 2009, we incurred \$0.4 million of restructuring expense in the third quarter, and \$0.6 million for the nine months ended March 31, 2009. Those expenses related to the restructuring plan announced in August 2008. In fiscal 2010, we have had no restructuring activity through March 31, 2010.

Other Income (Expense), Net. Other Expense, net increased by \$0.1 million for the third quarter of fiscal 2010 over the comparable period in fiscal 2009 primarily due to an increase in foreign exchange loss in 2010 as compared to 2009.

Other Income, net increased by \$0.7 million for the nine months ended March 31, 2010 compared to the same period in fiscal 2009 primarily due to a \$0.6 million gain on the investment in a privately held company that was acquired and a \$0.2 million decrease in interest expense as our outstanding debt balances have decreased. These decreases were partially offset by an increase in foreign exchange loss in fiscal 2010 as compared to fiscal 2009.

Income Taxes. We recorded an income tax expense of \$0.7 million and \$1.9 million for the three-month and nine-month periods ended March 31, 2010, respectively. We recorded an income tax expense of \$2.4 million and \$11.9 million for the comparable periods ended March 31, 2009. We continue to recognize a valuation allowance against net U.S. deferred tax assets as we believe that it is more likely than not that the deferred tax assets will not be realized.

Our estimated annual income tax for fiscal 2010 primarily consists of U.S. state, foreign, and withholding taxes, offset by tax refunds from tax incentives in certain jurisdictions, and benefits from previously unrecognized tax benefits. U.S. federal income tax has been offset by foreign tax credits. Included in the current year tax expense is \$1.0 million withholding tax related to the pending repatriation of undistributed earnings from one of our foreign subsidiaries, for which a U.S. foreign tax credit will be available in the future. However, this deferred tax asset is subject to a valuation allowance. The tax expense recognized for the quarter ended March 31, 2010 is lower than that of the same period ended March 31, 2009 primarily due to tax refunds from tax incentives in certain jurisdictions, and benefits from previously unrecognized tax benefits.

Liquidity and Capital Resources

At March 31, 2010, we had cash, cash equivalents and short term investments of \$51.2 million, an increase of approximately \$6.7 million from June 30, 2009.

At March 31, 2010, we had an outstanding debt balance of \$8.8 million relating to a \$15 million term loan with Silicon Valley Bank (SVB) that we entered into in July 2008. In April 2010, we used \$8.8 million of our cash balance to repay this loan balance. In July 2009, we repaid the outstanding balance of \$1.2 million that we owed to SVB under a revolving line of credit. We renewed the revolving line of credit in the first quarter of 2010, enabling us to borrow up to \$10 million through September 20, 2010. 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.

Operating Activities

Net cash provided by operating activities was \$9.7 million for the nine months ended March 31, 2010. The cash generated from operating activities included \$11.1 million from continuing operations, partially offset by cash used by discontinued operations of \$1.4 million. The cash generated from continuing operations was primarily a result of our positive net income net of non-cash expenses and cash provided from changes in our asset and liability balances. Our net income from continuing operations included the effects of non-cash charges of \$2.7 million from stock compensation expense, \$1.3 million in depreciation and amortization of intangible assets and a \$0.6 million gain on exchange on investments. In addition, cash generated from operating activities of continuing operations increased primarily as a result of (i) a \$3.6 million decrease in prepaid expenses and other current and long term assets, primarily reflecting the timing of engineering design software license payments as compared to their amortization and (ii) a \$1.0 increase in accrued liabilities, primarily due to the withholding tax accrual in connection with a change in our foreign legal structure. These increases in cash were partially offset by cash used as a result of (i) a \$2.3 million decrease in long term liabilities, primarily reflecting timing of engineering design software license payments, (ii) a \$0.3 million decrease in accounts payable due to the timing of payments and (iii) a \$1.2 million increase in accounts receivable, reflecting timing of customer billings and payments received. The negative cash flow from operating activities of discontinued operations was primarily driven by the payment of \$1.4 million of cash for restructuring and administrative expenses.

Net cash provided by operating activities was \$10.6 million for the nine months ended March 31, 2009. The cash generated from operating activities included \$16.2 million from continuing operations, partially offset by cash used by discontinued operations of \$5.6 million. The cash generated from continuing operations was primarily due to our net income from continuing operations. Our net income from continuing operations included the effects of non-cash charges of \$3.2 million from stock compensation expense and \$1.7 million in depreciation and amortization. Cash used by discontinued operations of \$5.6 million was a result of a net loss offset by non-cash activities and changes in asset and liability balances.

Investing Activities

Net cash used in investing activities was \$23.5 million for the nine months ended March 31, 2010 as a result of usage of \$22.5 million from the net purchases of available-for-sale securities and \$1.0 million used to purchase property, furniture and equipment.

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

Financing Activities

Net cash used in financing activities was \$2.6 million for the nine months ended March 31, 2010. Net cash used of \$4.0 million related to the principal payments of our debt. This use of cash was partially offset by \$1.4 million that we received from stock option exercises and purchases under our employee stock purchase plan.

Net cash used in financing activities was \$2.6 million for the nine months ended March 31, 2009. As we entered into a new credit facility and borrowed amounts primarily to pay off existing debt in July 2008, our net cash used in debt financing activities was \$3.0 million, which primarily related to monthly principal payments for our new debt. In addition, we used \$0.4 million to pay capital leases. These uses of cash were partially offset by \$0.8 million provided from option exercises and purchases under our employee stock purchase plan.

Liquidity

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

- the timing and payment of taxes in connection with changing the legal structure of our foreign operations.
- from time to time we have certain significant payments to suppliers including engineering design software vendors required under long-term purchase agreements. These payments vary and can be up to \$1.0 million per quarter.
- in connection with our sale of ABG, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify the purchaser against certain breaches of representations and warranties and other liabilities. To date, we have not incurred any losses in respect of claims asserted by the purchaser in connection with this transaction. Our potential liability to the purchaser is subject to certain limitations, including limitations on the time period during which claims may be asserted and the amounts for which we are liable. However, there can be no assurance that we will not incur future liabilities to the purchaser in connection with this transaction or that the amount of such liabilities will not be material.
- our ability to continue to generate cash flow from operations.
- financing activities under borrowing arrangements. Our borrowing availability with SVB varies according to MIPS' accounts receivable and recurring royalty revenues and other terms and conditions described in the loan and security agreement. In April 2010, we repaid the full outstanding balance that we owed to SVB under the term loan agreement.
- our investment policy requires all investments with original maturities at the time of investment of up to 6 months to be rate at least A-1/P-1 by Standard & Poor's/Moody's, and specifies higher minimum ratings for investments with longer maturities. We continually monitor the credit risk in our portfolio and mitigate our credit and interest rate exposures. We intend to continue to closely monitor future developments in the credit markets and make appropriate changes to our investment policy as deemed necessary. Based on our ability to liquidate our investment portfolio and our expected operating cash flows, we do not anticipate any liquidity constraints as a result of either the current credit environment or potential investment fair value fluctuations.
- the costs associated with capital expenditures.

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. Our future capital requirements will depend on many factors including our rate of revenue growth, the timing and extent of spending to support development efforts, any expansion of sales and marketing activities and potential future acquisitions.

Our contractual obligations as of March 31, 2010 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)	\$ 5,191	\$ 295	\$ 2,039	\$ 1,443	\$ 1,414
Purchase obligations (2)	6,418	4,583	1,835	—	—
Short Term Debt (3)	8,790	8,790	—	—	—
Other long-term liabilities and obligations (4)	1,954	—	1,954	—	—
Total	\$ 22,353	\$ 13,668	\$ 5,828	\$ 1,443	\$ 1,414

- (1) We lease office facilities and equipment under non-cancelable operating leases including the lease for our headquarter facility in Sunnyvale, California.
- (2) Our purchase obligations of \$6.4 million at March 31, 2010 decreased from our purchase obligations as of June 30, 2009 by \$2.6 million. Of the total, \$4.6 million of the obligations relate to engineering design software license contracts that are reflected in the Company's accrued liabilities and other long term liabilities. The remaining \$1.8 million relates to outstanding purchase order obligations which will all be received within one year.
- (3) Short term debt includes \$8.8 million of principal and interest due under the SVB term loan. In April 2010, we repaid the full outstanding balance that we owed to SVB under the term loan agreement.
- (4) Long-term liabilities and obligations consist of amounts due to employees under a deferred compensation plan, under which distributions are elected by the employees.

The table above excludes estimated liabilities, an aggregate of \$1.1 million 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 2009 Form 10-K, except for the following policy:

Cash and Cash Equivalents and Short-Term Investments. We determine the fair values for marketable debt and equity securities using industry standard pricing services, data providers and other third-party sources and by internally performing valuation analyses. See "Note 4. Fair Value" to our condensed consolidated financial statements, included in Part 1. "Financial Information," for details of the valuation methodologies. In determining if and when a decline in value below adjusted cost of marketable equity securities is other-than-temporary, we evaluate on an ongoing basis the market conditions, trends of earnings, financial condition, credit ratings, any underlying collateral and other key measures for our investments. We assess other-than-temporary impairment of equity securities in accordance with the latest guidance issued by the FASB. We did not record any other-than-temporary impairment for marketable debt or equity securities in the first nine months of fiscal 2010.

Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains or losses reported, net of tax, in stockholders' equity as part of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest and other income, net. Realized gains and losses, if any, are recorded on the specific identification method and are included in interest and other income, net. We review our investments in marketable securities for possible other-than-temporary impairments on a regular basis. If any loss on investment is believed to be other-than-temporary, a charge will be recognized. In evaluating whether a loss on a debt security is other-than-temporary, we consider the following factors: 1) our intent to sell the security, 2) if we intend to hold the security, whether or not it is more likely than not that we will be required to sell the security before recovery of the security's amortized cost basis and 3) even if we intend to hold the security, whether or not we expect the security to recover the entire amortized cost basis. Due to the high credit quality and short term nature of our investments, there have been no other-than-temporary impairments recorded to date. The classification of funds between short-term and long-term is based on whether the securities are available for use in operations or other purposes.

Our investments in non-marketable securities of private companies are accounted for by using the cost method. These investments are measured at fair value on a non-recurring basis when they are deemed to be other-than-temporarily impaired. In determining whether a decline in value of non-marketable equity investments in private companies has occurred and is other-than-temporary, an assessment is made by considering available evidence, including the general market conditions in the investee's industry, the investee's product development status and subsequent rounds of financing and the related valuation and/or our participation in such financings. We did not record any other-than-temporary impairment for non-marketable equity securities in the first nine months of fiscal 2010.

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 2009 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in control over financial reporting

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter 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 II, 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 entered into a recession in fiscal 2009. While global economic conditions appear to be stabilizing, we cannot predict when or the extent to which they will improve. 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. In addition, although recovering, the semiconductor industry still faces certain economic challenges, 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 real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. In addition, the 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. 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.

We depend on our key personnel to succeed and have transitioned to a new Chief Executive Officer. 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. John Bourgoin, the Company’s former President and Chief Executive Officer retired at the end of 2009. Sandeep Vij was appointed President and CEO effective January 25, 2010. The transition to a new Chief Executive Officer could distract our existing management team and may lead to potential changes in corporate strategy. These changes may negatively impact our ability to meet key objectives, such as timely and effectively achieving project milestones and product introductions, which could adversely affect our business, results of operations and financial condition. In addition, we cannot assure that we will retain other key officers and employees. Competition for qualified personnel, particularly those with significant experience in the semiconductor and processor design industries, remains intense.

We compete against much larger companies in the microprocessor IP market that have larger market share and broader lines of products. Some of our competitors, including Intel Corporation and ARM Holdings, have significant financial resources enabling them to market their products aggressively and to target our customers with special incentives. As long as Intel and ARM remain in their dominant position, we may be negatively impacted by their business practices, product mix and product introduction schedules, marketing strategies and exclusivity clauses with customers. In addition, Intel and ARM have substantially greater financial resources than we do and, accordingly, spend substantially greater amounts on research and development and marketing than we do. We expect Intel and ARM to maintain their dominant market positions and to continue to invest heavily in marketing, research and development and in other technology companies. To the extent our competitors develop microprocessor products using more advanced process technologies or introduce competitive new products into the market before we do, our financial condition and operating results will be adversely impacted.

Since a substantial portion of our revenue is derived from a few significant customers, the loss of a key customer or any significant delay in our customers' product development plans could seriously impact our revenue and harm our business. In addition, if we are unable to continue to sell existing and new products to our key customers or to attract new significant customers, our future operating results could be adversely affected. We have derived a substantial portion of our past revenue from sales to and royalties from a relatively small number of customers. As a result, the loss of any significant customer could materially and adversely affect our financial condition and results of operations.

Sales to our five largest customers represented 49% and 51% of our net revenue in the quarters ended March 31, 2010 and 2009, respectively. We expect that our largest customers will continue to account for a substantial portion of our net revenue in 2010 and for the foreseeable future. The identities of some of our largest customers and their respective contributions to our net revenue have varied and will probably continue to vary.

We may not be able to maintain or increase sales to certain of our key customers for a variety of reasons, including the following:

- our agreements with our customers typically do not require them to purchase a minimum quantity of our products;
- many of our customers have pre-existing or concurrent relationships with our current or potential competitors that may affect the customers' decisions to purchase our products; and
- some of our customers face intense competition from other manufacturers that do not use our products.

The loss of a key customer, a reduction in the contractual royalty rate of a customer based on volume or passage of time, a reduction in royalty units used by any key customer, a significant delay in our customers' product development plans or our inability to attract new significant customers could adversely impact our revenue and our results of operations.

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. 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;
- 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, mobile, 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 license and contract revenue. License and contract revenue consists of technology license fees paid for access to our developed technology, associated maintenance agreements 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 contract revenue increased by 42% in fiscal 2007, decreased by 23% in fiscal 2008 and decreased by 8% in fiscal 2009. In addition, our contract revenue decreased by 23% in the third quarter of fiscal 2010 as compared to the same period of fiscal 2009. We enter into unlimited use license agreements with some of our customers under which 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 generally range from 4 to 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 agreements was 49% in fiscal 2007, 54% in fiscal 2008 and 32% in fiscal 2009 of our total license and contract revenue. Additionally, contract revenue from unlimited use license agreements was \$2.5 million in the third quarter of fiscal 2010 as compared with \$2.1 million in the third quarter of fiscal 2009. 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.

As international business is a significant component of our revenue, we are increasingly exposed to various legal, business, political and economic risks associated with our international operations. For our third quarters of fiscal 2010 and 2009, 49% and 54% of our net revenue, respectively, was derived from sales to customers outside the United States. In addition, we have sales and operations in China and Switzerland as well as sales offices in Germany, Japan, Israel, Korea and Taiwan.

We intend to continue our international business activities. International operations are subject to many inherent risks, including but not limited to:

- changes in tax laws, trade protection measures and import or export licensing requirements;
- potential difficulties in protecting our intellectual property rights;
- fluctuations in foreign currency exchange rates;
- restrictions, or taxes, on transfers of funds between entities or facilities in different countries;
- changes in a given country's political, regulatory or economic conditions;
- burdens of complying with a variety of foreign laws;
- difficulties in staffing and managing international operations; and
- difficulties in collecting receivables from foreign entities or delayed revenue recognition.

Any of the factors described above may have a material adverse effect on our ability to increase or maintain our foreign sales. Economic conditions in our primary overseas markets, particularly in Asia, may negatively impact the demand for our products abroad. All of our international sales to date have been denominated in U.S. dollars. Accordingly, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets or require us to assume the risk of denominating certain sales in foreign currencies. These factors could impact our business to a greater degree if we further expand our international business activities.

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.

We rely on the efforts of third parties to enhance our technology offerings, and an inability to develop or maintain such relationships would harm our ability to remain competitive. We have developed relationships with third parties, including software developers, development tools providers, and third party IP suppliers, pursuant to which these parties provide operating systems, tool support, reference designs and other services that support the MIPS-based ecosystem for our licensees. We believe that these relationships enhance the attractiveness of our technology and improve our ability to achieve design wins. If we are unable to develop or maintain these relationships, or if a product is discontinued by an existing ecosystem partner, our ability to achieve design wins in the future may be limited and our ability to remain competitive would be harmed. In addition, the inability to maintain an attractive MIPS-based ecosystem could adversely affect our business, results of operations and financial condition.

If we do not succeed on key platforms, including Android, our ability to compete and grow may be adversely impacted. Our future success may depend, in part, on our ability to develop software, processor cores or other intellectual property that satisfies the requirements of key platforms such as Android. 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 key platforms, our ability to achieve design wins may be limited. In addition, if we fail to achieve a significant number of design wins with respect to new platforms like Android, our medium to longer term revenue growth may be adversely impacted. Additionally, even if we are successful in developing technologies based on Android or other key platforms, those platforms may not be widely adopted in the industry which may also limit our growth opportunities.

If we do not succeed in the mobile handsets market, our medium to long term revenue growth may be adversely impacted. Our future success may depend, in part, on our ability to develop software, processor cores or other intellectual property that satisfies the requirements of developers, chip suppliers and manufacturers in the market for mobile handsets. We are committing resources towards research and development efforts for this market. If our development efforts are not successful or are significantly delayed, or if our IP product offerings and related designs are not widely adopted, our ability to achieve design wins in the mobile handset market may be limited. If we fail to license our technology to a significant number of customers in the mobile handset market, our medium to long term revenue growth may be adversely impacted.

In our 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. Our receipt of royalties from our licenses 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 we do not set the prices at which products incorporating our technology are sold. Further, the royalty revenues we report in any given quarter represent customer shipments one quarter in arrears, and we have very little visibility into our licensees' and customers' shipping of products incorporating our technology.

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, and larger customer bases, as well as greater financial and marketing resources. 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.

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 effect on our financial condition or results of operations.

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 Policies and Estimates” under Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended June 30, 2009). 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 these 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 changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or regulations or in the interpretation of tax laws or regulations. We operate in the United States and internationally and occasionally face inquiries and examinations regarding tax matters in the countries that we operate in. There can be no assurance that the outcomes from examinations will not have an adverse effect on our operating results and financial condition. In addition, we are subject to certain withholding taxes relating to the repatriation of undistributed earnings from certain foreign subsidiaries. Any changes in international laws or tax rulings in countries that we operate in could have an adverse impact 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 the 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 effect 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, assignment 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 may be subject to claims and liabilities in connection with the sale of our discontinued business. In connection with our sale of our Analog Business Group to an unrelated third party in May 2009, we agreed to retain responsibility for certain actual or contingent liabilities and agreed to indemnify the purchaser against certain breaches of representations and warranties and other liabilities. To date, we have not incurred any losses in respect of claims asserted by the purchaser in connection with this transaction. Our potential liability to the purchaser is subject to certain limitations, including limitations on the time period during which claims may be asserted and the amounts for which we are liable. However, there can be no assurance that we will not incur future liabilities to the purchaser in connection with this transaction or that the amount of such liabilities will not be material.

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. 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.

The market value of our investment portfolio is exposed to fluctuations in interest rates and changes in credit ratings which could have a material adverse impact on our financial condition and results of operations. Our cash and cash equivalents and short term investments represent significant assets that may be subject to fluctuating or even negative returns depending upon interest rate movements, changes in credit ratings and various financial market conditions. The global credit and capital markets have recently experienced significant volatility and disruption due to the instability in the global financial system and the current uncertainty related to global economic conditions.

There is a risk that we may incur other-than-temporary impairment charges for certain types of investments, should the credit markets experience further deterioration or the underlying assets fail to perform as anticipated. Our future investment income may fall short of expectations due to changes in interest rates or a decline in fair values of our debt securities that is judged to be other-than-temporary. Furthermore, we may suffer losses in principal if we are forced to sell securities that have declined in market value due to changes in interest rates or financial market conditions.

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.

We are subject to certain affirmative and negative covenants which could restrict our ability to operate our business. We have a revolving credit facility with Silicon Valley Bank. This facility is secured by virtually all of our assets, and the facility contains affirmative and negative covenants that impose restrictions on the operation of our business and may prevent us from taking advantage of opportunities that are otherwise available to us or could cause an earlier acceleration of the facility. Any incurrence of debt under the facility could adversely affect our operating results and financial condition. In addition, we may not be able to obtain favorable credit terms related to any debt that we may incur in the future.

ITEM 6. EXHIBITS

(a) Exhibits

- 10.1 Offer Letter dated December 22, 2009 to Sandeep Vij (incorporated herein by reference to Exhibit 99.02 to the Company's Form 8-K filed on January 25, 2010).
- 10.2 Form of Stock Unit Award Agreement for Members of the Board of Directors (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on February 12, 2010).
- 10.3 Offer Letter dated March 10, 2010 to Ravikrishna Cherukuri, Vice President of Engineering.
- [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, 4 AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.



March 10, 2010

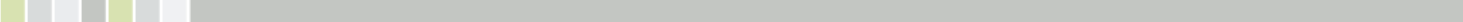
Ravikrishna Cherukuri

Dear Ravi,

Subject to authorization and approval of the Board of Directors of MIPS Technologies, Inc., ("MIPS") we will be pleased to offer you the position of Vice President of Engineering reporting to me, subject to the terms and conditions contained herein. This offer includes a base salary of \$290,000 annualized, paid bi-weekly. You will also be eligible to participate in the MIPS Technologies, Inc. Performance-Based Bonus Plan for Executives ("Bonus Plan") with a target of 40% of base salary earned in a fiscal year and an upside to 80% of base salary earned, subject to pay out in accordance with the terms of the Bonus Plan, which includes a multiplier between zero and two based on the company's achievement against the financial plan. Your total "target" cash compensation annualized will be \$406,000 with a potential upside which could bring your actual total annualized compensation up to \$522,000.

Additionally, your Employee Benefits Plan will include Medical, Dental, Life/AD&D/LTD and Vision insurance plans, 401(k), Non-Qualified Deferred Compensation Plan, Flex Spending Accounts, Employee Stock Purchase Plan, Vacation and Holiday Pay.

Subject to authorization and approval of the Board of Directors of MIPS Technologies, Inc., the terms of the applicable stock option plan and award documents, and compliance with all applicable federal and state securities laws, you will be granted an option to purchase 250,000 shares of MIPS Technologies, Inc. common stock. The grant date and per share exercise price for new hire option grants is set by the Committee designated by the Board of Directors to administer the applicable stock plan. Currently, new hire options are granted on the last Thursday of each month ("Grant Date") and are priced using the market closing price on that date. Unless otherwise notified, your option will be granted either on the Grant Date immediately following your start date, provided you commenced your employment on or before the Monday preceding that Grant Date, or on the Grant Date in the following month. Specific terms and conditions will be included in the definitive stock option award documents and will include your right to purchase your shares according to a vesting schedule. The vesting schedule will provide for one-third of the total shares to become vested 12 months from your grant date with 1/36th of the total shares vesting each month thereafter for the remaining 24 months. Unless earlier terminated, your option may be exercised only during a term of seven (7) years from your



MIPS Technologies, Inc. | 955 East Arques Avenue, Sunnyvale, CA 94085-1353
phone: 408.530.5000 | fax: 408.530.5150 | www.mips.com

grant date and may be exercised during such term only in accordance with the terms of the plan and the definitive award documents.

In accordance with the requirements of the Immigration Reform and Control Act of 1986, you are required to provide verification of your identity and legal right to work in the United States.

You may accept this position by signing below and returning a signed copy to MIPS Human Resources by Friday, March 12, 2010

The team and I are looking forward to you joining us and making a major contribution to the success of MIPS.

Sincerely,

/s/ SANDEEP VIJ

Sandeep Vij
President & Chief Executive Officer
MIPS Technologies, Inc.

I accept this offer of employment with the understanding that it is not an employment contract. I understand that my employment with the company is not for any fixed term and constitutes at-will employment in which either I or the company may terminate at any time, for any reason, with or without notice. I also understand that upon commencement of employment, I will be expected to sign the Confidential Information and Inventions Agreement. The provisions stated in the offer of employment supersede all prior discussions and negotiations, and no other writing published by the company is intended to modify the presumptions of at-will employment status.

/s/ RAVIKRISHNA CHERUKURI
Employee Signature

3/10/10
Today's Date

3/10/10
Start Date

FORM 10-Q CERTIFICATION

I, Sandeep Vij, 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 6, 2010

By: /s/ SANDEEP VIJ
Sandeep Vij
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 6, 2010

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, Sandeep Vij, certify, that to my knowledge, the Quarterly Report on Form 10-Q of MIPS Technologies, Inc. for the three months ended March 31, 2010 (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 6, 2010

By: /s/ SANDEEP VIJ
Sandeep Vij
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 three months ended March 31, 2010 (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 6, 2010

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.
